

PARTNERS GROUP
ANNUAL REPORT 2006



NEW YORK SKYLINE
FROM PARTNERS GROUP'S NEW YORK OFFICE
450 LEXINGTON AVENUE - 39TH FLOOR



Partners Group
Passion for Alternative Investments



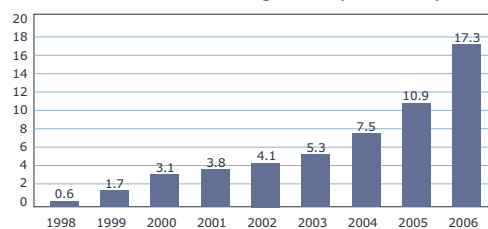
WELCOME TO PARTNERS GROUP NEW YORK

The office was opened in 2000

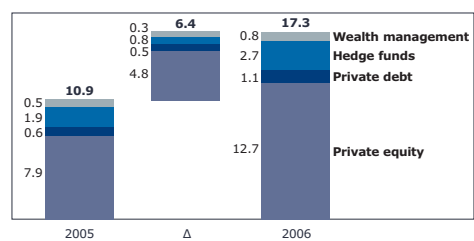
Head: Scott Higbee, Partner

KEY FIGURES

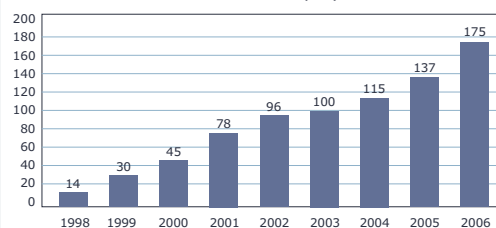
Assets under management (in CHF bn)



Assets under management (in CHF bn)



Number of employees



Share price PGHN (in CHF)



The figures in the table below have been adjusted to exclude changes in the fair value of derivatives arising from insurance contracts.

	2006	2005
Average assets under management (in CHF bn)	14.1	9.2
Adjusted net revenue margin	1.43%	1.20%
Adjusted net revenues (in CHF m)	201	110
Adjusted EBITDA margin	73%	61%
Adjusted EBITDA (in CHF m)	147	67
Adjusted net profit (in CHF m)	141	66
Net cash provided by operating activities (in CHF m)	128.8	48.1
Net cash used in investing activities (in CHF m)	-17.6	-6.0
Net cash used in financing activities (in CHF m)	-26.2	-16.1
Cash and cash equivalents at end of year (in CHF m)	121.7	36.7
Shareholders' equity (in CHF m)	273.5	120.2

Share information as of 31 December 2006

Share price	CHF 147.00
Total shares	26'700'000
Market capitalization	CHF 3.9 bn
Free float	33%
Diluted shares	27'436'335
Adjusted diluted earnings per share	CHF 5.15
Bloomberg ticker symbol	PGHN SW
Reuters ticker symbol	PGHN.S

Forthcoming events

27 April 2007	Annual General Meeting
5 July 2007	Pre-close announcement AuM estimates as of 30 June 2007
27 August 2007	Interim report

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WESTWARD VIEW FROM PARTNERS GROUP NEW YORK

MESSAGE FROM THE PARTNERSHIP

Dear shareholders, clients and business partners

2006 was a landmark year for Partners Group, in which the IPO in March signified a milestone in the history of our company. Today, well into our second decade, we are pleased to be able to look back on a successful first year as a public company.

Over the past 11 years, we have gradually and consistently built up our expertise, client base and assets under management and have emerged as one of the largest global alternative asset managers. With a view to the future, one declared goal of our IPO in March 2006 was ensuring the independence and continuity of our firm.

As our assets have grown, so has our employee base and we currently count over 200 Partners Group team members (175 as of the end of December) in our offices around the globe. All employees are committed not only to the unique culture we live at Partners Group, but also to our passion for alternative investments and the long-term nature of our business. We consider human capital to be our most important asset and see employee retention over time as crucial to our success. Accordingly, a long-term incentive program designed to ensure employee continuity aligns employee interests with those of the firm. Our listing on the SWX Swiss Exchange has provided a transparent platform for valuing the company's stock, thus reinforcing the long-term motivation and dedication of our team.

Many of our clients and business partners have seen the IPO as an opportunity to participate in the success of Partners Group through our preferred allocation program, and 40% of the total free float was allocated to this group of investors, thereby aligning our goals with those of our clients. We are extremely pleased to still count these parties among our key investors today – an unmistakable sign of trust.

After the IPO, all employees hold an interest in the company and a total of approximately 70% of the share capital is held by partners, principals and employees, thereby guaranteeing the future independence of Partners Group. We believe our independence from a larger financial institution gives us strategic autonomy and also allows us to distribute our products through a broad range of financial intermediaries, free from the constraints resulting from actual or perceived conflicts of interest or captive arrangements. This provides a platform for further dynamic growth without impediment.

An additional goal of our IPO was the achievement of increased international visibility and the furthering of our standing as a global leader in the industry. The strong, above-target asset growth in 2006 as well as the overall business development have confirmed the strategic and operational validity of this step.

The strong growth of Partners Group has caused us to rethink our corporate organization and adopt a revised structure, which allows the company to profit from economies of scale for systems, resources and networks. This reorganization has culminated in the definition of two central investment management departments, private alternative investment strategies and public alternative investment strategies. These departments each include three of our six established business lines; private alternative investment strategies comprises private equity, private debt and private real estate, while public alternative investment strategies encompasses hedge funds, alternative beta strategies and listed investment strategies.

Viewed in overall terms, the year has been a positive one for the private equity industry and we saw strong returns for our private equity, private debt and listed private equity products. The more subdued development of the global hedge fund industry has produced reasonable returns yielding a considerable spread over money market rates, while our own multi-strategy program, alternative beta strategies, has shown a further solid year with a double-digit return.

Today, we are delighted to present investors and public markets alike with solid results – not only in terms of our financial results but also of the ensuing positive share price development. Credit Suisse named PGHN the best-performing Western European IPO with an issue size over EUR 500 million. In addition, our industry recognition was further emphasized by Private Equity International electing Partners Group the best global fund of funds for 2006. We are proud that we have once again managed to live up to our credo of "under-promise and over-deliver".

We are optimistic about our outlook, for 2007 and beyond. Partners Group is well-positioned to further grow its alternative asset management business. We anticipate a number of highlights for the coming financial year, including the launch of significant successor funds of our private equity and private debt products, the inaugural CLO program, a further roll-out of our alternative beta strategies program, and the build-up of our private real estate and infrastructure practice.

We thank you for your trust in us and look forward to a twelfth year of exercising our passion for alternative investments.



Alfred Gantner
Executive Chairman



Steffen Meister
CEO



P A S S I O N F O R C O N T I N U I T Y

2006 AT A GLANCE – REVIEW OF THE FINANCIAL PERFORMANCE

We have determined three strategic value drivers to be crucial to the successful expansion and development of our business, (i) assets under management, (ii) profitability, and (iii) earnings predictability. We define our assets under management to reflect our fee basis and analyze our profitability by distinguishing between revenue margins and EBITDA margins, which are calculated for recurring and non-recurring inflows. The predictability of our earnings is based on the characterization of investment mandates according to duration as well as the quality of our earnings, measured through determining those fees which are predictable.

In this review, we use adjusted figures which exclude changes in fair value of derivatives arising from insurance contracts relating to two capital-protected products. These are summarized in the table below.

Assets under management

Strong growth during the financial year

In 2006 we were pleased to see a strong growth of our assets under management (AuM), which reached a total of CHF 17.3 billion as of 31 December 2006 (2005: CHF 10.9 billion), corre-

sponding to an increase of CHF 6.4 billion. Gross growth of CHF 7.2 billion was reduced by redemptions of CHF 0.8 billion, which stem almost exclusively from hedge funds and listed private equity products and mandates.

Total growth of AuM represents CHF 4.8 billion in private equity (including CHF 0.4 billion listed private equity), CHF 0.5 billion in private debt, CHF 0.8 billion in hedge funds, and CHF 0.3 billion from our wealth management practice.

Assets raised from a variety of sources

Institutional investors are continuously increasing their allocations to the alternative asset class, resulting in a strong growth in market size, while our track record and long-term expertise allows us to further grow our market share.

Our focus on further developing our existing client relationships has resulted in a large portion of the funds raised in 2006 and we have additionally been able to capitalize on the significant opportunities offered by the growing importance of certain client segments in the alternative assets market, such as private banks. Furthermore, we have continued to develop our structuring knowhow and have designed customi-



	2006	2005
AuM as per end of the year (in CHF bn)	17.3	10.9
Average AuM (in CHF bn)	14.1	9.2
Net revenue margin	1.53%	1.36%
Adjusted net revenue margin	1.43%	1.20%
Recurring adjusted net revenue margin	1.15%	1.09%
Net revenues (in CHF m)	215	125
Adjusted net revenues (in CHF m)	201	110
Recurring adjusted net revenues (in CHF m)	163	98
EBITDA margin	75%	64%
Adjusted EBITDA margin	73%	61%
Recurring adjusted EBITDA margin	67%	56%
EBITDA (in CHF m)	161	80
Adjusted EBITDA (in CHF m)	147	67
Recurring adjusted EBITDA (in CHF m)	108	55
Net profit (in CHF m)	154	78
Adjusted net profit (in CHF m)	141	66

zed investment products offering optimal access to the alternative asset market for these new client segments. Thus, demand from both existing and new clients has strengthened.

Both our own sales force as well as our network of distributors contributed significantly to total assets raised in 2006. The strength of our distribution network is based on the cooperation between the members of our growing client relationship team, located in several offices around the world, and our distribution partners, which include some of the most prominent banks and financial intermediaries worldwide. In 2006 we enlarged the client relationship team by 45%, including a team dedicated to further developing the collaboration with existing and new distribution partners.

In 2006, a substantial amount of funds were raised in our core market Europe, while we have also continued to concentrate on deepening our presence in new geographic regions, such as the United States and Asia. The momentum of our geographic growth was sustained through the expansion of existing international offices and we expect that clients outside Europe will significantly contribute to our growth in the future.

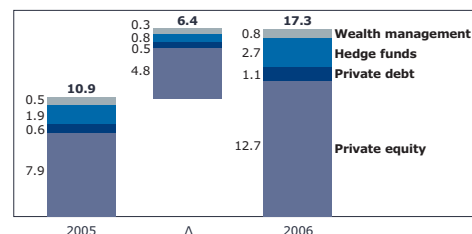
Profitability

Growing net revenue margins

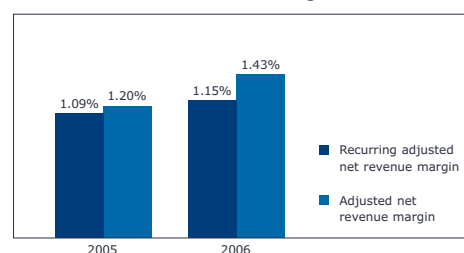
We calculate our net revenue margin by dividing net revenues by average AuM; thus the adjusted net revenue margin of 1.43% for 2006 (2005: 1.20%) results from dividing adjusted net revenues of CHF 201 million by average AuM of CHF 14.1 billion. The increase compared to 2005 is mainly due to non-recurring revenue components, which are nevertheless integral parts of our business. The growth of AuM led to an increase in these revenue components, which occur either at the establishment of a fund (organizational fees), or are due to accrued management fees stemming from investors joining funds in later closings (late management fees).

The development of the recurring net revenue margin, which was 1.15% for 2006 (2005: 1.09%), shows a consistent build-up over the past years. This margin is based on the fixed recurring management fees and the development can be seen as an implementation of our strategic focus on increasing the role we play in the value creation chain. In private equity and private debt, we achieve this goal by increasing the allocations to direct and secondary investments, and in hedge funds, by targeting higher allocations to our own quantitative strategies (Alternative Beta Strategies – ABS). In addition, we pursue higher margins through product innovation, i.e. we further develop our structuring solutions to increase the value added for our clients.

Assets under management (in CHF bn)



Net revenue margin



Substantial increase of EBITDA margin

Over the past years, we have seen a gradual increase of the adjusted EBITDA margin to 73% for 2006 (2005: 61%), which is a direct result of our goal of sustaining our firm-wide focus on efficiency.

This can be primarily attributed to our business model, which aims to benefit from economies of scale and is based on the three pillars of asset management, structuring and distribution while being supported by our technology, systems and processes. We strive to achieve a recurring adjusted EBITDA margin of at least 65% on new business. Furthermore, we provide strong long-term equity incentives to encourage our work force to maximize our operating efficiency.

Earnings predictability

Long-term duration of the asset class

A large part of the alternative investment industry (private equity, private debt, private real estate) is characterized by its long-term nature. In general, investment vehicles either have long durations of over ten years as for limited partnership structures, or are ever-green structures as in the case of permanent capital vehicles (listed investment companies). The resulting stable AuM base allows for high forward-looking earnings predictability. The table on the top right shows the composition and duration of our total AuM.

Secure stable revenues

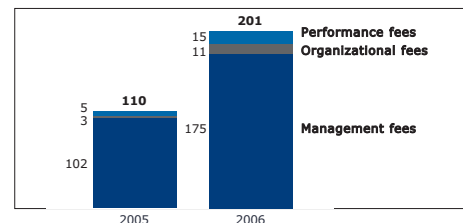
Private alternative investments are characterized by long terms, accordingly securing long-term fixed management fees with performance-based fees offering further upside potential. Correspondingly, in 2006 the growth in adjusted net revenues to CHF 201 million as compared to CHF 110 million for 2005 was predominantly driven by management fees, resulting in over 87% of our fee income stemming from fixed fees.

In the future, we expect the current assets under management to increasingly generate performance fees, especially in our private equity, private debt and ABS businesses. Given the also anticipated growth in management fees, however, we expect the percentage of performance fees of adjusted net revenues to remain stable in the short term.

Composition and duration of AuM

Type	Duration	% of AuM (est.)
Permanent capital (e.g. closed-end investment companies)	No redemptions for foreseeable future	20%
Quasi permanent (e.g. mutual funds with limited liquidity)	Redemptions of at most 0–25% p.a.	11%
Limited partnerships (or mandates with similar term)	No redemptions for term of 10 – 12 years	37%
Open-ended funds (traditional mutual funds)	Regular redemptions possible	27%
Other structures	Mainly mandates that do not have LP-like characteristics	5%

Fee structure (in CHF m)





PASSION FOR A COMPREHENSIVE INVESTMENT STRATEGY

2006 AT A GLANCE – PRODUCT OVERVIEW

As of the end of 2006, Partners Group offers its clients a total of 45 products and additionally manages customized mandates for some of its largest clients. Please find below a selection of the key developments in the product palette for 2006.

Limited Partnerships

Partners Group Secondary 2006

Partners Group closed its largest fund to date with Partners Group Secondary 2006, which held its final close at EUR 1 billion after only eight months. Through its active secondary investing, Partners Group has gained expertise in this industry and developed an excellent track record. The fund will continue the value-based investment approach successfully implemented by its predecessor Partners Group Secondary 2004, and will make use of Partners Group's extensive resources to source and execute attractive secondary investments on a global basis.

Partners Group Asia-Pacific 2005

The final closing of the dedicated Asian fund was held at the hard cap of USD 375 million, with client demand substantially exceeding this level. With the recent evolution of Asian market and its expected future growth, Partners Group sees substantial investment potential in this market. Partners Group Asia-Pacific 2005 focuses on buyout investments while also considering expansion and growth capital opportunities serving the rapidly growing consumer markets in Asia and thereby granting its investors access to leading private equity firms, secondaries and selected direct investments across the region. The fund has already committed close to 80% of its

capital in attractive opportunities and fundraising activities for the successor fund Partners Group Asia-Pacific 2007 have commenced.

Partners Group European Buyout 2005

The Partners Group European Buyout Fund is comprised of two sub-funds and held its final close at a total of EUR 647 million. Following the successful implementation of the predecessor fund Partners Group Europe 2002, both funds will capitalize on the attractive environment for buyout transactions in Europe by investing in partnerships that concentrate on a specific country or region, drawing on local networks and relationships to source deals. Partners Group European Buyout 2005 (A) invests in the full spectrum of European small, mid and large-cap buyouts through primaries, secondaries and direct investments, while Partners Group European Buyout 2005 (B) focuses on European small and mid-cap buyouts. The commitment levels of the funds have exceeded 60% and 2008 successor funds are expected to be raised.

Partners Group European Mezzanine 2005

Partners Group's first dedicated mezzanine fund was capped at EUR 266 million. The fund invests in direct mezzanine opportunities primarily in European buyout transactions, may leverage up to 40% and was launched in response to the growing mezzanine opportunities appearing in the European buyout market.



Partners Group Global Mezzanine 2005

The Partners Group Global Mezzanine Fund 2005 closed at EUR 282 million and has invested approximately 65% in leading mezzanine funds and 35% in direct mezzanine tranches of private equity sponsored deals. The fund will select investments based on a unique relative value strategy which seeks to systematically identify and invest in the most attractive segments of the mezzanine market. The fund's geographical focus encompasses Europe and the US, where the latter offers attractive investment opportunities in the mid-cap segment. Over 80% of capital has already been committed and fundraising for the successor fund Partners Group Global Mezzanine 2007, which will have a 50:50 split between fund and direct investments, is proceeding rapidly.

Open-ended mutual funds

Partners Group Listed Investments – Listed Infrastructure

While Partners Group has selectively invested in infrastructure since 1999, the first dedicated infrastructure product was launched in 2006. Partners Group Listed Investments - Listed Infrastructure intends to achieve an attractive risk-adjusted return profile by investing in a diversified portfolio of listed infrastructure companies. The product will strive towards a well-diversified portfolio in terms of geographic and sector exposure and will favor investment companies over operating companies. Partners Group is proud to have been recognized for its dedicated infrastructure efforts by receiving an award for the "Fund Innovation of the Year" from the Axel Springer Finanzen Verlag.

Partners Group Alternative Beta Strategies

The discussion around the generation of hedge fund returns has led to the hedge fund industry starting to recognize that the majority of returns stem from various non traditional systematic risk premiums rather than market inefficiencies, i.e. from "beta" rather than "alpha". In its Alternative Beta Strategies program, Partners Group has developed a range of trading strategies which capture the systematic return components of hedge funds. The program goes beyond a multi-linear factor model approach and considers the non-linear exposure profiles of hedge funds through the integration of options and other derivative instruments as well as systematic conditional trading rules while applying the elements of a relative value based asset allocation across the strategy sectors. Partners Group Alternative Beta Strategies offers daily liquidity at net asset value and targets an annual out-performance of 3%-5% above a combination of relevant hedge fund strategy indices and a correlation to that of 0.8 or higher. After building up a track record of over two years in Alternative Beta Strategies, Partners Group manages over USD 600 million in this program, which showed a performance of 11.5% for 2006.



Partners Group Alternative Strategies SICAV

The range of trading strategies developed by Partners Group in the Partners Group Alternative Beta Strategies program – the core – can be combined with select, value-adding and complementary single hedge funds or satellites to form core-satellite portfolios. Partners Group Alternative Strategies SICAV applies this core-satellite approach in form of an open-ended mutual fund and offers investors a diversified and cost-efficient access to the hedge fund asset class. The fund offers daily liquidity at net asset value with moderate correlation to global equity and bond markets.

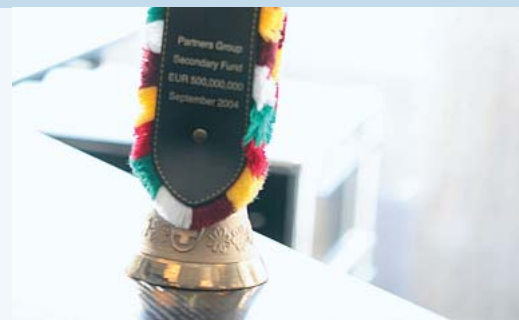
Permanent capital

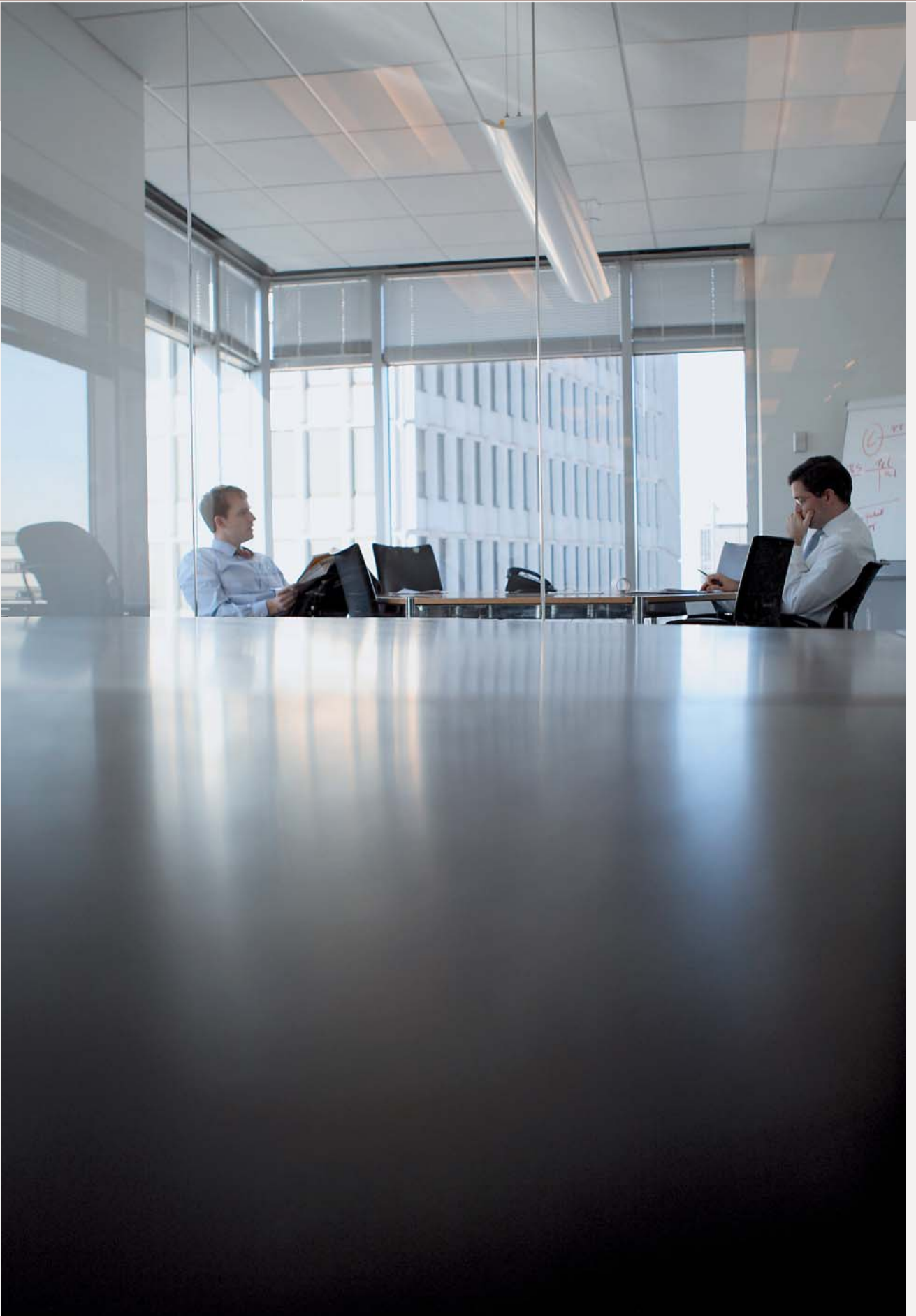
Princess Private Equity Holding

Princess was established in 1999 as an investment holding company which issued a capital protected convertible bond and today has a mature portfolio of over 100 private equity and private debt fund investments representing over 1'800 companies. After the strong performance of an average of +15% over the past three years (+19.8% in 2006), the NAV of the product stood at USD 847 million as of the end of December 2006. With a value significantly above the guaranteed redemption of 100% reached, the bondholders voted in favor of the early conversion of the bonds into shares in December 2006. The Princess shares are listed on the Frankfurt stock exchange in the prime standard segment (ticker: PEY1).

Partners Group Global Opportunities

The increased awareness of listed private equity has motivated a number of financial institutions to launch listed private equity products. While some of these products faced mixed market reactions in 2006, Partners Group successfully launched Partners Group Global Opportunities on the Alternative Investment Market (AIM) in London in October 2006 (ticker: PGGO), raising EUR 400 million. Since its launch, Partners Group Global Opportunities Limited has traded around net asset value, reflecting the rapid and solid build-up of its portfolio. The investment level had already reached 67% as of 31 December 2006 and the fund is expected to be virtually fully invested in the first half of 2007.





INDUSTRY TRENDS IN PRIVATE EQUITY

Significant growth is digested well

Looking back on the fundraising environment at the turn of the millennium, when many of the larger funds were viewed as too ambitious, we see that in fact the opposite is true: the funds raised at that time by such established groups as Apollo, Permira and Blackstone generated outstanding IRRs between 30%-60%. The prevalent market conditions today show many of the same characteristics, with large funds being raised and many critical voices being heard in this regard. We however view the current market from a different perspective and see substantial investment potential.

Private equity conquers the public market

Neither the strong capital inflow nor the fund sizes constitute a threat to the industry, but should be seen as an opportunity to access the extensive number of attractive investment possibilities available to the larger buyout funds. There are an increasing number

of large deals being completed; in fact the majority of the biggest deals ever completed have closed within the past 18 months alone (see table below).

The common belief is that these public to private transactions are a less attractive investment opportunity and do not offer investors the return potential available from historic investments or smaller deals. Our opinion differs from this; in fact we judge large transactions to be still attractive, although not cheap.

While we acknowledge that multiples are at the upper end of historic levels at present, this should be viewed against the background of attractive parameters overall. In general, the quality of deals has significantly and continuously increased over the past years as the investments being made are consistently in larger assets with broader and more stable underlying cash flows. In addition, the focus has shifted towards higher growth-type assets rather than restructuring plays and beyond that the access to new



Company	Transaction size in USD bn	Sponsor	Year
Equity Office Properties	40.0	Blackstone	2007
HCA	33.0	incl. KKR, Bain Capital	2006
RJR Nabisco	31.4	KKR	1989
Clear Channel	26.7	TH Lee, Bain Capital	2006
BAA	23.9	incl. Ferrovial, CDP	2006
Kinder Morgan	21.6	incl. Carlyle, AIG	2006
Freescale	17.6	incl. Carlyle, Permira, TPG	2006
Harrah's Entertainment	17.1	TPG, Apollo	2006
TDC	15.8	incl. Apax, Providence	2006
Thames Water	15.2	Macquarie	2006
Hertz	15.0	incl. CD&R, Carlyle	2005
Univision	13.6	incl. Providence, TPG	2006
SunGard	11.3	incl. Silver Lake, KKR	2005
VNU	11.0	incl. Carlyle, TH Lee	2006
Philips Semiconductor	10.8	incl. KKR, Silver Lake	2006
GMAC's mortgages	9.0	incl. KKR, Goldman Sachs	2006
Realogy	9.0	Apollo	2006
Viterra	8.8	Terra Firma	2005
Aramark	8.3	incl. TH Lee, Warburg Pincus	2006

Source: Partners Group analysis based on various sources

■ European buyouts ■ US buyouts

attractive industries is growing. Also, in general, the debt levels of many potential target companies have decreased to historic levels while cash levels have experienced a remarkable increase. A complementary development can be seen in the credit markets, where the current abundance of debt is an important driver of the latest buyout boom.

As revealed in a study completed by Morgan Stanley (see chart), the debt ratios of S&P 500 companies have sunk, leading to inefficiencies in capital structure and offering opportunities for leverage. In addition, the broad and diversified asset bases seen in large firms generate significant free cash flow, and, combined with the significant potential for cost control seen especially in public European companies, create an optimal basis for prompt debt repayment.

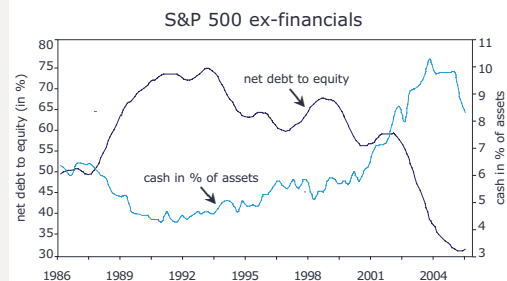
Based on our analysis, we are of the opinion that the buyout sector and in particular the large-cap segment offer attractive deals for high-quality assets with excellent prospects, although individual transactions remain overpriced. Overall, investors should be aware that, due to the higher debt ratios, large buyout deals contain higher risks today than in the past, but certainly offer attractive returns. More than ever, we therefore recommend to sufficiently diversify the investment portfolio in order to minimize risk. Additional diversification opportunities are offered by the secondary market, where the size and growth of the private equity market leads us to expect attractive options and the opportunity for diversification across various vintage years and financing stages in the future.

Private equity conquers new geographies

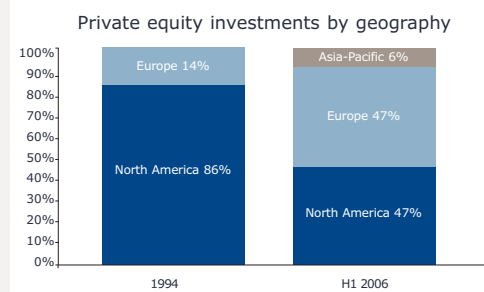
Augmenting the acquisition potential of ever larger companies, the private equity universe offers additional capacities through the broadening of the investment spectrum. As shown on the right, the geographic focus has shifted from its historical US-bias to include new geographic regions such as Asia-Pacific. This new area offers promising economic potential with significant investment and exit opportunities, a fact which has been corroborated by a rapid increase in private equity funds raised for investment in the area. Despite high investment activity, the region shows a notable capital underhang, which is expected to persist for some time to come. Partners Group was a pioneer in expanding into the Asian market and we are confident that the investment activity in this region can be expected to develop further and could approach one third of the total global market a decade from now.

Private equity conquers new industries

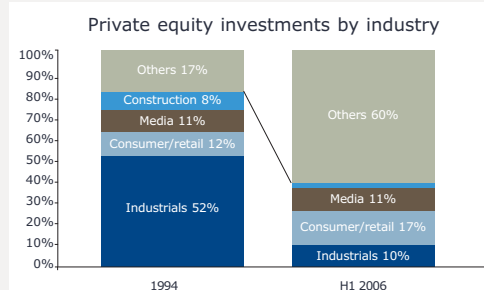
A further opportunity for the private equity market results from the expansion into new industry sectors, as shown on the right. The historically large role played by the industrial sector has diminished and this sector plays a comparatively small part in the global market today. The focus of investors has shifted towards industries with either stable cash flows and/or solid growth dynamics, e.g. utilities or technology, with new advances offering promising investment opportunities. Examples of recent deals in new industries are (i) the leveraged



Source: Morgan Stanley



Source: Partners Group analysis based on various sources



Source: Partners Group analysis based on various sources

buyout of SunGard Data Systems, a global leader in integrated software and processing solutions, which was the largest technology LBO in history with a transaction value of more than USD 11 billion, and (ii) the USD 17.6 billion buyout of Freescale Semiconductor, one of the world's leading semiconductor specialists. Partners Group participated in both of these transactions as a direct investor.

Private equity has become an important part of the economy

Looking forward, we expect the sums allocated to private equity to continue to increase, especially as the industry accounts for only a fraction of global assets or GDP, and therefore still has room to accommodate this growth. For instance, we see that in Europe most countries have the potential to significantly increase their allocations to this

asset class when compared to the investment level seen in the UK.

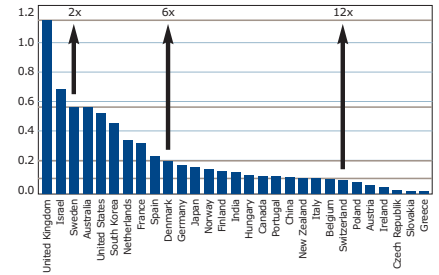
The expected growth in the industry is not only a simple function of the increased asset flow, but also of the superior investment capabilities of the industry. Private equity and venture capital investing drives the restructuring of industries, supports the exploration of growth opportunities and promotes innovation, and has been instrumental in the inception and development of a large number of the leading brands we are surrounded by in today's world. Indeed, it would be hard to imagine a day without the influence of venture capital, which has managed to effect a sustainable change on our surroundings.

The "locust" debate surrounding private equity has abated and a more objective general view of the industry is predominant, whereby private equity is increasingly regarded as adding value and promoting growth. The private equity industry as a whole substantially benefits the global economy through the creation of sustainable value. As a driver of innovation, the industry has a beneficial effect on R&D spending, which in turn positively influences revenues and employment growth. For instance, in the UK, revenues in private equity-backed companies grew by an average of 20% annually in 2000-2005, this compared to 8% for FTSE 100 companies and 7% for the FTSE Mid-250. Employment growth showed an even stronger positive trend, with private equity-backed companies achieving close to five times the rate of the FTSE 100 companies.

We are constantly surrounded by evidence of successful private equity-backed companies:

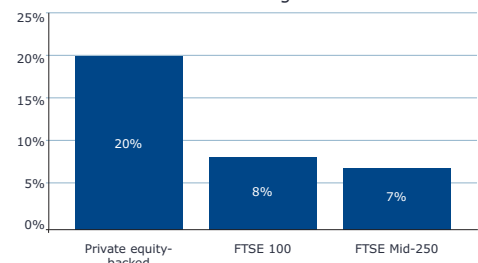
Our morning starts off with a Cafe Latte at Starbucks; we carry out internet research at work via Google; talk to our clients and business partners around the globe using Skype; partake of a lunch-time snack at Nordsee; order business literature at Amazon; shop for Tommy Hilfiger clothes in the evening; attend a class at a Fitness First gym and finish our day off buying concert tickets on Ebay.

Private equity investments in % of GDP



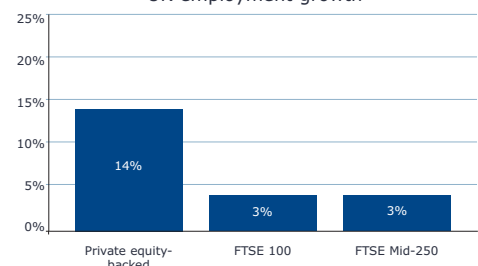
Source: EVCA, Thomson Financial, PricewaterhouseCoopers

UK revenue growth

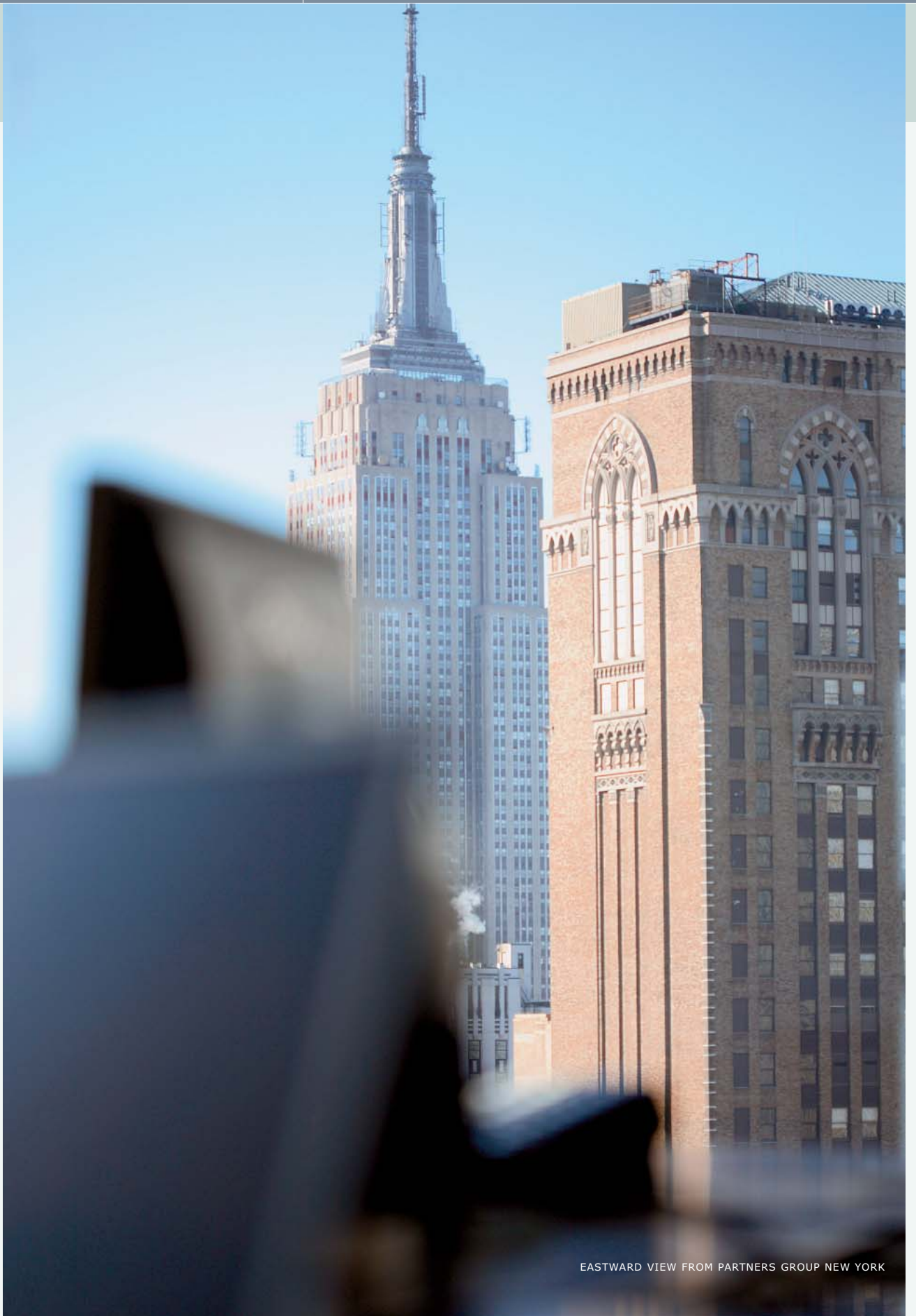


Source: BVCA study "The Economic Impact of Private Equity in the UK 2005"

UK employment growth



Source: BVCA study "The Economic Impact of Private Equity in the UK 2005"



EASTWARD VIEW FROM PARTNERS GROUP NEW YORK

The hedge fund industry has conquered investors' portfolios...

Recent years have seen unparalleled capital inflows into hedge funds, providing this industry with a tenfold increase in assets during the last ten years. Investors in hedge funds now stretch beyond the select group of high net worth individuals that have traditionally made up the large majority of investors. The widespread interest in hedge funds can be attributed to their attractive risk-reward characteristics and their low correlation to traditional asset classes.

...but faces new challenges today

The hedge fund industry has achieved increased mainstream popularity; however, we believe the industry must address two important challenges in order to attain additional significant growth and gain further access to the segment of more traditional investors, e.g. pension funds. Firstly, we are of the opinion that many new investors in this asset class will express a greater need for independent risk management. Concurrently, after the market difficulties of the past two years, these investors will request better visibility regarding the generation of absolute returns in a challenging market environment.

The need for risk management

Investors are increasingly concerned about the diverse risks of hedge fund investments which are unknown to them. In the minds of investors, these risks are exacerbated by the lack of independent risk management, low transparency, and limited liquidity (i.e. long redemption periods), which still characterize most hedge funds today.

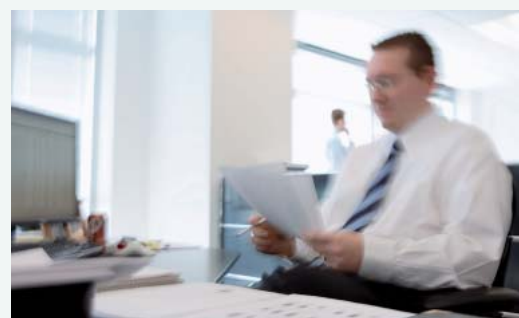
Many potential investors continue to view hedge funds as too mysterious, secretive, and hard to get in and out of. While for years certain investor-accepted types followed a "black box" investing method with long redemption periods in exchange for attractive returns, this approach might find resistance with more conservative investors.

Falling returns lead to rising investor scrutiny

The surge in capital flows to hedge funds and the increase in institutional investment come as hedge fund managers have provided on average rather mediocre returns in recent years, significantly below their historical mean. As academic studies show, pure alpha is on a constant decline against the backdrop of a significant fee load, resulting in returns only marginally above Libor. Falling hedge fund returns lead to investors enquiring about their return sources and risk exposures, before allocating capital to them.

Alpha vs. beta

The discussion on alpha versus beta in the breakdown of investment returns is as old as the capital asset pricing model which defined these terms about 40 years ago. The discussion has finally reached the hedge fund industry, an area of investing traditionally associated with "pure alpha" and therefore often referred to as driven by "absolute returns". The debate on the sources of hedge fund returns has started to change the landscape of hedge fund investing. Academic research and investors alike have started to realize that also for hedge funds the "search for alpha" must begin with the "understanding of beta", the latter



constituting an important – realistically the most important – source of their returns. Partners Group has actively contributed to the academic endeavor of developing quantitative models for hedge funds authoring a paper that was recognized as the “Best Paper of the Year” by the Journal of Alternative Investment in 2006.

At the same time we realize that hedge fund beta is often very different from traditional beta. While both are the result of exposures to systematic risks in the global capital markets, hedge fund beta can be significantly more complex than traditional beta. We refer to this beta as “alternative beta”. An important distinction between traditional beta and alternative beta is that the extraction of the latter requires non-conventional techniques such as short selling, leverage and the use of derivatives – techniques which are often used directly to characterize hedge funds. In fact hedge funds are among the few market participants able to employ these techniques, which have granted them a somewhat exclusive access to alternative beta returns.

ABS: Replicating alternative beta

The increased academic and non-academic effort in the modeling and understanding of hedge fund return sources has finally reached Wall Street. Several product providers have recently announced their intention to launch what they call “passive hedge fund products”, which claim to reproduce broad and diversified returns much like a fund of funds while however saving a fee layer. In fact, a new buzzword is out: “hedge fund replication”.

In 2004, Partners Group pioneered this new trend in the hedge fund industry attempting to reproduce hedge fund-like returns at significantly lower fees, and thereby was the very first financial institution to create a corresponding rule-based replication scheme – which we refer to as “Alternative Beta Strategies” (ABS). ABS is based on the various risk premiums hedge funds extract in the global capital markets. The Partners Group ABS program currently consists of 19 strategies, has been trading live since October 2004 and achieved a performance of 11.5% in 2006. Each component of the ABS program aims to extract a single risk premium in the global capital markets rather than directly replicating an individual hedge fund strategy, with each model further explicitly integrating the non-linear exposure profiles of hedge funds to the particular risk premium. However, rather than mimic the hedge fund industry without an active asset allocation component, the ABS program requires the essential and active elements of relative value based asset allocation across strategy sectors.

ABS has the potential to outperform conventional multi-manager hedge fund or fund of fund portfolios by a significant margin while keeping a similar risk profile. This constitutes a further important step in the developing maturity and institutionalization of the hedge fund industry. Once broader public recognition is achieved, the hedge fund industry may undergo extensive changes ultimately leading to a co-existence between both approaches in a core-satellite structure.



Core-satellite: Finding the balance between alpha and beta

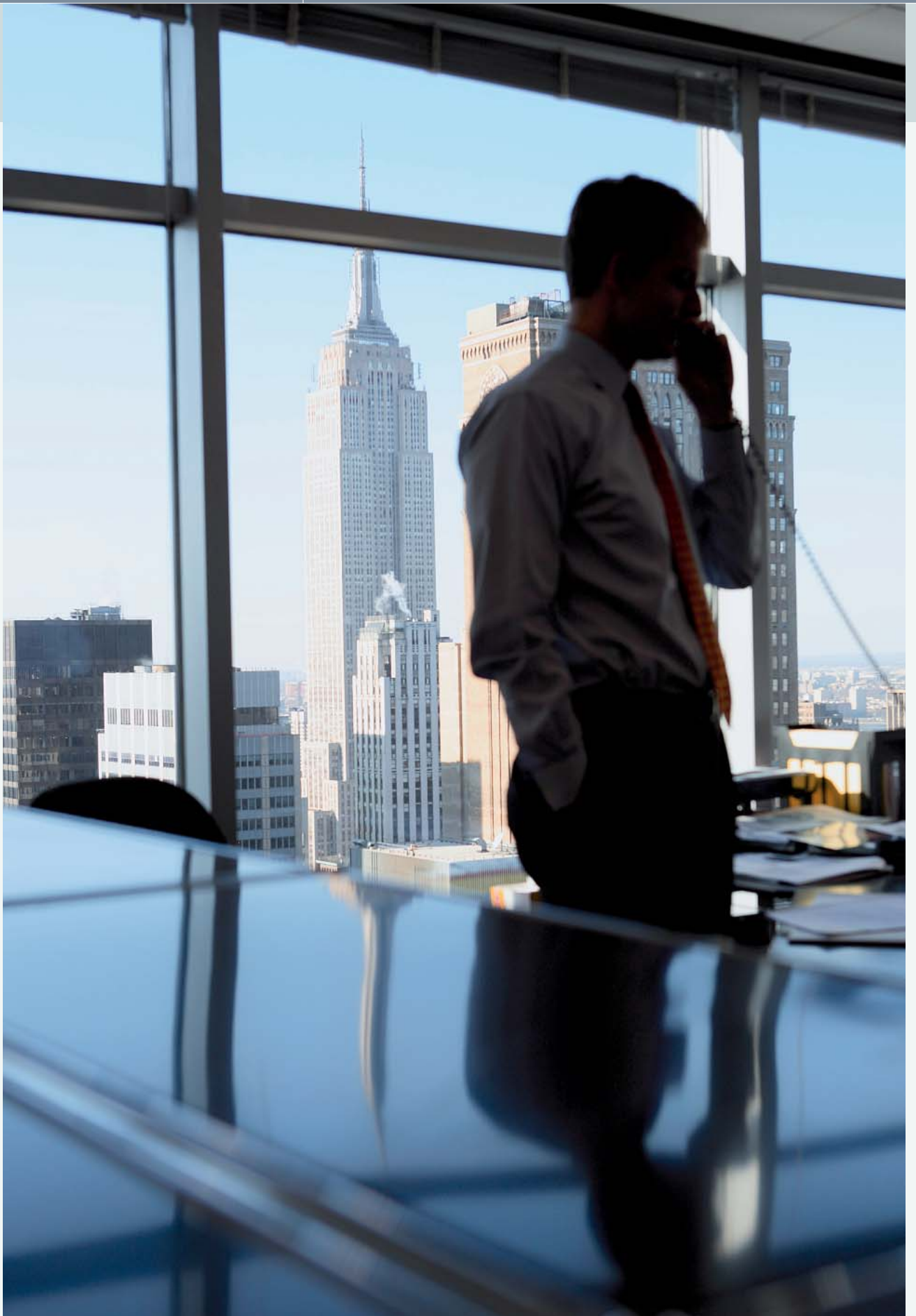
Hedge fund portfolio managers face similar challenges as traditional asset managers, namely separating strategic asset allocation (hedge fund strategy selection) from manager selection. In other words, portfolio managers seek to separate – and apply differing compensation principles to – the tasks of alpha generation and beta extraction. In response to this challenge the traditional asset management industry has invented a particular investment paradigm: capturing beta returns cost-efficiently in a core portfolio and generating alpha in actively managed satellites.

Today this approach is conventionally referred to as the “core-satellite approach”. This combination of core and satellite entities aims to beat a given industry benchmark in a risk-controlled manner, i.e. with a limited tracking error to the underlying asset class benchmark and thus limited idiosyncratic risk to the investor.

A hedge fund portfolio following a core-satellite approach has the potential to earn significantly higher returns than a conventional hedge fund portfolio with a similar level of risk. Additionally, the core-satellite approach offers enhanced flexibility and granularity. While a rebalancing and/or re-allocation of a conventional portfolio of hedge funds can take a significant amount of time due to the asset classes’ low transparency standards and inhibitive liquidity constraints, the same task takes a matter of hours in a core-satellite approach. The breakdown into risk premiums rather than strategic sectors allows an active fine-tuning of the asset allocation.

Partners Group has developed a corresponding core-satellite investment scheme, which integrates its Alternative Beta Strategies program with selected proven alpha-generating managers, thereby combining the generic exposure to hedge fund returns with the potential of significant alpha returns.





Partners Group is committed to maintaining its principles of responsibility and sustainability in its endeavors and investments. We believe that social responsibility, ecological awareness and good corporate governance are crucial further pillars of a company's success.

Following our credo of "Passion for alternative investments" we are just as passionate about helping others. Through our Corporate Responsibility Program we focus on three main areas.

Passion for entrepreneurship

As former young entrepreneurs ourselves, who have successfully achieved the goal of founding a global manager for alternative investments, Partners Group takes an active role in supporting a new generation of entrepreneurs. For example, Partners Group is pleased to participate in the following programs:

CTI Start-up / CTI Invest

CTI (Committee for technology and innovation) Start-up is a Swiss government initiative through which young entrepreneurs with innovative ideas are supported in the build-up of their high-tech companies. 1'000 projects were considered between 1996 and 2000, of which 122 received the CTI Start-up certificate. In total, these companies created approximately 4'000 new jobs. In connection with CTI Start-up, the association CTI Invest encourages entrepreneurial thought and action while supporting young entrepreneurs who are currently being coached within the scope of the CTI Start-up platform or who have already received the CTI Start-up certificate. Partners Group helped initiate CTI Start-up and participated in the project as a board member of CTI Invest from inception until the end of 2006.

Venture business plan competition

Venture is a joint initiative of the ETH Zurich and McKinsey & Company Switzerland with the aim of encouraging start-up activity. The business plan competition is held every two years, with the next event to take place in 2008. As coach and member of the jury since inception of this competition as well as advisory board member since 2002, Partners Group is pleased to lend its support to this forum for young entrepreneurs with innovative business ideas.

SF "Start-up"

The national Swiss television station SF is launching a new TV program in the spring of 2007, in which competitors are offered the opportunity of realizing their dreams of independence with the help of specialists. Partners Group is pleased to support this exciting new concept by participating as a member of the jury.

Passion for education

Partners Group is globally active in the education of young people and thereby contributes to the development of the entrepreneurs of the future. On the one hand Partners Group team members lecture on specific industry topics at a number of schools and universities and on the other we consider education to be an important topic in-house as well. We therefore run an apprenticeship program and offer internships to Swiss and international students as well as supporting the further education of our professionals.

Passion for philanthropy

The endowment PG Alternative IMPACT was founded by Partners Group and its employees. The endowment promotes entrepreneurship by supporting educa-

tion and financing new businesses. PG Alternative IMPACT is supported by the entire management and all employees of Partners Group.

Partners Group has already helped finance four projects through PG Alternative IMPACT, (i) Youth Venture, which supports the education of young people in Brasil, (ii) Unitus India Microfinance Center, which combats global poverty by granting micro-credits, (iii) Pyrethrum Natural Insecticide, which supports Bolivian farmers in the production, marketing and sale of a natural insecticide gained from the pyrethrum flower, and (iv) Touk Meas, which aims to give young women in Cambodia who are deprived of a normal education a chance to learn a business which will allow them to survive as well as support their families in autonomy.





PASSION FOR TRANSPARENCY

**INDEX TO THE CONSOLIDATED FINANCIAL STATEMENTS
AND REPORT OF THE AUDITORS**

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REPORT OF THE AUDITORS ON THE CONSOLIDATED FINANCIAL STATEMENTS



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Report of the Group Auditors to the General Meeting of

Partners Group Holding, Baar-Zug

As group auditors, we have audited the consolidated financial statements (income statement, balance sheet, statement of changes in equity, cash flow statement and notes / pages 29 to 92) of Partners Group Holding for the year ended 31 December 2006.

These consolidated financial statements are the responsibility of the board of directors. Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We confirm that we meet the legal requirements concerning professional qualification and independence.

Our audit was conducted in accordance with Swiss Auditing Standards and with the International Standards on Auditing (ISA), which require that an audit be planned and performed to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. We have examined on a test basis evidence supporting the amounts and disclosures in the consolidated financial statements. We have also assessed the accounting principles used, significant estimates made and the overall consolidated financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the consolidated financial statements give a true and fair view of the financial position, the results of operations and the cash flows in accordance with the International Financial Reporting Standards (IFRS) and comply with Swiss law.

We recommend that the consolidated financial statements submitted to you be approved.

KPMG Ltd

Swen Wyssbrod
Swiss Certified Accountant
Auditor in Charge

Alexander Gut
Swiss Certified Accountant

Zurich, 7 March 2007

**CONSOLIDATED INCOME STATEMENT
FOR THE YEARS ENDED 31 DECEMBER 2006 AND 2005**

In thousands of Swiss francs

	Note	2006	2005
Revenues	8	264'626	149'428
Revenue deductions	9	-67'440	-42'882
Share of results of associates	17	4'005	3'142
Gain on sale of investments in associates	17	-	-
Income from investment companies	19	1	129
Changes in fair value of derivatives arising from insurance contracts	32	12'953	15'162
Gain on settlement of insurance contracts, net	32	1'042	-
Net revenues		215'187	124'979
Third party services	11	-7'100	-6'188
Gross profit		208'087	118'791
Personnel expenses	12	-37'047	-29'663
General & administrative expenses		-6'372	-6'115
Marketing & representation expenses		-3'966	-2'886
EBITDA		160'702	80'127
Depreciation and amortization	15 & 16	-3'955	-3'568
EBIT		156'747	76'559
Finance income, net	13	7'194	4'130
Finance cost	13	-835	-104
Profit before tax		163'106	80'585
Income tax expense	14	-8'678	-3'011
Net profit for the year		154'428	77'574
Attributable to:			
Equity holders of the parent		154'159	77'416
Minority interest		269	158
Basic earnings per share (Swiss francs)	27	6.33	3.73
Diluted earnings per share (Swiss francs)	27	5.62	2.94

**CONSOLIDATED BALANCE SHEET
AS OF 31 DECEMBER 2006 AND 2005**

In thousands of Swiss francs

	Note	2006	2005
Assets			
Property, plant and equipment	15	3'668	3'482
Intangible assets	16	52'415	9'802
Investments in associates	17	4'462	3'629
Other investments	19	40'837	14'325
Other financial assets	20	83'369	103'230
Derivatives arising from insurance contracts	18 & 32	-	2'266
Deferred tax assets	22	16'318	408
Total non-current assets		201'069	137'142
Prepaid expenses	23	2'219	479
Trade receivables	23	37'297	27'150
Other receivables	23	455	1'705
Marketable securities	24	23'095	8'442
Cash and cash equivalents	25	121'698	36'680
Total current assets		184'764	74'456
Total assets		385'833	211'598
Equity and liabilities			
Share capital	26	267	267
Own equity instruments	26	-60'354	-58'210
Share premium	26	218	218
Retained earnings	26	332'941	177'807
Equity attributable to equity holders of the parent		273'072	120'082
Minority interest		427	158
Total equity		273'499	120'240
Liabilities			
Interest-bearing loans and borrowings	28	22	20
Pension fund liabilities	30	2'575	2'266
Derivatives arising from insurance contracts	18 & 32	82'755	68'381
Total non-current liabilities		85'352	70'667
Interest-bearing loans and borrowings	28	-	6
Trade payables		8'970	3'639
Income taxes payable		521	3'179
Accrued expenses	29	14'934	11'599
Other current liabilities		2'557	2'268
Total current liabilities		26'982	20'691
Total liabilities		112'334	91'358
Total equity and liabilities		385'833	211'598

**CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE YEARS ENDED 31 DECEMBER 2006 AND 2005**

In thousands of Swiss francs

	Share capital	Own equity instruments	Share premium	Translation reserves	Hedging reserve	Other retained earnings	Total retained earnings	Attributable to equity holders of the parent	Minority interest	Total
Balance at 1 January 2005	267	-47'710	218	-619	-	94'720	94'101	46'876	-	46'876
Acquisition of treasury shares		-10'500					-	-10'500		-10'500
Equity settled transactions						2'234	2'234	2'234		2'234
Acquisition of minority interests						-160	-160	-160		-160
Translation adjustment				4'216			4'216	4'216		4'216
Net profit for the year						77'416	77'416	77'416	158	77'574
Total recognized income and expense in 2005				4'216	-	77'416	81'632	81'632	158	81'790
Balance at 31 December 2005	267	-58'210	218	3'597	-	174'210	177'807	120'082	158	120'240
Balance at 1 January 2006	267	-58'210	218	3'597	-	174'210	177'807	120'082	158	120'240
Acquisition of treasury shares		-38'771					-	-38'771		-38'771
Sale of treasury shares*		36'627				-24'013	-24'013	12'614		12'614
Equity settled transactions						3'371	3'371	3'371		3'371
Tax effect resulting from equity settled transactions						23'667	23'667	23'667		23'667
Translation adjustment				-2'442			-2'442	-2'442		-2'442
Fair value changes of cash flow hedges					392		392	392		392
Net profit for the year						154'159	154'159	154'159	269	154'428
Total recognized income and expense in 2006				-2'442	392	154'159	152'109	152'109	269	152'378
Balance at 31 December 2006	267	-60'354	218	1'155	392	331'394	332'941	273'072	427	273'499

* including settlement of employee option plans

**CONSOLIDATED CASH FLOW STATEMENT
FOR THE YEARS ENDED 31 DECEMBER 2006 AND 2005**

In thousands of Swiss francs

	Note	2006	2005
Operating activities			
Net profit for the year		154'428	77'574
Adjustments:			
Share of results of associates	17	-4'005	-3'142
Income from other investments	19	-1	-129
Net financial result	13	-6'359	-4'026
Income tax expenses	14	8'678	3'011
Depreciation of property, plant and equipment	15	1'187	1'139
Amortization of intangible assets	16	2'768	2'429
Share-based expenses	12	3'371	2'234
Change in fair value of derivative assets arising from insurance contracts	32	1'692	6'382
Change in fair value of derivative liabilities arising from insurance contracts	32	-14'455	-19'930
Change in fair value of assets held by insurance trusts		2'191	-3'705
Non-cash gain on settlement of insurance contracts	32	-6'747	-
Change in defined benefit obligation	30	309	261
Gain / (loss) realized on other derivatives		-453	-1'674
Other non-cash items		-34	-169
Operating cash flow before changes in working capital		142'570	60'255
(Increase) / decrease in receivables		-13'678	-10'703
Increase / (decrease) in payables		3'718	-942
Financial expenses (other than interest) paid		-181	-106
Cash generated from operations		132'429	48'504
Income taxes paid		-3'584	-417
Net cash provided by operating activities		128'845	48'087

**CONSOLIDATED CASH FLOW STATEMENT
FOR THE YEARS ENDED 31 DECEMBER 2006 AND 2005 – CONTINUED**

In thousands of Swiss francs

	Note	2006	2005
Investing activities			
(Purchase) / disposal of marketable securities		-13'161	1'100
Proceeds on disposal of property, plant and equipment	15	5	11
Purchase of property, plant and equipment	15	-1'373	-866
Proceeds on disposal of intangible assets	16	-	-
Purchase of intangible assets	16	-4'275	-456
Cost recovered from disposal of other investments	19	2'906	9'197
Realized gain / (loss) on disposal of other investments		-	499
Purchase of other investments	19	-28'213	-6'585
Investments in assets held by insurance trust and experience account		-58'228	-13'632
Proceeds from assets held by insurance trust		74'847	-
Change in other financial assets		-227	-92
Interest received		7'126	2'345
Dividends received	17	3'039	2'478
Net cash used in investing activities		-17'554	-6'001
Financing activities			
Proceeds from borrowings		-	11
Repayment of borrowings		-6	-5'460
Interest paid		-76	-
Purchase of treasury shares and issued options	3	-38'772	-10'500
Disposal of treasury shares	3	12'614	-
(Purchase) / disposal of minority interests		-	-154
Net cash used in financing activities		-26'240	-16'103
Net increase in cash and cash equivalents		85'051	25'983
Cash and cash equivalents at beginning of the year	25	36'680	10'660
Effect of foreign exchange rate changes		-33	37
Cash and cash equivalents at end of the year	25	121'698	36'680

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEARS ENDED 31 DECEMBER 2006 AND 2005

1. GENERAL INFORMATION

Partners Group Holding (the "Company") is a company domiciled in Switzerland. The consolidated financial statements for the years ended 31 December 2006 and 2005 comprise the Company and its subsidiaries (together referred to as the "Group") and the Group's interest in associates and jointly controlled entities. The consolidated financial statements were authorized for issue by the Board of Directors on 7 March 2007 and are subject to approval at the general meeting of shareholders on 27 April 2007.

The principal activities of the Group are described in note 5.

The consolidated financial statements present a true and fair view of the Group's financial position, results of operations and cash flows in accordance with International Financial Reporting Standards (IFRS) and comply with Swiss law.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

2.1 Basis of preparation

The consolidated financial statements are presented in Swiss francs, rounded to the nearest thousand. The figures referred to in text passages are shown in actual figures, rounded to the nearest Swiss franc unless otherwise stated. The statements are prepared on the historical cost basis except that the following assets and liabilities are stated at their fair value: derivative financial instruments, financial instruments designated as at fair value through profit or loss and financial instruments classified as available-for-sale.

Non-current assets and disposal groups held for sale are stated at the lower of carrying amount and fair value less costs to sell.

The preparation of financial statements in conformity with IFRS requires management to make judgments, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making judgments concerning carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised if the revision affects only that period or in the period of the revisions and future periods if the revision affects both current and future periods.

Judgments made by management in the application of IFRS that have a significant effect on the consolidated financial statements and estimates with a significant risk of material adjustment in the next year are discussed in note 4.

2.2 Basis of consolidation

(a) Subsidiaries

Subsidiaries are all entities (including special purpose entities) over which the Group has the power to govern the financial and operating policies; this is generally accompanied by a shareholding of more than one half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are

considered when assessing whether the Group controls another entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are de-consolidated from the date on which control ceases. The purchase method of accounting is used to account for the acquisition of subsidiaries by the Group. The cost of an acquisition is measured as the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date, irrespective of the extent of any minority interest. The excess of the cost of acquisition over the fair value of the Group's share of the identifiable net assets acquired is recorded as goodwill. If the cost of acquisition is less than the fair value of the Group's share of the net assets of the subsidiary acquired, the difference is recognized directly in the income statement (see note 2.8). Inter-company transactions, balances and unrealized gains on transactions between Group companies are eliminated. Unrealized losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. The Group's accounting policies are consistently applied by all subsidiaries.

(b) Associates

Associates are all entities over which the Group has significant influence but no control, generally accompanying a shareholding of between 20% and 50% of the voting rights. Investments in associates are accounted for by the equity method of accounting and are initially recognized at cost.

The Group's investment in associates includes goodwill (net of any accumulated impairment loss) identified on acquisition (see note 2.8).

The Group's share of its associates' post-acquisition profits or losses is recognized in the income statement, and its share of post-acquisition movements in reserves is recognized in reserves. The cumulative post-acquisition movements are included in the carrying amount of the investment.

When the Group's share of losses in an associate equals or exceeds its interest in the associate, including any other unsecured receivables, the Group does not recognize further losses, unless it has incurred obligations or made payments on behalf of the associate.

Unrealized gains on transactions between the Group and its associates are eliminated to the extent of the Group's interest in the associates. Unrealized losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Associates' financial reporting has been amended where necessary to ensure consistency with the policies adopted by the Group.

(c) Joint ventures

The Group's interests in jointly controlled entities are accounted for by proportionate consolidation. The Group combines its share of the joint ventures' individual income and expenses, assets and liabilities and cash flows on a line-by-line basis with similar items in the consolidated financial statements.

The Group recognizes the portion of gains or losses on the sale of assets by the Group to the joint venture that is attributable to the other venturers. The Group does not recognize its share of profits or losses from the joint venture that result from the Group's purchase of assets from the joint venture until it resells the assets to an independent party.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEARS ENDED 31 DECEMBER 2006 AND 2005

A loss on the transaction is recognized immediately if it provides evidence of a reduction in the net realizable value of current assets, or an impairment loss. Joint ventures' financial reporting has been amended where necessary to ensure consistency with the policies adopted by the Group.

(d) Other investments / Special purpose entities

In the course of offering structured products the Group may become the majority or sole shareholder of certain entities. These entities are managed for a certain period of time, but the Group is not the beneficial owner of assets contained in these companies; in addition, the Group's management decisions are strictly limited by separate contracts. Such entities fulfill the definition of special purpose entities and are accounted for by applying SIC 12 Consolidation – Special Purpose entities. The same applies to limited partnerships, where the Group holds only a minor equity interest but acts as the General Partner on behalf of the entity's investors, who are the limited partners. As the Group in both instances is not subject to the majority of risk and rewards these entities are not consolidated, but are designated as at fair value through profit or loss.

2.3 Changes in accounting policies

The accounting policies adopted for the year ended 31 December 2006 are consistent with those of the previous financial year presented in this report, except where new or revised standards were adopted prospectively, as indicated below.

The Group has adopted the following new/revised standards mandatory for financial years beginning on 1 January 2006:

- IAS 19 – *Amendment for Actuarial Gains and Losses, Group Plans and Disclosures*, which includes a new alternative to recognize actuarial gains and losses directly in a statement of recognized income and expense and requires additional disclosures;
- IAS 21 – *The Effects of Changes in Foreign Exchange Rates – Amendment regarding Net Investment in a Foreign Operation* – which clarifies the recognition of exchange differences arising on in-substance net investments in a foreign operation if settlement is neither planned nor likely in the foreseeable future;
- IAS 39 – *Financial Instruments: Recognition and Measurement ("IAS 39") – Amendment for financial guarantee contracts* – which amended the scope of IAS 39 to include financial guarantee contracts issued. The amendment addresses the treatment of financial guarantee contracts by the issuer. Under IAS 39 as amended financial guarantee contracts are recognized initially at fair value and generally remeasured at the higher of the amount determined in accordance with IAS 37 *Provisions, Contingent Liabilities and Contingent Assets* and the amount initially recognized less, when appropriate, cumulative amortization recognized in accordance with IAS 18 *Revenue*;
- IAS 39 – *Amendment for hedges of forecast intragroup transactions* – which amended IAS 39 to permit the foreign currency risk of a highly probable intragroup forecast transaction to qualify as the hedged item in a cash flow hedge, provided that the transaction is denominated in a currency other than the functional currency of the entity entering into that transaction and that the foreign currency risk will affect the financial statements;
- IAS 39 – *Amendment for the fair value option* – which restricted the use of the option to designate any financial asset or any financial liability to be measured at fair value through profit or loss;
- IFRS 6 – *Exploration for and Evaluation of Mineral Resources*;
- IFRIC 4 – *Determining whether an Arrangement contains a Lease*;
- IFRIC 5 – *Rights to Interests arising from Decommissioning, Restoration and Environmental Rehabilitation Funds*;
- IFRIC 6 – *Liabilities arising from Participating in a Specific Market – Waste Electrical and Electronic Equipment*

The adoption of these amendments did not affect the Group results of operations or financial position. The Group did not adopt the new alternative included in the amendment to IAS 19 for the treatment of actuarial gains and losses.

The following new and revised standards and interpretations have been issued until the date on which the consolidated financial statements were authorized for issue, but are not yet effective and are not applied early in these consolidated financial statements. Their impact on the consolidated financial statements of the Group has not yet been systematically analyzed. The expected effects as disclosed below the table reflect a first assessment by Group management.

Standard / Interpretation		Effective date	Planned application by Partners Group
IFRS 7 – Financial Instruments: Disclosures	**	1 January 2007	Reporting year 2007
IFRS 8 – Operating Segments	**	1 January 2009	Reporting year 2009
Amendment to IAS 1 – Presentation of Financial Statements: Capital Disclosures	**	1 January 2007	Reporting year 2007
IFRIC 7 – Applying the Restatement Approach under IAS 29 Financial Reporting in Hyperinflationary Economies	*	1 March 2006	Reporting year 2007
IFRIC 8 – Scope of IFRS 2	*	1 May 2006	Reporting year 2007
IFRIC 9 – Reassessment of Embedded Derivatives	*	1 June 2006	Reporting year 2007
IFRIC 10 – Interim Financial Reporting and Impairment	*	1 November 2006	Reporting year 2007
IFRIC 11 – Group and Treasury Share Transactions	*	1 March 2007	Reporting year 2008
IFRIC 12 – Service Concession Agreements	*	1 January 2008	Reporting year 2009

* No significant impact is expected on the consolidated financial statements of the Group

** Mainly additional disclosures are expected in the consolidated financial statements of the Group

2.4 Segment reporting

A segment is a distinguishable component of the Group that is engaged either in providing products or services (business segment), or in providing products or services within a particular economic environment (geographical segment), which is subject to risks and rewards that are different from those of other segments.

Segment information is presented in respect of the Group's business segments only. The Group does not provide a segment reporting following geographic criteria. Since the Group has focused its main activities on investment management / advice and its activities are concentrated in Switzerland and Guernsey / Channel Islands, the geographic information would not reveal useful insights.

The presented format is based on the Group's internal organization and management structure. The Group comprises the following main business segments:

- Private Equity
- Hedge Funds

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For further information regarding these two business segments refer to note 5. The Group discloses no inter-segment transactions, as there are none; consequently no eliminations are necessary.

Two other business activities, wealth management and private debt, do not meet the criteria of an independent segment and thus are disclosed under the heading "other/non-attributable".

Segment results, assets and liabilities include items directly attributable to a segment as well as those that can be allocated on a reasonable basis. Financial assets and liabilities (insurance trust/experience account, investments in associates, other investments and related liabilities) are disclosed in their respective segment.

Unallocated items comprise:

Income statement

- Depreciation on property, plant and equipment
- Non-attributable part of amortization of intangible asset
- Pension cost
- Not-attributable part of net financial result
- Income tax expense

Balance sheet

- Property, plant and equipment
- Non-attributable part of intangible assets (such as software)
- Non-attributable part of other financial assets
- Deferred tax assets
- Marketable securities
- Cash and cash equivalents
- Non-attributable part of interest-bearing loans and borrowings
- Pension fund liabilities
- Income taxes payable

2.5 Foreign currency translation

(a) Functional and presentation currency

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates (the "functional currency"). The consolidated financial statements are presented in Swiss francs.

(b) Foreign currency transactions

Transactions in foreign currencies are translated at the foreign exchange rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated to Swiss francs at the foreign exchange rate ruling at that date. Foreign exchange differences arising on translation are recognized in the income statement. Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction. Non-monetary assets and liabilities denominated in foreign currencies that are stated at fair value are translated to Swiss francs at the applicable foreign exchange rates for the dates the fair value was determined.

(c) Financial statements of foreign operations

The assets and liabilities of foreign operations, including goodwill and fair value adjustments arising on consolidation, are translated to Swiss francs at foreign exchange rates applicable at the balance sheet date. The revenues and expenses as well as cash flows of foreign operations, excluding foreign operations in hyperinflationary economies, are translated to Swiss francs at average rates. Foreign exchange differences arising from the translation of balance sheets and income statements are recognized directly in a separate component of equity. Upon the disposal or liquidation of a foreign entity, the related cumulative translation adjustment is recognized in the income statement.

(d) Applied foreign currency rates

The Group applied the following currency rates against Swiss francs:

Year	Currency	Balance sheet rate	Average rate
2005	EUR	1.5564	1.5486
	USD	1.3153	1.2467
	GBP	2.2606	2.2648
	SGD	0.7910	0.7488
2006	EUR	1.6088	1.5734
	USD	1.2198	1.2528
	GBP	2.3870	2.3084
	SGD	0.7949	0.7887

2.6 Accounting for derivative financial instruments and hedging activities

The Group uses derivative financial instruments to hedge its exposure to foreign exchange risks arising from financing and investment activities. The Group does not hold or issue derivative financial instruments for trading purposes.

Derivatives are recognized initially at fair value and attributable transaction costs are recognized in profit or loss when incurred. Subsequent to initial recognition, derivatives are measured at fair value, and changes therein are accounted for as described below. The fair value of forward exchange contracts is their quoted market price at the balance sheet date, being the present value of the quoted forward price.

Cash flow hedges

Changes in the fair value of the derivative hedging instrument designated as a cash flow hedge are recognized directly in equity to the extent that the hedge is effective. To the extent that the hedge is ineffective, changes in fair value are recognized in profit or loss.

If the hedging instrument no longer meets the criteria for hedge accounting, expires or is sold, terminated or exercised, then hedge accounting is discontinued prospectively. The cumulative gain or loss previously recognized in equity remains there until the forecast transaction occurs.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEARS ENDED 31 DECEMBER 2006 AND 2005

When the hedged item is a non-financial asset, the amount recognized in equity is transferred to the carrying amount of the asset when it is recognized. In other cases the amount recognized in equity is transferred to profit or loss in the same period that the hedged item affects profit or loss.

Regarding the accounting for derivatives arising from insurance contracts refer to note 2.17

2.7 Property, plant and equipment

Owned assets

All property, plant and equipment (PPE) are stated at cost less accumulated depreciation and impairment losses, except for land, which is stated at cost less any impairment losses. Cost includes expenditure that is directly attributable to the acquisition of the items.

Where parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items of property, plant and equipment.

Subsequent costs are included in the asset's carrying amount or recognized as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. All other repairs and maintenance are charged to the income statement during the financial period in which they are incurred.

Depreciation of assets is calculated using the straight-line method to allocate the cost of each asset to its residual value over its estimated useful life, as follows:

– Buildings	25–40 years
– Interior fittings	5–10 years
– Office furniture	5 years
– Cars	3–5 years
– Equipment and IT fittings	3 years

Major renovations are depreciated over the remaining useful life of the related asset or to the date of the next major renovation, whichever is sooner.

The asset's residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount (see note 2.12).

Gains and losses on disposals are determined by comparing proceeds with carrying amount. These are included in the income statement.

Leased assets

Leases in terms of which the Group assumes substantially all the risks and rewards of ownership are classified as finance leases. The property, plant and equipment acquired by way of finance lease are stated at an amount equal to the lower of their fair value and the present value of the minimum lease payments at inception of the lease, less accumulated depreciation (see above) and impairment losses (see note 2.12). Lease payments are accounted for as described in note 2.19.

2.8 Intangible assets

(a) Goodwill

All business combinations are accounted for by applying the purchase method. Goodwill represents the excess of the cost of an acquisition over the fair value of the Group's share of the net identifiable assets of the acquired subsidiary/associate at the date of the acquisition.

Goodwill is stated at cost less any accumulated impairment losses. Goodwill is allocated to cash-generating units and is not amortized but tested annually for impairment (see note 2.12). In respect of associates, the carrying amount of goodwill is included in the carrying amount of the investment in the associate.

Negative goodwill arising on an acquisition is recognized directly in profit or loss.

(b) Computer software

Acquired computer software licenses are capitalized on the basis of the costs incurred to acquire and bring to use the specific software.

Computer software recognized as an asset is carried at cost less accumulated amortization (see below) and impairment losses (see note 2.12).

(c) Pre-financed placement expenses

In the course of its business, the Group selectively uses placement agents to place some of its partnership structures. The cost paid to such agents in relation to the amount placed is recognized as an asset in accordance with IAS 18 Appendix §14 b) (iii), since such expenses represent incremental costs, which are directly attributable to securing an investment management contract.

(d) Put option resulting from initial recognition of insurance contracts

In 1999 the Group entered into an insurance agreement with Princess Private Equity Holding Ltd., Guernsey (hereinafter referred to as "Princess"), insuring the repayment of the principal amount of the convertible bond issued by Princess. At inception the insurance contract entered into had been valued applying a put option valuation (see note 2.17). The resulting cost was considered to be the incremental cost directly attributable to securing an investment management contract. The cost was amortized using the straight-line method over the duration of the bond, which was launched in 1999 and was repayable at the latest by 31 December 2010. With the re-launch of the Princess transaction in December 2006 (see note 6), the structure put in place in 1999 was effectively settled and the initial put option derecognized.

On 30 March 2006 the Group entered into an agreement with Swiss Re with regards to the extension of the convertible bond issued by Pearl Holding Limited ("Pearl") from 30 September 2010 to 30 September 2014 and an increase of the redemption amount of the bond from EUR 660 million to EUR 712.8 million. In this context, the Group has committed to invest an additional EUR 33 million into the existing experience account until 30 September 2010 to provide for further security. The payment of the present value of that amount was made on 20 December 2006. The Group's risk associated with its exposure as policyholder for Pearl is still limited to the value of the experience account; nevertheless this additional commitment increased the Group's overall exposure and thus was recognized as additional derivative liability. The Group considered the present value of the additional commitment also to be the incremental cost directly attributable to securing an investment management contract. This amount will be amortized using the straight-line method over the extension period from 1 October 2010 to 30 September 2014.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEARS ENDED 31 DECEMBER 2006 AND 2005

(e) Other intangible assets

Other intangible assets, which the Group acquired and are recognized as assets, have a definite useful life. Such intangible assets are carried at cost less accumulated amortization (see below) and impairment losses (see note 2.12).

Expenditure on internally generated goodwill and brands is recognized in the income statement as an expense as incurred.

(f) Subsequent expenditure

Subsequent expenditure on capitalized intangible assets is capitalized only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditure is expensed as incurred.

(g) Amortization

Amortization is charged to the income statement on a straight-line basis over the estimated useful lives of intangible assets unless such lives are indefinite. Goodwill and other intangible assets with an indefinite useful life are systematically tested for impairment at each balance sheet date. Intangible assets with a determinable useful life are amortized from the date they are available for use.

The estimated useful lives are as follows:

- Computer software 3 years
- Pre-financed placement expenses 3 – 5 years
- Initial put option relating to Pearl 4 years (refer to 2.8 (d))

2.9 Investments

The Group classifies its investments in the following categories: financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investments, and available-for-sale financial assets. The classification depends on the purpose for which the investments were acquired. Management determines the classification of its investments at initial recognition and re-evaluates this designation at every reporting date.

(a) Financial assets at fair value through profit or loss

This category has two sub-categories: financial assets held for trading, and those designated at fair value through profit or loss at inception. A financial asset is classified in this category if acquired principally for the purpose of selling in the short term or if so designated by management at initial recognition. Financial instruments may be designated as at fair value through profit or loss if the Group manages such investments and makes purchase and sale decisions based on their fair value. Derivatives are also categorized as held for trading unless they are designated as hedges. Assets in this category are classified as current if they are either held for trading or are expected to be realized within 12 months of the balance sheet date.

(b) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments, which are not quoted in an active market and in respect of which there is no intention of trading. They are included in current assets (trade and other receivables, see note 2.10), except for amounts with maturities of greater than 12 months after the balance sheet date, which are classified as non-current assets (other financial assets).

(c) Held-to-maturity investments

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturities that the Group's management has the positive intention and ability to hold to maturity. The Group did not hold any investments in this category during the years under review.

(d) Available-for-sale financial assets

Available-for-sale financial assets are non-derivatives that are either designated in this category or not classified in any of the other categories. They are included in non-current assets unless management intends to dispose of the investment within 12 months of the balance sheet date. The Group did not hold any investments in this category during the years under review.

Purchases and sales of investments are recognized on the settlement date – the date on which the financial asset is delivered to the entity that purchased it. Investments are initially recognized at fair value plus, in the case of financial assets not carried at fair value through profit or loss, transaction costs. Investments are derecognized when the rights to receive cash flows from the investments have expired or have been transferred and the Group has transferred substantially all risks and rewards of ownership. Available-for-sale financial assets and financial assets at fair value through profit or loss are subsequently carried at fair value. Loans and receivables and held-to-maturity investments are carried at amortized cost using the effective interest method. Realized and unrealized gains and losses arising from changes in the fair value of the "Financial assets at fair value through profit or loss" category are included in the income statement in the period in which they arise. Unrealized gains and losses arising from changes in the fair value of securities classified as available-for-sale are recognized in equity.

When securities classified as available for sale are sold or impaired, the accumulated fair value adjustments are included in the income statement as investment gains and losses.

The fair values of quoted investments are based on current bid prices. If the market for a financial asset is not active (and for unlisted securities), the Group establishes fair value by using valuation techniques. These include the use of recent arm's length transactions, reference to other instruments that are substantially the same and discounted cash flow analysis refined to reflect the issuer's specific circumstances. Regarding further explanations in connection with the determination of fair value please refer to note 3.2.

The Group assesses at each balance sheet date whether there is objective evidence that a financial asset or a Group of financial assets is impaired. In the case of equity securities classified as available for sale, a significant or prolonged decline in the fair value of the security below its cost is considered in determining whether the securities are impaired. If any such evidence exists for available-for-sale financial assets, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognized in profit or loss – is removed from equity and recognized in the income statement. Impairment losses recognized in the income statement on equity instruments are not reversed through the income statement.

2.10 Trade and other receivables

Trade and other receivables are recognized initially at fair value and subsequently measured at amortized cost using the effective interest method, less impairment losses. An impairment loss on trade receivables is recognized when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of the receivables.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEARS ENDED 31 DECEMBER 2006 AND 2005

2.11 Cash and cash equivalents

Cash and cash equivalents include cash in hand, call deposits held with banks and other short-term highly liquid investments with original maturities of three months or less. Bank overdrafts are shown within borrowings in current liabilities on the balance sheet.

2.12 Impairment of assets

The carrying amounts of the Group's assets, other than deferred tax assets (see note 2.20) and assets arising from employee benefits (see note 2.15), are reviewed at each balance sheet date to determine whether there is any indication of impairment. If any such indication exists, the asset's recoverable amount is estimated.

For goodwill, intangible assets that have an indefinite useful life and intangible assets that are not yet available for use, the recoverable amount is estimated on an annual basis.

An impairment loss is recognized whenever the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount. Impairment losses are recognized in the income statement.

Impairment losses recognized in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to cash-generating units (group of units) and then, to reduce the carrying amount of the other assets in the unit (group of units) on a pro rata basis. When a decline in the fair value of an available-for-sale financial asset has been recognized directly in equity and there is objective evidence that the asset is impaired, the cumulative loss that has been recognized directly in equity is recognized in profit or loss even though the financial asset has not been derecognized. The amount of the cumulative loss that is recognized in profit or loss is the difference between the acquisition cost and current fair value, less any impairment loss on that financial asset previously recognized in profit or loss.

(a) Calculation of recoverable amount

The recoverable amount of the Group's investments in held-to-maturity securities and receivables carried at amortized cost is calculated as the present value of estimated future cash flows, discounted at the original effective interest rate (i.e. the effective interest rate computed at initial recognition of these financial assets). Receivables with a short duration are not discounted.

The recoverable amount of other assets is the greater of their fair value less costs to sell and their value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For an asset that does not generate largely independent cash inflows, the recoverable amount is determined for the cash-generating unit to which the asset belongs.

(b) Reversals of impairment

An impairment loss in respect of a held-to-maturity security or receivable carried at amortized cost is reversed if the subsequent increase in the recoverable amount can be related objectively to an event occurring after the impairment loss was recognized.

An impairment loss in respect of an investment in an equity instrument classified as available-for-sale is not reversed through profit or loss. If the fair value of a debt instrument classified as available-for-sale increases and the increase can be objectively related to an event occurring after the impairment loss was recognized in profit or loss, the impairment loss is reversed, with the amount of the reversal recognized in profit or loss.

An impairment loss in respect of goodwill cannot be reversed.

In respect of other assets, an impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount.

An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortization, if no impairment loss had been recognized.

2.13 Share capital

(a) Ordinary shares

Ordinary shares are classified as equity since the shares are non-redeemable and any dividends are discretionary.

(b) Issuance of new shares

Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction from the proceeds, net of tax.

(c) Repurchase of share capital and options on own shares

Where any Group company purchases the Company's own equity instruments, the consideration paid, including any directly attributable incremental costs (net of income taxes), is deducted from equity attributable to the Company's equity holders until the shares are cancelled, reissued or disposed of. Where such shares are subsequently sold or reissued, any consideration received, net of any directly attributable incremental transaction costs and the related income tax effects, is included in equity attributable to the Company's equity holders.

(d) Distribution of dividends

The distribution of dividends to the Company's shareholders is recognized as a liability in the consolidated financial statements when the dividends are approved by the Company's shareholders.

2.14 Borrowings

Borrowings are recognized initially at fair value, net of transaction costs incurred. Borrowings are subsequently stated at amortized cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognized in the income statement over the period of the borrowings using the effective interest method.

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the balance sheet date.

Borrowing costs are recognized as an expense when incurred.

2.15 Employee benefits

(a) Pension obligations

Group companies operate various pension schemes. The schemes are funded through payments to insurance companies or trustee-administered funds, determined by periodic actuarial calculations. The Group has both defined benefit and defined contribution plans.

A defined contribution plan is a pension plan under which the Group pays fixed contributions into a separate entity. The Group has no legal or constructive obligations to pay further contributions if the fund does not hold sufficient assets to pay all employees the benefits relating to employee service in the current and prior periods.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEARS ENDED 31 DECEMBER 2006 AND 2005

A defined benefit plan is a pension plan that is not a defined contribution plan. Typically, defined benefit plans define an amount of pension benefit that an employee will receive on retirement, usually dependent on one or more factors such as age, years of service and compensation. The benefits paid to all employees in the Group's home country qualify as a post-employment defined benefit plan.

The liability recognized in the balance sheet in respect of defined benefit pension plans is the present value of the defined benefit obligation at the balance sheet date less the fair value of plan assets, together with adjustments for unrecognized actuarial gains or losses and past service costs. The defined benefit obligation is calculated annually by independent actuaries using the projected unit credit method. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using interest rates of high-quality corporate bonds that are denominated in the currency in which the benefits will be paid, and that have terms to maturity approximating to the terms of the related pension liability.

Cumulative actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions in excess of the greater of 10% of the value of plan assets and 10% of the defined benefit obligation are spread to income over the employees' expected average remaining working lives.

Past service costs are recognized immediately in income, unless the changes to the pension plan are conditional on the employees remaining in service for a specified period of time (the vesting period). In this case, the past service costs are amortized on a straight-line basis over the vesting period.

Where the calculation results in a benefit to the Group, the recognized asset is limited to the net total of any unrecognized actuarial losses and past service costs and the present value of any future refunds from the plan or reductions in future contributions to the plan.

For defined contribution plans, the Group pays contributions to publicly or privately administered pension insurance plans on a mandatory, contractual or voluntary basis. The Group has no further payment obligations once the contributions have been paid. The contributions are recognized as an employee benefit expense when they are due. Prepaid contributions are recognized as an asset to the extent that a cash refund or a reduction in the future payments is available.

(b) Termination benefits

Termination benefits are payable when employment is terminated before the normal retirement date, or when an employee accepts voluntary redundancy in exchange for these benefits. The Group recognizes termination benefits when it is demonstrably committed to either: terminating the employment of current employees according to a detailed formal plan without possibility of withdrawal; or providing termination benefits as a result of an offer made to encourage voluntary redundancy. Benefits falling due more than 12 months after balance sheet date are discounted to their present value.

(c) Share-based payment transactions

Employees (including senior executives) of the Group receive remuneration in the form of share-based payment transactions, whereby employees render services as consideration for equity instruments ("equity-settled transactions"). In some jurisdictions the Group operates in, employees have been granted share appreciation rights, which are settled in cash ("cash-settled transactions").

Equity-settled transactions

The cost of equity-settled transactions with employees is measured by reference to the fair value of equity instruments at the date on which they are granted. The fair value is determined internally using the Black-Scholes formula, further details of which are given in note 30.

In valuing equity-settled transactions, no account is taken of any performance conditions, other than conditions linked to the price of the shares of Partners Group Holding ("market conditions"), if applicable.

The cost of equity-settled transactions is recognized, together with a corresponding increase in equity, over the period in which the performance and/or service conditions are fulfilled, ending on the date on which the relevant employees become fully entitled to the award ("the vesting date").

The cumulative expenses recognized for equity-settled transactions at each reporting date until the vesting date reflects the extent to which the vesting period has expired and the Group's best estimate of the number of equity instruments that will ultimately vest. The income statement charge or credit for a period represents the movement in cumulative expense recognized as at the beginning and end of that period.

No expense is recognized for awards that do not ultimately vest, except for awards where vesting is conditional upon a market condition, which are treated as vesting irrespective of whether or not the market condition is satisfied, provided that all other performance conditions are satisfied.

Where the terms of an equity-settled award are modified, as a minimum an expense is recognized as if the terms had not been modified. In addition, an expense is recognized for any modification, which increases the total fair value of the share-based payment arrangement, or is otherwise beneficial to the employee as measured at the date of modification.

Where an equity-settled award is cancelled, it is treated as if it had vested on the date of cancellation, and any expense not yet recognized for the award is recognized immediately. However, if a new award is substituted for the cancelled award, and designated as a replacement award on the date that it is granted, the cancelled and new awards are treated as if they were a modification of the original award, as described in the previous paragraph.

The dilutive effect of outstanding options is reflected as additional share dilution in the computation of earnings per share (see note 27).

Cash-settled transactions

The fair value of the amount payable to employees in respect of share appreciation rights, which are settled in cash, is recognized as an expense, with a corresponding increase in liabilities, over the period in which the employees become unconditionally entitled to payment. The liability is remeasured at each reporting date and at settlement date. Any changes in the fair value of the liability are recognized as personnel expense in profit or loss.

2.16 Provisions

Provisions are recognized when: the Group has a present legal or constructive obligation as a result of past events; it is more likely than not that an outflow of resources will be required to settle the obligation; and the amount can be estimated reliably.

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If the effect is material, provisions are determined by discounting the expected future cash-flows at the pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability.

2.17 Derivatives arising from insurance contracts

The Group has exposures resulting from insurance contracts (see also note 2.8). These contracts do not meet the definition of insurance contracts under IFRS 4, but do meet the definition of derivative financial instruments under IAS 39.

Princess Private Equity Holding Limited ("Princess")

The Group entered into an insurance agreement with Princess through its subsidiary Princess Management Limited (formerly Princess Management & Insurance Limited), being licensed as an insurance company in Guernsey. As such, the Group had insured the repayment of the principal amount of a convertible bond issued and outstanding by Princess. The liability arising from the insurance was dependant on the value development of the outstanding portfolio of Princess and thus was classified as a derivative financial instrument. The insurance was valued applying a Black-Scholes model and any value changes were recognized in the income statement, adjusting the value presented on the balance sheet. On 5 December 2006 the Princess bondholders agreed to the early conversion of the convertible bond issued by Princess. In this regard, the insurance agreement with Princess Management Limited (formerly Princess Management & Insurance Limited) has been cancelled (refer to note 16).

Pearl Holding Limited ("Pearl")

In 2000, the Group entered into an agreement with Pearl through its subsidiary Pearl Management Limited ("PML"), to act as a policyholder for an insurance entered into by a subsidiary of Swiss Re, insuring the repayment of the principal amount of a convertible bond issued by Pearl. On 30 March 2006 the Group entered into an additional agreement with Swiss Re with regards to the extension of the term of the aforesaid bond from 30 September 2010 to 30 September 2014 and an increase of the redemption amount of the bond from EUR 660 million to EUR 712.8 million. The agreement became effective on 1 January 2006.

In its function as policyholder, the Group on a quarterly basis pays a fixed amount into an experience account held by Swiss Re, which serves as first-level-coverage in the case of a default of Pearl; the corresponding assets in the experience account are presented within "other financial assets". Due to the extension of the term of the convertible bond, the Group paid in an additional amount into the experience account.

The Group's exposure as a policy holder is dependant on the value development of the outstanding portfolio of Pearl and thus is classified as a derivative financial instrument; however it is limited to the value of the assets contained in the experience account. This exposure is valued applying a Black-Scholes model (taking into account the Group's limited risk exposure) and any value changes are recognized in the income statement, adjusting the values presented on the balance sheet.

2.18 Revenue recognition

Revenue comprises the fair value of the sale of services, net of value-added tax, rebates and discounts and after eliminating sales within the Group. Revenue is recognized as follows:

(a) Sales of services

Sales of services are recognized in the account period in which the services are rendered, with reference to completion of the specific transaction, assessed on the basis of the actual service provided as a proportion of the total services to be provided.

Ongoing investment management and advisory fees including all non-performance related fees are recognized when they were earned, based on the specific contracts. Performance fees are only recognized once they have been "locked-in" and cannot subsequently be reversed. As long as distributed performance fees are under a claw-back provision, they are recognized as deferred income.

No revenue is recognized if there are significant uncertainties regarding the recovery of consideration due or associated costs.

(b) Incremental costs directly attributable to securing an investment management contract

Incremental costs directly attributable to securing an investment management contract, such as placement fees for third party providers, are recognized as an asset if they can be identified separately and measured reliably and if it is probable that they will be recovered. Such assets are amortized as the entity recognizes the related revenue. The Group's investment management contracts usually apply a base fee, which is reduced on a sliding scale after a certain time period (usually 5 years). This time period serves as basis for the determination of the amortization period. The asset is recognized as an intangible asset.

2.19 Expenses

(a) Leases

Operating lease payments

Leases where the lessor retains substantially all the risks and rewards of ownership are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to the income statement on a straight-line basis over the period of the lease. Lease incentives are recognized in the income statement as an integral part of the total lease expense.

Finance lease payments

Leases of property, plant and equipment, where the Group has substantially all the risks and rewards of ownership, are classified as finance leases. Finance leases are capitalized at the lease's inception at the lower of the fair value of the leased property and the present value of the future minimum lease payments. Each lease payment is allocated between the liability and finance charges so as to achieve a constant rate on the finance balance outstanding. The corresponding lease obligations, net of finance charges, are included in interest-bearing loans and borrowings. The interest element of the finance cost is charged to the income statement over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. The property, plant and equipment acquired under finance leases are depreciated over the shorter of the asset's useful life and its lease term.

(b) Net financial result

Finance costs comprise interest payable on borrowings calculated using the effective interest method that are recognized in the income statement (see note 2.6).

Finance income, net comprises interest receivable on funds invested, dividend income, foreign exchange gains and losses, and gains and losses on hedging instruments that are recognized in the income statement (see note 2.6).

Interest income is recognized in the income statement as it accrues, using the effective interest method. Dividend income is recognized in the income statement on the date the entity's right to receive payments is established, which in the case of quoted securities is usually the ex-dividend date. The interest expense component of finance lease payments is recognized in the income statement using the effective interest method.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEARS ENDED 31 DECEMBER 2006 AND 2005

2.20 Income tax

Income tax on the profit or loss for the year comprises current and deferred tax. Income tax is recognized in the income statement except to the extent that it relates to items recognized directly in equity, in which case it is recognized in equity.

Current tax relates to the expected taxes payable on the taxable income for the year, using tax rates enacted or substantially enacted at the balance sheet date, and any adjustment to taxes payable in respect of previous years.

Deferred income tax is recognized, using the balance sheet liability method, on temporary differences between the tax bases of assets and liabilities and their carrying amounts included in the consolidated financial statements. The following temporary differences are not considered in accounting for deferred taxes: the initial recognition of goodwill, the initial recognition of assets or liabilities that affect neither accounting nor taxable profit and differences relating to investments in subsidiaries to the extent that they will probably not be reversed in the foreseeable future. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realized or the deferred income tax liability is settled.

Deferred income tax assets are recognized to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilized.

2.21 Non-current assets held for sale and discontinued operations

Immediately before classification as held for sale, the measurement of the assets (and all assets and liabilities in a disposal group) is brought up-to-date in accordance with applicable IFRSs. Then, on initial classification as held for sale, non-current assets and disposal groups are recognized at the lower of their carrying amount and fair value less costs to sell.

Impairment losses on initial classification as held for sale are included in profit or loss. The same applies to gains and losses on subsequent remeasurement.

A discontinued operation is a component of the Group's business that represents a separate major line of business or geographical area of operations or is a subsidiary acquired exclusively with a view to resale.

Classification as a discontinued operation occurs upon disposal or when the operation meets the criteria to be classified as held for sale, if earlier. A disposal group that is to be abandoned may also qualify.

2.22 Business combinations involving entities under common control

A business combination involving entities or businesses under common control is a business combination in which all of the combining entities or businesses are ultimately controlled by the same party or parties both before and after the business combination, and that control is not transitory.

In the absence of more specific guidance, the Group consistently applies the book value measurement method to all common control transactions.

3. FINANCIAL RISK MANAGEMENT

3.1 Financial risk factors

The Group's activities expose it to a variety of financial risks: market risk (including foreign exchange risk and price risk), credit risk, liquidity risk, cash flow risk and fair value interest rate risk. The Group's overall risk management program focuses on the unpredictability of financial markets and seeks to minimize potential adverse effects on the Group's financial performance. The Group may use derivative financial instruments to hedge certain risk exposures.

Financial risk management is carried out by a central treasury function ("Group Treasury") under policies approved by the Board of Directors. Group Treasury identifies, evaluates and hedges financial risks in close cooperation with the Group's operating units. The Board provides written principles for overall risk management, as well as written policies covering specific areas, such as foreign exchange risk, interest-rate risk, credit risk, use of derivative financial instruments and non-derivative financial instruments, and investing excess liquidity.

(a) Market risk

(i) Foreign exchange risk

The Group operates internationally and is exposed to foreign exchange risk arising from various currency exposures, primarily with respect to the US dollar and the Euro. Foreign exchange risk arises from future commercial transactions, recognized assets and liabilities and net investments in foreign operations.

The Group may use forward contracts to manage its foreign exchange risk arising from future revenue and expense streams, recognized assets and liabilities. Foreign exchange risk arises when future revenue and expense streams, recognized assets and liabilities are denominated in a currency that is not the entity's functional currency. Group Treasury is responsible for managing the net position in each foreign currency by using external forward currency contracts in accordance with the principles provided by the business development committee of the Board.

The Group's current risk management policy is to hedge between 75% and 100% of anticipated transactions in US dollars for the subsequent 12 months on a rolling basis. In 2006, the Euro has been left floating. As of 1 January 2007, the Group has decided to also hedge 50% of anticipated future transactions in Euro for the subsequent twelve months on a rolling basis.

Forward exchange contracts

As of 1 July 2006, the Group started to apply hedge accounting for the hedging of the foreign currency exposure resulting from future revenue streams in foreign currencies. The relevant hedges are entered with a maturity of the corresponding quarter end (up to 12 months from the hedging date); the hedging is performed with forward contracts by selling the anticipated exposure against Swiss francs. The Group classifies such hedges as cash flow hedges.

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The following cash flow hedges were recognized as of 31 December 2006:

In thousands of Swiss francs

	Forward Date	Outstanding volume of hedges	Recognized in cash flow hedge reserve
Selling USD against CHF	30.03.2007	8'869	97
Selling USD against CHF	29.06.2007	8'944	99
Selling USD against CHF	28.09.2007	9'326	196
Total		27'139	392

Subsequently, the Group entered into short term hedging contracts (up to 3 weeks from the hedging date) to hedge the definite cash inflow resulting from the revenue streams. The corresponding gains or losses are recorded in the income statement.

The fair value of cash flow hedges at the balance sheet date amounted to CHF -190'184 with an outstanding volume of CHF 27'138'870 (2005: nil); the net fair value of forward exchange contracts not designated as hedging instrument in a cash flow hedge at the balance sheet date amounted to CHF -42'193 with an outstanding volume of CHF 51'625'576 (2005: CHF 42'824; volume CHF 4'675'200). The total amount is presented within "pre-paid expenses" (in the case of a positive replacement value) and in "accrued expenses" (in the case of a negative replacement value).

Sensitivity analysis

In managing currency risks the Group aims to reduce the impact of short term fluctuations on the Group's earnings. Over the longer term however, permanent changes in foreign exchange rates will have an impact on consolidated earnings.

The Group has analyzed the impact of a general increase of one percent in the value of the Swiss franc on its net revenues, referring to the year 2005 and 2006 revenues and revenue deductions, not considering results from associated companies as well as changes in assets and liabilities arising from insurance contracts. The impact on net revenues is presented below by category and currency (see also notes 8 and 9).

2005

In thousands of Swiss francs

	Total	CHF	USD	USD reval.	EUR	EUR reval.	Other
Private equity	115'033	5'401	25'784	25'525	83'848	83'009	-
Private equity investment management	81'444	5'401	16'901	16'732	59'142	58'550	-
Private equity administration	1'893	-	375	371	1'518	1'503	-
Private equity insurance premiums	25'934	-	5'682	5'625	20'252	20'049	-
Private equity organizational fees	5'762	-	2'826	2'797	2'936	2'907	-
Hedge funds	24'732	242	17'433	17'258	6'477	6'412	580
Other revenues	9'664	4'622	95	95	4'945	4'895	2
Wealth management	4'157	4'157	-	-	-	-	-
Private debt	4'810	-	-	-	4'810	4'762	-
Other	697	465	95	95	135	133	2
Total fee income	149'429	10'265	43'312	42'878	95'270	94'316	582
Third party commissions and rebates	-24'316	-636	-7'482	-7'407	-16'146	-15'985	-52
Insurance fees, where Group acts as policyholder only	-18'566	-	-	-	-18'566	-18'380	-
Total revenue deductions	-42'882	-636	-7'482	-7'407	-34'712	-34'365	-52

Sensitivity analysis (continued)

2006

In thousands of Swiss francs

	Total	CHF	USD	USD reval.	EUR	EUR reval.	Other
Private equity	205'659	7'866	33'680	33'343	164'113	162'472	–
Private equity investment management	151'350	7'866	23'941	23'702	119'543	118'348	–
Private equity administration	2'246	–	469	464	1'777	1'759	–
Private equity insurance premiums	29'283	–	5'050	4'999	24'233	23'991	–
Private equity organizational fees	22'780	–	4'220	4'178	18'560	18'374	–
Hedge funds	42'596	2'455	29'289	28'996	7'399	7'325	3'453
Other revenues	16'371	4'605	755	747	11'006	10'896	5
Wealth management	5'389	4'416	658	651	315	312	–
Private debt	10'684	–	–	–	10'684	10'577	–
Other	298	189	97	96	7	7	5
Total fee income	264'626	14'926	63'724	63'086	182'518	180'693	3'458
Third party commissions and rebates	-43'207	-355	-12'700	-12'573	-29'891	-29'592	-261
Insurance fees, where Group acts as policyholder only	-24'233	–	–	–	-24'233	-23'991	–
Total revenue deductions	-67'440	-355	-12'700	-12'573	-54'124	-53'583	-261

The analysis shows that an increase of 1% of the Swiss franc versus USD and EUR had the effect of reducing net revenues in 2006 by CHF 1'795'000, corresponding to 0.91% (2005: CHF 966'000, 0.91%). This analysis does not take into consideration the effect of program changes in the underlying products with the corresponding impact on foreign exchange.

(ii) Price risk

The Group is exposed to equity securities price risk because of investments held by the Group and classified on the consolidated balance sheet at fair value through profit or loss. The Group is not exposed to commodity price risk.

(b) Credit risk

The Group has no significant concentration of credit risk. It has policies in place to ensure that sales of services are made to customers with an appropriate credit history. Counterparties and cash transactions are limited to high-credit-quality financial institutions. The Group currently has no policy that limits the amount of credit exposure to any financial institution.

(c) Liquidity risk

Prudent liquidity risk management implies maintaining sufficient cash and marketable securities, the availability of funding through an adequate amount of committed credit facilities and the ability to close out market positions. Due to the dynamic nature of the underlying businesses, the Group aims to maintain flexibility in funding by keeping committed credit lines available.

(d) Cash flow and fair value interest rate risk

The Group's income and operating cash flows are substantially independent of changes in market interest rates. The interest rates of finance leases to which the Group is lessee are fixed at inception of the lease. These leases expose the Group to fair value interest rate risk.

The Group's cash flow interest rate risk arises from its interest-bearing securities held in the insurance trust / respectively experience account (refer to note 20) and from potential long-term borrowings at variable rates (currently nil). Borrowings issued at fixed rates expose the Group to fair value interest rate risk.

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If the Group enters into borrowings it is its policy to maintain approximately 90% of its borrowings in fixed rate instruments. Currently, the Group does not manage its cash flow interest rate risk actively.

3.2 Fair value estimation

The carrying amounts of all financial instruments equal or approximate their fair value. The following summarizes the methods and assumptions applied in estimating fair value.

The fair value of financial instruments traded in active markets (such as publicly traded derivatives, and trading and available-for-sale securities) is based on quoted market prices at the balance sheet date. The quoted market price used for financial assets held by the Group is the current bid price; the appropriate quoted market price for financial liabilities is the current ask price.

The fair value of financial instruments that are not traded in an active market (investments in investment companies and third party investments, see note 19) is determined by using valuation techniques. The Group uses a variety of methods and makes assumptions that are based on market conditions existing at each balance sheet date. Quoted market prices or dealer quotes for similar instruments are used for long-term debt. Other techniques, such as estimated discounted cash flows or multiple analyses, are used to determine fair value for the remaining financial instruments. The fair value of forward foreign exchange contracts is determined using forward exchange market rates at the balance sheet date.

The nominal value less estimated credit adjustments of trade receivables is assumed to approximate their fair values. The fair value of financial liabilities for disclosure purposes is estimated by discounting the future contractual cash flows at the current market interest rate that is available to the Group for similar financial instruments.

The fair value of derivative assets and liabilities arising from insurance contracts is dependant on several factors:

- Model assumptions of underlying portfolio and resulting cash flows with regards to management and insurance fees
- Current and expected interest rates
- Volatility applied to the underlying portfolio

Based on these factors the fair values resulting from such contracts are determined and adjusted accordingly in the income statement.

All financial instruments recognized are classified as at fair value through profit or loss and are stated at their fair value.

4. CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS

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

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

(a) Income taxes

The Group is subject to income taxes in numerous jurisdictions.

Based on agreements with the tax authorities, the Group re-assessed the recoverability of a substantial tax effect of deductible tax expenses in respect of share option grants in previous years and the current year. As a consequence, the Group recognized significant tax deductible expenses resulting from these option grants, leading to extensive tax loss carry forwards and a corresponding deferred tax asset.

Wherever the Group is uncertain regarding the future development of such entities and thus the future utilization of such tax loss carry forwards is questionable, the Group does not recognize corresponding deferred tax assets. Were all tax loss carry forwards utilizable, the Group would recognize an additional deferred tax asset of TCHF 2'682 (2005: TCHF 3'057). The carrying amounts of deferred income tax assets are disclosed in notes 14 and 22.

(b) Derivatives arising from insurance contracts

The Group entered into an agreement with Swiss Re to act as policyholder in connection with the insurance of the extended amount of the convertible bond issued by Pearl Holding Limited (refer to notes 2.8 and 2.17). As explained, the Group has an exposure to the maximum extent of the value of the assets contained in the corresponding experience account.

When determining the value of its effective exposure (which may be lower than the aforesaid assets), the Group applies a Black-Scholes model. However, as referred to in note 3.2, some of the parameters are subject to estimation and may differ from the final result.

Due to the current net asset value of Pearl Holding Limited, which forms the basis for the determination of the gross derivative liability, a difference of 10% of the volatility applied by management to the valuation of the policyholder's liability would lead to no change in the income statement; however an increase of Pearl's net asset value would in the future lead to a different result if such a 10% deviation of the volatility would be applied.

The carrying amounts of such derivatives are presented on the face of the balance sheet.

(c) Applying the control concept to the consolidation of entities

As referred to in note 2.2, the Group in the course of offering structured products may become the majority or sole shareholder of certain entities. These entities are managed for a certain period of time, but the Group is not the beneficial owner of assets contained in these companies; in addition, the Group's management decisions are strictly limited by separate contracts. Such entities fulfill the definition of special purpose entities and are accounted for by applying SIC 12 Consolidation – Special Purpose entities. The same applies to limited partnerships, where the Group holds only a minor equity interest but acts as the General Partner on behalf of the entity's investors, who are the limited partners. As the Group in both instances is not subject to the majority of risks and rewards these entities are not consolidated, but are designated as at fair value through profit or loss. Whether an investment should be consolidated or not is carefully evaluated on a case by case basis taking into account the specific facts and circumstances.

The carrying amounts of such investments are disclosed in note 19.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEARS ENDED 31 DECEMBER 2006 AND 2005

(d) Revenue recognition

The Group has described its policy of revenue recognition in notes 2.18 and 8. Although the application is straightforward, instances may arise where the Group has to decide whether a revenue should be recognized or not. This is mainly to do with additional revenues arising from products with pending closings, where additional investors have been admitted, or with regards to performance fees, which are foreseeable but have not been distributed to the Group yet. The Group in general does not recognize revenues until the final signing of the closing documents, although there may be a high probability that the closing will take place.

(e) Accounting for share-based payment transactions

In 2006 the Group has entered into share-based payment transactions with some of its employees. For further details please refer to note 30. The determination of the value of the services received is measured based on a Black-Scholes model. In this regard the Group has made assumptions regarding the value of the Company as well as the parameters used in the Black-Scholes model. Instead of the contractual life of the option, the input to the model is based on the expected time of execution, taking into account the exercise restriction of the options. Due to the short period of the Group's public listing the expected volatility applied is based on the 100 day volatility of the Company's shares as per granting date. There are no market conditions associated with the share option grants.

Although the options imply a service period of 5 or 6 years, the Group already as of granting date recognized a sixth of the corresponding amount in the income statement since part of the options granted are deemed to form part of the compensation for past services rendered by the option holders.

The specific parameters used for the option valuation are disclosed in detail in note 30.

5. BUSINESS ACTIVITIES

The Group focuses on servicing its clientele in the following business areas:

- Private Equity
- Hedge Funds

The two business areas are considered to be the primary business segments according to IAS 14.

The activities in the Private Equity segment consist of:

- Investment advisory and management services for the entire private equity spectrum, comprising investments in specialized partnerships or other investment vehicles and direct investments in operating companies, typically alongside specialized managers
- Monitoring of investments
- Relationship management
- Asset allocation and portfolio management of private equity activities (statistical planning and analyses of private equity products, markets, cash flows, etc.)
- Risk management
- Private equity administration (administering of transactions, gathering of information for monitoring, analyses, production of reporting etc.)

The activities in the Hedge Funds segment consist of:

- Investment advisory and management services (selection of hedge funds to be invested in) through managed accounts, advised by specialist hedge fund managers

- Investment advisory and management services in relation to the Group's own hedge fund strategy
- Monitoring of investments
- Relationship management
- Asset allocation and portfolio management
- Risk management
- Reporting

Both business segments are supported by a product structuring and transaction management unit (structuring of investment entities / contracts) and a marketing / client relationship unit (marketing of products managed by the Group, support in secondary market activities, investor relations).

The Group also provides services in

- Traditional wealth management (focus on private individuals)
- Private debt, e.g. management of investments in mezzanine and other debt financing of private equity backed companies, comprising investments in specialized partnerships or other investment vehicles and direct investments in operating companies, typically alongside specialized managers

however both activities do not meet the conditions of a separate business segment and are disclosed in "other / non-attributable" (refer to note 7).

The Group advises or manages several investment vehicles with focus on private equity, private debt or hedge funds. In its advisory and management services the Group offers diversified as well as more focused investment programs as relates to stages (such as venture, buy-out, mezzanine and special situations), industry and geography of the investments in private equity / private debt and as relates to investment style (such as long-short equity, global macro, convertible arbitrage etc.) in hedge funds. The majority of investments is situated in the United States of America and in Europe.

6. CHANGES IN SCOPE OF CONSOLIDATION

(a) Start-ups

On 2 June 2006 the Group founded Partners Group Management IV Limited, Guernsey. The company's main purpose is to serve as investment manager / general partner for Scotland based private equity partnerships.

On 6 December 2006 the Group founded Partners Group Management V Limited, Guernsey. The company's main purpose is to serve as investment manager / general partner for Scotland based private equity partnerships.

On 14 April 2005 the Group founded Partners Group Investments, Baar. The Group holds an interest of 100% in the company. The company's main purpose will be to act as an investment company for private equity related assets.

On 27 April 2005 the Group founded Partners Group (Luxemburg) Sarl., Luxembourg. The Group holds an interest of 100% in the company. The company's main purpose is to act as an investment manager / investment advisor for several investment structures situated in Luxembourg.

The effect of these formations on the Group's consolidated financial statements is not material.

(b) Purchases

On 31 December 2005 the Group purchased 80.1% of the equity of Partners Group Product Investments, Baar (formerly named GE&W AG). The price paid in cash to the former minority shareholders amounted to CHF 160'200;

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEARS ENDED 31 DECEMBER 2006 AND 2005

the difference between the purchase price and the minority interest derecognized (nil) was recognized in equity. The company's main purpose is to act as a holding company for private equity vehicles. As the Group has already before the transaction been able to execute control despite its minority shareholding, the entity had already been fully consolidated.

(c) Disposals

On 30 June 2005 the Group sold for an insignificant amount 3% of its stake in Asset Management Partners, Zug. The Group retained a stake of 84% in the company.

(d) Restructurings

On 29 May 2006 the Group filed for amalgamation of Partners Group Holding and Partners Group Product Investments as well as of Partners Group and S.A.I.S. AG, retrospectively as of 31 December 2005, with the commercial registry in Zug, Switzerland.

On 30 October 2006 European Webgroup, Baar, was deleted in the commercial registry in Zug, Switzerland.

As of 31 December 2006 the Group purchased the remaining 49.996% of Princess Mangement Limited (formerly Princess Management & Insurance Limited, "PMIL") for USD 299'976 (CHF 364'405) and thus now holds 100% of the company. No goodwill was recognized in connection with the purchase. This transaction occurred in connection with the re-issue of interests by Princess Private Equity Holding Limited ("Princess") to its investors. In 1999 Princess had launched a convertible bond with a maturity of 31 December 2010, which was insured by PMIL and reinsured by Swiss Re. Swiss Re was granted a mitigation right, providing it with certain rights relating to the control over investment activities. The mitigation right was exercised on 9 February 2006. With the exercise of the mitigation right Swiss Re disallowed the company to make new investments, leading to a lower fee income from the management and insurance activity for the Group.

As a consequence of the exercise of the mitigation right, the board of Princess in collaboration with the Group was seeking possibilities to re-launch the transaction without an insurance component. On 5 December 2006 the bondholders approved a transaction proposed by the board of directors of Princess, which included:

- An early conversion of the convertible bond into shares of Princess as of 8 December 2006
- A re-placement of several interests in Princess to new investors
- The introduction of new articles of association
- The listing of Princess shares on the Frankfurt stock exchange
- The termination of the insurance and re-insurance arrangements
- The termination of the old investment guidelines and the introduction of new guidelines
- The cancellation of the old management and sub-advisory agreements and the establishing of new investment management arrangements
- The Group's purchase of the Princess shares held by Swiss Re
- The Group's purchase of PMIL shares held by Swiss Re
- The payment by the Group of USD 10 million to Swiss Re for the dissolution of the existing structure
- The liquidation of the Princess insurance trust funded by PMIL in the years 1999 to 2006 and the distribution of the assets to PMIL, which subsequently distributed dividends to its original shareholders
- The financial settlement between all the parties involved

Based on the substance of this transaction, the Group treated the dissolution of the old structure and subsequent re-launch of Princess as a new issue of a private equity product. The effect on the Group's balance sheet, income statement and cash flow statement is explained in notes 16, 19 and 32.

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7. SEGMENT INFORMATION

<i>In thousands of Swiss francs</i>	Private Equity		Hedge Funds		Other / Not attributable		Total	
	2006	2005	2006	2005	2006	2005	2006	2005
Assets								
Property, plant and equipment	-	-	-	-	3'668	3'482	3'668	3'482
Intangible assets	52'222	9'516	-	-	193	286	52'415	9'802
Investments in associates	4'462	3'629	-	-	-	-	4'462	3'629
Other investments	27'768	7'004	13'069	5'951	-	1'370	40'837	14'325
Other financial assets	82'755	102'993	-	-	614	237	83'369	103'230
Derivatives arising from insurance contracts	-	2'266	-	-	-	-	-	2'266
Other segment assets	29'460	20'222	6'880	5'578	148'424	48'656	184'764	74'456
Total segment assets	196'667	145'630	19'949	11'529	152'899	54'031	369'515	211'190
Deferred tax assets	-	-	-	-	16'318	408	16'318	408
Total assets	196'667	145'630	19'949	11'529	169'217	54'439	385'833	211'598
Liabilities								
Interest-bearing loans and borrowings	-	-	-	-	22	26	22	26
Derivatives arising from insurance contracts	82'755	68'381	-	-	-	-	82'755	68'381
Other segment liabilities	16'510	9'785	3'678	4'287	9'369	8'879	29'557	22'951
Total segment liabilities	99'265	78'166	3'678	4'287	9'391	8'905	112'334	91'358
Revenues	205'659	115'033	42'596	24'732	16'371	9'663	264'626	149'428
Revenue deductions	-58'138	-39'064	-6'581	-2'634	-2'721	-1'184	-67'440	-42'882
Share of result of associates	4'005	3'142	-	-	-	-	4'005	3'142
Gain on sale of investments in associates	-	-	-	-	-	-	-	-
Income from other investments	1	129	-	-	-	-	1	129
Changes in fair value of derivatives arising from insurance contracts	12'953	15'162	-	-	-	-	12'953	15'162
Gain on settlement of insurance contracts, net	1'042	-	-	-	-	-	1'042	-
Net revenues	165'522	94'402	36'015	22'098	13'650	8'479	215'187	124'979
Segment result	138'409	69'868	23'416	8'687	2'724	3'816	164'549	82'371
Net financing result not allocated							-1'443	-1'786
Income tax expense							-8'678	-3'011
Net profit for the year							154'428	77'574
Depreciation and amortization	-2'395	-2'157	-	-	-1'560	-1'411	-3'955	-3'568
Investments in associates, other investments and other financial assets	79'268	20'217	7'173	-	-	-	86'441	20'217
Investments in property, plant and equipment and intangible assets	48'765	194	-	-	1'653	1'128	50'418	1'322

There are no significant non-cash expenses, other than depreciation and amortization for which separate disclosure is required, that were included in segment expense.

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8. REVENUES

The Group acts in different businesses (refer to note 5). Within these different businesses, it earns income for its various functions, which are further explained and outlined below:

(a) Private Equity

– Private Equity Investment Management & Advisory

Typically based on long-term contracts, the Group earns investment management fees for discretionary mandates or investment advisory income for advisory mandates. The fee is typically based on the commitments by investors into investment structures, the net asset value of a mandate or the net asset value including outstanding commitments to underlying private equity partnerships. The fees are usually payable quarterly, however, whether they are payable in advance or in arrears depends on the individual contract. The mandates may include performance related remuneration, which in the case of limited partnerships often is subject to a preferred interest and a separate claw-back provision. Under a claw-back provision the investment manager is required to repay the excess amount received as performance fee during the lifetime of a partnership over its actual entitlement based on the limited partnership agreement. Therefore as long as such performance fees are subject to claw-back, they are treated as deferred income and disclosed separately in note 10. The positive movement / release of the deferred income is included in income when the claw-back provision expires or is cancelled.

– Private Equity Administration

The Group earns fees for its administration services in the private equity area. The fees are usually payable quarterly, however it depends on the individual contract, whether they are payable in advance or in arrears.

– Private Equity Insurance

Two of the Group's entities act respectively have acted for a part of 2006 as insurance company respectively policy holder in connection with the management of two investment vehicles. For such services, these entities earn insurance fee income, which is based on either the net assets of those products or the net asset value of the private equity investments plus outstanding commitments in underlying private equity partnerships. The companies entered into separate insurance respectively reinsurance agreements with third parties; the fees paid in connection with these agreements are disclosed separately in note 11.

– Organization / structuring of private equity vehicles

In the process of structuring new private equity products, the Group often receives an organizational fee for its services in connection with establishing investment vehicles and related legal and structuring work. The fees are always one-off fees, which are typically due when a new investor invests in the structure.

(b) Hedge Fund Asset Management

The Group earns investment management fees for discretionary mandates or investment advisory income for advisory mandates. The fees are usually based on the net asset value of a mandate and usually payable quarterly in arrears. These discretionary mandates may include performance related remuneration, which is in most of the cases subject to a hurdle rate and usually a "high watermark". The performance fees are disclosed separately; all such fees disclosed are locked-in, i.e. they are not subject to any claw-back provision.

(c) Other revenues

Other revenues consist of service income, which the Group receives for:

– Wealth Management

The Group earns investment management fees for discretionary mandates or investment advisory income for advisory mandates. The fees are usually payable quarterly in arrears. The discretionary mandates may include performance related remuneration. The performance fees are disclosed separately; all such fees disclosed are locked-in, i.e. they are not subject to any claw-back provision.

– Private Debt

Typically based on long-term contracts, the Group earns investment management fees for discretionary mandates or investment advisory income for advisory mandates with a specific focus on mezzanine and other loan-type investments to private companies. The fee is typically based on the commitments by investors into investment structures, the net asset value of a mandate or the net asset value including outstanding commitments. The fees are usually payable quarterly, however, whether they are payable in advance or in arrears depends on the individual contract. The mandates may include a performance related remuneration, which is subject to a preferred interest and may be subject to a separate claw-back provision. As long as such fees are subject to claw-back, the fees are treated as deferred income and disclosed separately in note 10. The positive movement / release of the deferred income is included in the income of the current period.

– Business Consulting Services

Such revenues relate to the remuneration for services rendered by the Group, which are not attributable to one of the above mentioned categories, such as accounting for third party mandates, advisory services for start-up companies etc. Such fees are based on an individual contract and are usually based on hourly rates.

– Transaction Services

The Group renders transaction services, such as portfolio valuations, for a fixed remuneration. This fee may be one-time occurring or recurring.

– Marketing Services

The Group may receive fees for its placing/marketing efforts. These fees are usually one-time fees. In a few cases, the fees may be recurring fees, based on assets held by a given financial product marketed by the Group.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEARS ENDED 31 DECEMBER 2006 AND 2005

8. REVENUES (CONTINUED)

In thousands of Swiss francs

	2006	2005
Private equity	205'659	115'033
Private equity investment management	151'350	81'444
Private equity administration	2'246	1'893
Private equity insurance premiums	29'283	25'934
Private equity organizational fees	22'780	5'762
Hedge funds	42'596	24'732
Other revenues	16'371	9'663
Wealth management	5'389	4'157
Private debt	10'684	4'809
Other	298	697
Total fee income	264'626	149'428
Details on included performance fees:		
Private equity	5'706	1'667
Hedge funds	7'821	2'403
Other revenues	1'458	1'260
Total performance fees received	14'985	5'330

9. REVENUE DEDUCTIONS

In thousands of Swiss francs

	2006	2005
Third party commissions and rebates	-43'207	-24'316
Insurance fees, where Group acts as policyholder only	-24'233	-18'566
Total revenue deductions	-67'440	-42'882

The Group pays third party commissions to third parties, who introduce clients to it. Such fees may be one-off payments or also recurring retainers, depending on individual agreements. In addition the Group rebates its existing clients for fees charged, which were earned when investing through the Group's pooling vehicles, in order to avoid double charging of fees.

In the case of Pearl Holding Limited the Group acts as policyholder only, since the International Reinsurance Company Limited is the insurer and thus the Group forwards the entire amount to the insurer. See also notes 20 and 32.

10. DEFERRED INCOME

The Group currently has no deferred income to be disclosed.

11. THIRD PARTY SERVICES

In thousands of Swiss francs

	2006	2005
Reinsurance fees Princess Private Equity Holding	-2'078	-2'204
Consulting and legal fees	-4'100	-3'458
Sundry third party service expenses	-922	-526
Total third party expenses	-7'100	-6'188

See also notes 20 and 32.

12. PERSONNEL EXPENSES

In thousands of Swiss francs

	2006	2005
Wages and salaries	-28'483	-23'493
Retirement schemes – defined contribution plans	-2'187	-1'705
Retirement schemes – defined benefit plans	-888	-774
Other social security expenses	-1'234	-825
Share-based payments	-3'371	-2'234
Sundry personnel expenses	-884	-632
Total personnel expenses	-37'047	-29'663

The average number of employees in 2006 was 156 (2005: 126).

13. FINANCIAL RESULT

In thousands of Swiss francs

	2006	2005
Interest income on fair value through profit or loss instruments	5'668	1'902
Interest income on other instruments	1'458	443
Net investment income		
Held for trading instruments	1'422	3'052
Fair value through profit or loss instruments	1'715	1'127
Net foreign exchange loss	-3'069	-2'394
Total finance income, net	7'194	4'130
Interest expense	-76	-
Interest expense resulting from hedge accounting	-582	-
Other financial expense	-177	-104
Total finance expense	-835	-104
Net finance income and expense	6'359	4'026

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
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14. INCOME TAX EXPENSE

Recognized in the income statement

In thousands of Swiss francs

	2006	2005
Current tax expense:		
Current year	8'398	3'174
Under/(over)provided in prior years	335	-116
Total current tax expense	8'733	3'058
Deferred tax income:		
Deferred tax income, net relating to the origination and reversal of temporary differences	-55	-47
Total income tax expense	8'678	3'011

Current tax expenses in the amount of TCHF 7'812 were recognized with a corresponding credit to equity in order to reflect the tax benefit of related equity-settled share based payments.

Reconciliation of effective tax rate

In thousands of Swiss francs

	2006	2005
Profit before tax	163'106	80'585
Weighted average expected Group tax rate	12.0910 %	25.6996 %
Expected tax expense	19'721	20'710
Non-taxable income due to flat taxation agreements	-11'083	-17'247
Non-tax-deductible expense	3	2
Consummation of unrecognized tax loss carry-forwards	-298	-338
Under/(over)provided in prior years	335	-116
	8'678	3'011

The Group calculates a weighted average tax rate for the whole Group, taking into account official taxation rates of the individual companies in their specific locations and their contribution to the total profit, which leads to the weighted average expected Group tax rate. The changes in the weighted average expected tax rates between 2005 and 2006 are mainly due to the following:

- Increased profit attribution of companies in environments with lower taxes
- Group restructuring in 2005, which affected the expected tax rate, however was treated as a tax-neutral transfer by the tax authorities

Two of the Group's entities located in Guernsey have been granted "international tax status". Such status defines the assessable income for Guernsey tax purposes, as well as the specific tax rate applicable to the assessable income. This specific status granted is related to the private equity investment management business these two companies are in. This international tax status ceases to apply on 31 December 2007.

Deferred tax assets and liabilities are disclosed separately in note 22.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED 31 DECEMBER 2006 AND 2005

15. PROPERTY, PLANT AND EQUIPMENT

In thousands of Swiss francs

2005

Cost

	Office furniture	Interior fittings	Equipment and IT fittings	Cars	Total
Balance at 1 January 2005	1'871	3'741	1'967	366	7'945
Additions	220	245	401	-	866
Disposals	-	-	-11	-	-11
Removals	-	-	-	-	-
Effects of movements in FX	26	34	24	-	84
Balance at 31 December 2005	2'117	4'020	2'381	366	8'884

**Accumulated depreciation and
impairment losses**

Balance at 1 January 2005	1'222	1'166	1'531	275	4'194
Additions	381	412	310	36	1'139
Removals	-	-	-	-	-
Effects of movements in FX	22	29	18	-	69
Balance at 31 December 2005	1'625	1'607	1'859	311	5'402

Carrying amount

At 1 January 2005	649	2'575	436	91	3'751
At 31 December 2005	492	2'413	522	55	3'482

Impairment losses incurred in 2005	nil
Fire insurance value	7'322

2006

Cost

Balance at 1 January 2006	2'117	4'020	2'381	366	8'884
Additions	434	278	661	-	1'373
Disposals	-5	-	-	-	-5
Removals	-	-	-	-44	-44
Effects of movements in FX	-4	-19	-7	1	-29
Balance at 31 December 2006	2'542	4'279	3'035	323	10'179

**Accumulated depreciation and
impairment losses**

Balance at 1 January 2006	1'625	1'607	1'859	311	5'402
Additions	252	446	453	36	1'187
Removals	-	-	-	-44	-44
Effects of movements in FX	-8	-18	-8	-	-34
Balance at 31 December 2006	1'869	2'035	2'304	303	6'511

Carrying amount

At 1 January 2006	492	2'413	522	55	3'482
At 31 December 2006	673	2'244	731	20	3'668

Impairment losses incurred in 2006	nil
Fire insurance value	9'492

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
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Leased equipment

The Group leases some of its equipment under a number of finance lease agreements. At the end of each of the leases the Group has the option to purchase the equipment at a beneficial price. At 31 December 2006 the net carrying amount of leased equipment was CHF 15'033 (2005: CHF 18'984). The leased equipment secures the related lease obligations (refer to note 28).

16. INTANGIBLE ASSETS

In thousands of Swiss francs

	Cost of initial put option ¹⁾	Goodwill	Software	Placing expenses ¹⁾	Total
2005					
Cost					
Balance at 1 January 2005	11'636	4'236	2'397	5'019	23'288
Additions	-	-	262	194	456
Removals	-	-4'236	-	-	-4'236
Effects of movements in FX	1'794	-	-	21	1'815
Balance at 31 December 2005	13'430	-	2'659	5'234	21'323
Accumulated amortization and impairment losses					
Balance at 1 January 2005	5'564	4'236	2'101	502	12'403
Additions	1'107	-	272	1'050	2'429
Removals	-	-4'236	-	-	-4'236
Effects of movements in FX	920	-	-	5	925
Balance at 31 December 2005	7'591	-	2'373	1'557	11'521
Carrying amount					
At 1 January 2005	6'072	-	296	4'517	10'885
At 31 December 2005	5'839	-	286	3'677	9'802

Impairment losses incurred in 2005

nil

¹⁾ relating to securing investment management contracts

16. INTANGIBLE ASSETS (CONTINUED)

In thousands of Swiss francs

	Cost of initial put option ¹⁾	Goodwill	Software	Placing expenses ¹⁾	Total
2006					
Cost					
Balance at 1 January 2006	13'430	-	2'659	5'234	21'323
Additions	44'770	-	280	3'995	49'045
Removals	-12'791	-	-	-	-12'791
Effects of movements in FX	370	-	-	171	541
Balance at 31 December 2006	45'779	-	2'939	9'400	58'118
Accumulated amortization and impairment losses					
Balance at 1 January 2006	7'591	-	2'373	1'557	11'521
Additions	1'042	-	373	1'353	2'768
Removals	-8'272	-	-	-	-8'272
Effects of movements in FX	-361	-	-	47	-314
Balance at 31 December 2006	-	-	2'746	2'957	5'703
Carrying amount					
At 1 January 2006	5'839	-	286	3'677	9'802
At 31 December 2006	45'779	-	193	6'443	52'415

Impairment losses incurred in 2006

nil

¹⁾ relating to securing investment management contracts

Initial put option

Princess Private Equity Holding

In 1999 the Group entered into an insurance agreement with Princess Private Equity Holding Limited, Guernsey ("Princess"), insuring the repayment of the principal amount of the bond issued by Princess. The Group calculated the value of the insurance risk entered into at inception, which is referred to as the "initial put option value", since the insurance premium paid by the investors of the convertible bond was considered as a put option premium. This initial put option value was recognized as incremental cost incurred in connection with the securing of investment management fees; the intangible asset was amortized using the straight-line method over the duration of the bond until 31 December 2010 (see note 2.8(d)).

With the re-launch of the Princess transaction in December 2006 (see note 6), the structure put in place in 1999 was effectively settled and the initial put option derecognized (see note 32).

Pearl Private Equity Holding

On 30 March 2006 the Group entered into an agreement with Swiss Re with regards to the extension of the convertible bond issued by Pearl Holding Limited ("Pearl") from 30 September 2010 to 30 September 2014 and an increase of the redemption amount of the bond from EUR 660 million to EUR 712.8 million. The agreement became effective on 1 January 2006.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
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Under this agreement the Group has committed to invest an additional EUR 33 million into the experience account until 30 September 2010 to provide for further security. The discounted amount of EUR 28.5 million (CHF 44.8 million) was paid into the experience account on 20 December 2006. The Group's risk associated with its exposure as policyholder for Pearl is still limited to the value of the experience account; nevertheless this additional commitment increases the Group's overall exposure and thus was recognized as an additional intangible asset and an additional derivative liability (see note 32 (c)).

The intangible asset represents the incremental cost directly attributable to securing an investment management contract. It will be amortized using the straight-line method over the extension period from 1 October 2010 to 30 September 2014.

Placing expenses

The Group selectively uses third party placing agents for the distribution of its limited partnership structures. It is common to compensate such services with a one-off payment dependant on the amount of assets raised by such third party providers. The cost paid is recognized as incremental cost incurred in connection with the securing of investment management fees. This intangible asset is amortized using the straight-line method over the duration of the investment period of the relevant product the cost was incurred for, usually between three to five years (see also note 2.8(c)). In a few cases the payment of such compensation is spread over a certain period of time and not at the closing of the individual product; in this case the cash flow statement is adjusted by the non-cash portion incurred in acquiring intangible assets in the reporting period (2006: TCHF nil; 2005: TCHF nil).

17. INVESTMENTS IN ASSOCIATES

The Group has the following investments in associates:

In thousands of Swiss francs

	Country	Investment at cost	Carrying value	Ownership
LGT Private Equity Advisors, Vaduz	LI	400	4'462	40%
Regional Investment Partners, Dallas	USA	53	-	20%

In 2006 Regional Investment Partners, Dallas, went into liquidation.

In thousands of Swiss francs

	2006	2005
Balance at the beginning of the year	3'629	3'080
Purchase of investments in associates	-	-
Disposal of investments in associates	-	-
Dividends received from investments in associates	-3'039	-2'478
Other movements	-133	-121
Share of results	4'005	3'142
Effects of movement in FX	-	6
Balance at the end of the year	4'462	3'629

Summary of financial information on associates - 100%:

In thousands of Swiss francs

	Assets	Liabilities	Equity	Revenues	Profit / (loss)
2005					
LGT Private Equity Advisors, Vaduz	10'796	1'768	9'028	9'459	7'928
Regional Investment Partners	87	-	87	2	-136
	10'883	1'768	9'115	9'461	7'792
2006					
LGT Private Equity Advisors, Vaduz	12'946	1'790	11'156	11'529	10'055
Regional Investment Partners	-	-	-	25	-83
	12'946	1'790	11'156	11'554	9'972

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
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18. INVESTMENTS IN JOINT VENTURES

The Group had a 50.004 % interest in a joint venture, Princess Management Limited (formerly Princess Management & Insurance Limited, "PMIL"), Guernsey, whose principal activity is the management of Princess Private Equity Holding Ltd., Guernsey ("Princess"). Although the Group held a majority interest in the company, the interest was treated as a joint venture due to the voting restrictions stipulated in the shareholders' agreement until the date of the acquisition of the remaining 49.996% interest.

The Group has purchased the remaining 49.996% interest as of 31 December 2006 for USD 299'976 (CHF 364'405) in connection with the restructuring of Princess (see note 6).

Until the date of conversion of the convertible bond issued by Princess as of 5 December 2006, the company also acted as insurer for the bond. As a further consequence of the aforesaid conversion, the insurance trust, which was in the beneficial ownership of PMIL was liquidated and the proceeds distributed to PMIL. PMIL itself has distributed an interim dividend to its two shareholders on 20 December 2006. Included in the consolidated financial statements are the following items that represent the Group's interest in the assets and liabilities, revenues and expenses of the joint venture (up to the date of acquisition of the remaining 49.996%):

In thousands of Swiss francs

	2006	2005
Assets in insurance trust	-	72'399
Derivative assets arising from insurance contracts	-	2'266
Intangible assets	-	5'839
Current assets	-	259
Derivative liabilities arising from insurance contracts	-	-31'724
Current liabilities	-	136
Net assets	-	49'175
Revenues	18'072	13'081
Change in fair value of derivatives arising from insurance contracts	18'188	21'532
Expenses		
Amortization of intangible assets	-1'042	-1'107
Other expenses	-462	-2'116
Net result	34'756	31'390

See also notes 6, 20 and 32.

19. OTHER INVESTMENTS

The Group distinguishes between third party investments and investments in investment companies.

Third party investments

Third party investments are non-current investment holdings, which may have long-term or temporary character. Investments with temporary character are investments that the Group bridges for products, which are currently in the marketing phase and have not yet been closed. Such investments are transferred to the respective product once they have held their closing.

Investments of a long-term nature are participations the Group entered into in the due course of its business, where it enters a minority participation in order to act either as general partner, sponsor or holder of the management shares or similar. The Group performs an investment activity to the benefit of external investors under a predetermined investment policy, and receives a predetermined management and performance fee for its services, which is significantly less than the expected return to the investors. Those entities are treated as special purpose entities, and since the majority of risks and rewards involved lie with the external investors, they are not consolidated.

All third party investments are classified as at "fair value through profit or loss" and are valued at fair value (refer to note 2.9).

As referred to in note 6 the convertible bond issued by Princess Private Equity Holding Limited, Guernsey ("Princess"), was converted into shares of Princess as of 8 December 2006 and the shares were subsequently listed on the Frankfurt stock exchange. Although the Group purchased the remaining 19.9% of the Princess shares just before the conversion took place, the Group no longer holds a majority of the shares of Princess. The Group's shareholding of 0.565% therefore has been reclassified from "investments in investment companies" to "third party investments".

Investments in investment companies

The Group holds a majority of the shares of certain investment companies managed by the Group; however it is not the ultimate beneficial owner of the assets held by these companies.

The Group performs an investment activity to the benefit of external investors under a predetermined investment policy, and receives a predetermined management and performance fee for its services, which is significantly less than the expected return to the investors. Those entities are treated as special purpose entities, and since the majority of risks and rewards involved lie with the external investors, they are not consolidated.

The investments in investment companies are classified as at "fair value through profit or loss" and valued at fair value.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
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19. OTHER INVESTMENTS (CONTINUED)

In thousands of Swiss francs

	Third party ¹⁾	Investment companies ²⁾	Total
2005			
Balance at 1 January 2005	14'084	833	14'917
Additions	6'585	-	6'585
Disposals	-9'197	-	-9'197
Revaluation to fair value	663	129	792
Effects of movements in FX	1'097	131	1'228
Balance at 31 December 2005	13'232	1'093	14'325
2006			
Balance at 1 January 2006	13'232	1'093	14'325
Additions	28'213	-	28'213
Disposals	-2'906	-	-2'906
Transfers	1'062	-1'062	-
Revaluation to fair value	1'715	1	1'716
Effects of movements in FX	-512	1	-511
Balance at 31 December 2006	40'804	33	40'837

¹⁾ The revaluation of third party investments is included in the Group's financial result (see note 13).

²⁾ The revaluation of investment companies is separately presented on the face of the income statement.

At the relevant balance sheet dates the Group was holding the following third party investments (all values are in thousands of Swiss francs):

Name	Struct. ¹⁾	Dom.	Type ²⁾	Owned in % ³⁾	Diluted ownership	Currency	FV 2006	FV 2005
Private Equity								
Luna 2000 Cell	PCC	Guernsey	Cell-Shares	16.599	16.599	USD	334	468
PG Europe 2002	LP	USA	GP	1.000	1.000	EUR	2'167	1'646
PG Secondary 2004	LP	USA	GP	1.000	1.000	EUR	4'826	3'306
PG US Venture 2004	LP	USA	GP	0.358	0.358	USD	224	99
PG Secondary Syndicate	LP	USA	GP	0.873	0.873	EUR	66	47
PG Asia Pacific 2005	LP	UK	GP	0.610	0.610	USD	851	164
PG European Buyout 2005 (A)	LP	UK	GP	0.299	0.299	EUR	549	55
PG European Buyout 2005 (B)	LP	UK	GP	0.290	0.290	EUR	334	47
PG Euro Mezzanine 2005	Fund	Luxemburg	GP	0.578	0.578	EUR	1'329	888
PG Global Mezzanine 2005	Fund	Luxemburg	GP	0.911	0.911	EUR	2'175	482
PG US Venture 2006	LP	UK	GP	0.350	0.350	USD	48	-
PG Secondary 2006	LP	UK	GP	0.970	0.970	EUR	4'493	-
PG Direct Investments 2006	LP	UK	GP	0.739	0.739	EUR	1'224	-
Vega Invest Plc	Fund	Ireland	Shares	0.001	0.001	EUR	15	15
PG Global Value 2006	LP	UK	GP	1.000	1.000	EUR	765	-
PG Maple Leaf	LP	UK	GP	0.990	0.990	EUR	537	-
PG Global Mezzanine 2007	Fund	Luxemburg	GP	1.000*	1.000*	EUR	53	-
Partners Private Equity LP	LP	Cayman Isl.	LP	0.067	0.067	CHF	17	64
Princess Private Equity Holding	Corp	Guernsey	Shares	0.565	0.565 ⁴⁾	EUR	1'358	-
Partners Group Global Opportunities	Corp	Guernsey	Shares	2.377	2.377	EUR	6'370	-
Hedge Funds								
PGAS Green Vega Cell	PCC	Guernsey	Cell-Shares	1.910	1.910	USD	13'067	5'949
PGAS inactive Cells	PCC	Guernsey	Cell-Shares	100.000	100.000	USD	2	2
							40'804	13'232

* 1.000% holding as per 1st Closing as of 31 January 2007; as at year-end only the share capital to set-up the company was paid in.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED 31 DECEMBER 2006 AND 2005**

At the relevant balance sheet dates the Group was holding the following investments in investment companies (all values are in thousands of Swiss francs):

Name	Struct. ¹⁾	Dom.	Type ²⁾	Owned in % ³⁾	Diluted ownership	Currency	FV 2006	FV 2005
Private Equity								
Princess Private Equity Holding	Corp	Guernsey	Shares	80.100	0.114 ⁴⁾	USD	-	1'062
Pearl Holding	Corp	Guernsey	Shares	100.000	0.002 ⁴⁾	EUR	17	15
Partners Group Private Equity Perf. Holding	Corp	Guernsey	Shares	100.000	30 ⁵⁾	EUR	16	16
Partners Group Investment PCC	PCC	Guernsey	Core Shares	50.000	0 ⁵⁾	USD	-	-
PG Secondary GmbH & Co. KG	KG	Germany	GP	-	-	EUR	-	-
Luna PCC	PCC	Guernsey	Core Shares	0.370	0.005	USD	-	-
Hedge Funds								
Partners Group Alternative Strategies PCC Ltd.	PCC	Guernsey	Core Shares	-	-	USD	-	-
							33	1'093

Legend

¹⁾ PCC = Protected Cell company; LP = Limited Partnership; Corp = Corporation

²⁾ GP = General partner commitment ; LP = Limited partner commitment

³⁾ Interest serves only to constitute a sponsorship established by the Group, thus no substantial ownership results from such investment

⁴⁾ Dilution due to convertible bond issued

⁵⁾ Based on contractual agreements

⁶⁾ As of 8 December 2006, the Group purchased the remaining 19.9 % of Princess Private Equity Holding. Due to the conversion of Princess' convertible bond the Group does not hold the majority of the share capital any longer and thus the position has been reclassified to Third Party Investments.

20. OTHER FINANCIAL ASSETS

In thousands of Swiss francs

	2006	2005
Assets in insurance trust / experience account	82'755	102'993
Restricted cash and cash equivalents	82'755	31'408
Restricted securities classified as held for trading	-	71'585
Loans to third parties and related parties	451	224
Loans to shareholders	-	-
Other financial assets	163	13
Total	83'369	103'230

As discussed above the insurance trust with regards to Princess has been liquidated and its proceeds distributed to Princess Management Limited (formerly Princess Management & Insurance Limited).

Since the Group cannot access the assets held in the experience account, which serve as first level coverage for the repayment of the convertible bond issued by Pearl Holding Limited, Guernsey, the assets are disclosed as non-current financial assets and stated at fair value.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEARS ENDED 31 DECEMBER 2006 AND 2005

The average interest earned on the assets of the experience account (2005: experience account and insurance trust) was as follows:

	2006	2005
Average interest rate of restricted cash and cash equivalents	1.93 %	2.19 %
Average interest rate of restricted securities	3.27 %	3.31 %

Once the aforesaid convertible bond for Pearl is fully repaid and a balance in the experience account remains, Pearl Management Limited is entitled to this amount.

Pearl Management Limited is fully consolidated (see note 37). According to SIC 12, the company has to consolidate its beneficial ownership in the experience account. The total figure disclosed is broken down as follows:

In thousands of Swiss francs

	2006	2005
Princess insurance trust (Group quota of 50.004% only)	-	72'399
Pearl experience account	82'755	30'594
Total	82'755	102'993

The assets in the experience account are held in Euro. The assets increase over the duration of the convertible bond via

- Fund transfers by the Group and the issuer
- Interest income on the funds held
- Net gains on disposal of held for trading instruments
- Net gains on fair value remeasurement of held for trading instruments

Restricted securities are classified as at fair value through profit or loss. The loans to third and related parties include loans of CHF 450'562 (2005: CHF 223'881) to directors and officers of the Company and bear interest at market conditions.

21. ASSETS UNDER MANAGEMENT

The Group calculates its assets managed according to a systematic approach, in general matching or being close to the actual fee basis of the underlying products. This approach leads to the effect that assets under management do not always correspond with the net asset values published by such products; due to the following reasons:

- In private equity investment management, the Group's fee income is often based on unfunded private equity commitments, which are not part of the underlying product's net asset value.
- In order to avoid double counting of assets managed, the Group disregards the investments of products already managed by the Group in its pooling vehicles, which also contain investments of third party investors.

Following this approach, the Group has the following assets under management:

In millions of Swiss francs

	2006	2005
Private equity assets	12'663	7'880
Hedge fund assets	2'735	1'900
Private debt assets	1'144	574
Other assets	786	502
Total	17'328	10'856

22. DEFERRED TAX ASSETS AND LIABILITIES

Taxable temporary differences arise from the application of IAS 39 and the stating of the assets valued at "fair value through profit or loss" at fair value. The revaluation is included in the net financing result (see note 13). The Group companies holding these investments are treated as holding companies under Swiss tax regulation and under certain conditions do not have to pay taxes on the disposal of these assets. In such circumstances the Group applies a tax rate of 0%, which results in no deferred tax liability, although a temporary difference arises.

In connection with the Group's granting of options to its employees based in Switzerland, the Group recognized an expense in its statutory accounts, which is deductible for tax purposes. This expense led to a tax loss which may be carried forward. In accordance with IAS 12.68 C, the relating tax asset was recognized directly in equity. In addition the Group recognizes deferred tax assets in connection with its liabilities arising out of the application of IAS 19.

The details are as follows:

In thousands of Swiss francs

	2006	2005
Balance at 1 January	408	361
Additions recognized in the income statement	55	47
Additions recognized directly in equity	15'855	-
Value adjustments	-	-
Balance at 31 December	16'318	408

Tax loss carry-forwards

Some Group companies generated net losses during the years under review, resulting in potential future deductions, once the company generates a net profit. The analysis of the net operating losses carried forward is as follows:

In thousands of Swiss francs

	2006	2005
Tax relevant losses carried forward on 1 January	10'306	12'299
Effect of movements in foreign exchange rates	-481	874
Additional losses in the current reporting period	531	15
Expired losses carried forward	-	-
Utilized losses carried forward	-2'795	-2'882
Balance at 31 December	7'561	10'306

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The losses carried forward expire within the following time frame:

In thousands of Swiss francs

	2006	2005
1 year	-	-
2 years	-	-
3 years	919	361
4 years	141	3'346
5 years	-	141
6 years	6	-
7 years	7	15
8 years	-	-
9 years	-	-
10 years	-	-
11 to 20 years	6'488	6'443
Total losses carried forward	7'561	10'306

Since the future utilization of the losses carried forward is uncertain, the Group does not recognize any deferred tax assets in respect of these amounts.

The Group does not recognize a deferred tax liability for all taxable temporary differences associated with investments, branches, associated companies and interests in joint ventures due to the tax status of the companies holding such investments, since upon realization of such differences no deferred tax would arise.

23. RECEIVABLES

In thousands of Swiss francs

	2006	2005
Derivative assets	14	-
Other prepaid expenses	2'205	479
Trade receivables due from investment companies	12'134	6'500
Other trade receivables	25'163	20'650
Other receivables	455	1'705
Total	39'971	29'334

No allowances were recognized during and at the end of the years under review.

24. MARKETABLE SECURITIES

In thousands of Swiss francs

	2006	2005
Equity securities held for trading – CHF	-	6'231
Equity securities held for trading – USD	-	-
Equity securities held for trading – EUR	22'888	1'995
Fixed deposits > 3 months, less than 12 months	207	216
Balance at 31 December	23'095	8'442
Average effective interest rate on fixed deposits	3.44 %	2.01 %

25. CASH AND CASH EQUIVALENTS

In thousands of Swiss francs

	2006	2005
Bank balances	15'188	36'631
Call deposits	106'500	34
Petty cash	9	3
Other cash and cash equivalents	1	12
Total	121'698	36'680

26. CAPITAL AND RESERVES

In effective number of shares

	2006	2005
Issued at 1 January	26'700'000	26'700'000
Issued during year	-	-
Issued at 31 December – fully paid in	26'700'000	26'700'000

The issued share capital comprises 26'700'000 registered shares (2005: 26'700'000) at CHF 0.01 each. The holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at meetings of the Company.

Legal reserve

The legal reserve comprises the reserves, which are to be maintained due to the legal requirements as indicated in the Swiss Code of Obligations. The legal reserve cannot be distributed. The Group's legal reserves amounted to CHF 218'100 as of 31 December 2006 (2005: CHF 218'100).

Own equity instruments

Own equity instruments include treasury shares and share options of the Company. They are recognized at cost and presented separately within equity. At the balance sheet date the Group held 1'190'915 (2005: 6'244'800) of the Company's own shares.

Included in this category is a total cost of CHF 10'855'078 relating to the repurchase of share options in 2004, which were subsequently cancelled. The Group holds treasury shares to provide for shares for the existing stock option program.

As of 24 March 2006 the Group held its initial public offering (IPO). Immediately preceding the IPO the restriction period for 5'667'075 options has been shortened of which 5'493'525 have been exercised into shares of the Company against cash.

Translation reserves

The translation reserve comprises all foreign exchange differences arising from the translation of the financial statements of foreign entities included in the consolidation.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEARS ENDED 31 DECEMBER 2006 AND 2005

Hedging reserve

The hedging reserve comprises the effective portion of the cumulative net change in the fair value of cash flow hedging instruments related to hedged transactions that have not yet occurred.

Dividends

After the balance sheet date the Directors proposed a dividend distribution of CHF 70'755'000 (CHF 2.65 per share).

Outstanding shares

The computation of the weighted average number of ordinary shares outstanding during the period is based on the following figures:

In effective number of shares

2005

Balance at 1 January 2005

Purchase of treasury shares for cash

Balance at 31 December 2005

Weighted average number of shares outstanding
during the year (360 days)

Shareholders above 5% (in % of shares issued)

Gantner Alfred

Erni Marcel

Wietlisbach Urs

Shares issued	Treasury shares	Out- standing
26'700'000	5'443'800	21'256'200
	801'000	-801'000
26'700'000	6'244'800	20'455'200
		20'733'325
	Shares held	in %
	5'962'000	22.33 %
	5'962'000	22.33 %
	5'962'000	22.33 %

In effective number of shares

2006

Balance at 1 January 2006

Purchase of treasury shares for cash

Sales of treasury shares for cash

Balance at 31 December 2006

Weighted average number of shares outstanding
during the year (360 days)

Shareholders above 5% (in % of shares issued)

Gantner Alfred

Erni Marcel

Wietlisbach Urs

Shares issued	Treasury shares	Out standing
26'700'000	6'244'800	20'455'200
	479'219	-479'219
	-5'533'104	5'533'104
26'700'000	1'190'915	25'509'085
		24'357'105
	Shares held	in %
	3'767'119	14.11 %
	3'767'119	14.11 %
	3'767'119	14.11 %

In the IPO the three main shareholders sold a total of 6'584'643 shares of the Company to the public market, thus reducing their individual position to 3'767'119 shares each.

27. EARNINGS PER SHARE

Basic and diluted earnings per share

	2006	2005
Net profit for the year (in thousands of Swiss francs)	154'159	77'416
Weighted average number of ordinary shares outstanding	24'357'105	20'733'325
Average fair value of one ordinary share during the year	93.95	24.11
Weighted average number of shares under option during the year	3'904'835	6'163'695
Exercise price for shares under option during the year	24.63	2.17

2005

	Per share	Earnings	Shares
Net profit for the year (in thousands of Swiss francs)		77'416	
Weighted average number of ordinary shares outstanding			20'733'325
Basic earnings per share (in CHF)	3.73		
Weighted average number of shares under option during the year			6'163'695
Number of shares that would have been issued at fair value			-555'998
Diluted earnings per share (in CHF)	2.94	77'416	26'341'022

2006

Net profit for the year (in thousands of Swiss francs)		154'159	
Weighted average number of ordinary shares outstanding			24'357'105
Basic earnings per share (in CHF)	6.33		
Weighted average number of shares under option during the year			3'904'835
Number of shares that would have been issued at fair value*			-825'605
Diluted earnings per share (in CHF)	5.62	154'159	27'436'335

* calculated on the basis of each individual share option grant

28. BORROWINGS

This note provides information about the contractual terms of the Group's interest-bearing loans and borrowings. For more information about the Group's exposure to interest rate and foreign currency risk see note 3.

In thousands of Swiss francs

	2006	2005
Non-current liabilities		
Finance lease liabilities	22	20
	22	20
Current liabilities		
Current portion of finance lease liabilities	-	6
	-	6

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The Group has a standing credit facility of CHF 15 million, which can either be used as a current account or as a fixed advance.

Debt covenants

- negative pledge
- change of ownership
- minimum required capital of the consolidated Group

The debt covenants have been met throughout the two years presented.

29. ACCRUED EXPENSES

In thousands of Swiss francs

	2006	2005
Bonus accruals – to be paid out in the following year	10'644	8'436
Third party fees	1'910	1'781
Outstanding invoices	2'015	1'525
Derivative liabilities	56	43
Other accrued expenses	309	-186
	14'934	11'599

30. EMPLOYEE BENEFITS

(a) Pension fund liabilities

Liability for defined benefit obligations

The Group's only defined benefit plan is the plan for its Swiss employees. The plan is maintained by Gemini Sammelstiftung, Zurich. The plan covers the minimum legal requirement under Swiss law including the legal co-ordination charge, which is also insured. The monthly premium is split equally between employer and employees.

Net Liability recognized

In thousands of Swiss francs

	2006	2005
Fair value of plan assets	15'400	12'648
Defined benefit obligation	-16'969	-16'257
Funded status	-1'569	-3'609
Unrecognized actuarial (gains) and losses	-1'006	-1'343
Recognized liability for defined benefit obligations	-2'575	-2'266

Movements in the net liability for defined benefit obligations recognized in the balance sheet

In thousands of Swiss francs

	2006	2005
Net liability for defined benefit obligations at 1 January	-2'266	-2'005
Expense recognized in the income statement (see below)	-888	-774
Employer's contribution	579	513
Net liability for defined benefit obligations at 31 December	-2'575	-2'266

Development of obligations and assets

In thousands of Swiss francs

	2006	2005
Present value of benefit obligation at 1 January	-16'257	-13'821
Service cost	-1'716	-1'515
Past service cost	-	-
Interest cost	-447	-380
Curtailements, settlements, plan amendments	-	-
Benefits paid	62	-705
Actuarial gain / (loss) on benefit obligation	1'389	164
Present value of benefit obligation at 31 December	-16'969	-16'257
Fair value of plan assets at 1 January	12'648	11'091
Expected return on plan assets	696	610
Employer's contributions	579	511
Employee's contributions	579	511
Curtailements, settlements, plan amendments	-	-
Benefits paid	-62	705
Actuarial gain / (loss) on plan assets	960	-780
Fair value of plan assets at 31 December	15'400	12'648

Expense recognized in the income statement

In thousands of Swiss francs

	2006	2005
Current service costs	-1'716	-1'515
Interest on obligation	-447	-380
Expected return on plan assets	696	610
Net periodic pension cost	-1'467	-1'285
Employees' contributions	579	511
Expense recognized in the income statement	-888	-774

The expense is recognized in personnel expenses (see also note 12).

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Return

	2006	2005
Actual return on plan assets	8.34 %	14.87 %

Principal actuarial assumptions at 31 December

	2006	2005
Discount rate	2.75 %	2.75 %
Expected net return on plan assets	6.50 %	5.50 %
Average future salary increases	1.50 %	2.50 %
Future pension increases	0.50 %	0.50 %

Asset allocation at 31 December

In thousands of Swiss francs

	2006	2005	Expected long term rate of return	Contribution to rate of return
Cash	1.20 %	8.50 %	2.00 %	0.02 %
Bonds	28.80 %	30.50 %	3.00 %	0.87 %
Equities	31.40 %	31.80 %	8.00 %	2.52 %
Property	0.00 %	0.00 %	4.50 %	0.00 %
Other	38.60 %	29.20 %	8.71 %	3.35 %
Total	100.00 %	100.00 %		6.76 %
			Cost, rounding	-0.26 %
			Net return	6.50 %
Entity's own transferable bonds	n/a	n/a		
Entity's own transferable equities	n/a	n/a		
Property occupied by entity	n/a	n/a		
Other assets used by entity	n/a	n/a		

Development of defined benefit plan

In thousands of Swiss francs

	2003	2004	2005	2006
Fair value of plan assets	10'477	11'091	12'648	15'400
Present value of benefit obligation	-12'746	-13'821	-16'257	-16'969
Funded (unfunded) status	-2'269	-2'730	-3'609	-1'569
Experience adjustment on plan liabilities				199
Change in assumptions adjustment on plan liabilities				1'190
Experience adjustment on plan assets				959
Total actuarial gain / (loss)				2'348

The expected employer's contribution in 2007 amounts to TCHF 588.

(b) Share-based payments

Options

On 30 June 2000 the Group established a share option program that entitles key management personnel and certain employees to purchase shares in the entity. The program was modified as of 31 December 2002. The Group has granted further options under the program as of 31 December 2003 and 31 December 2004. Since all options granted are equity-settled instruments and have been fully vested either immediately at or before 31 December 2004, the Group has not applied IFRS 2 to these grants in accordance with the transitional provisions of IFRS 2. Further options under the existing program have been granted as of 31 December 2005.

In 2006, the Group has granted further options. Options granted until 30 June 2006 followed the previous program. For options granted as from 1 July 2006, the Group implemented vesting conditions consisting of a 5 respectively 6 year service period.

Option grants	Date	Number of instruments	Vesting conditions	Contractual life of options
Options	31.12.2002	4'779'300	none	30.06.2010
Options	31.12.2003	1'393'740	none	30.06.2010
Options	31.12.2004	1'229'535	none	30.06.2010
Options	31.12.2005	1'738'170	none	31.12.2015
Options	30.06.2006	26'700	none	30.06.2016
Options	16.08.2006	26'700	5 years service	16.08.2016
Options	09.10.2006	26'700	5 years service	09.10.2016
Options	30.11.2006	8'549	none	30.11.2016
Options	30.11.2006	324'720	5 years service	30.11.2016
Options	30.11.2006	507'300	6 years service	30.11.2016
Total options granted		10'061'414		
Options expired / forfeited since inception		-74'760		
Repurchase / redemption of options	31.12.2004	-1'201'500		
Exercised alongside IPO	2006	-5'493'525		
Net options outstanding as of 31 December 2006		3'291'629		
Share Grants				
Shares	2006	10'930	1 year service	-
Shares	2006	2'195	1 year service	-
Restricted share units (RSUs)	2006	116	1 year service	-
Total granted shares / RSUs as of 31 December 2006		13'241		

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The number and weighted average exercise prices of share options is as follows:

	Weighted average exercise price	Number of options	Weighted average exercise price	Number of options
<i>In effective number of options</i>	2006	2006	2005	2005
Outstanding at the beginning of the period	CHF 9.68	7'901'865	CHF 2.17	6'163'695
Forfeited during the period	CHF 25.95	-37'380	-	-
Exercised during the period	CHF 2.21	-5'493'525	-	-
Granted during the period	CHF 135.89	920'669	CHF 36.29	1'738'170
Oustanding at the end of the period	CHF 57.26	3'291'629	CHF 9.68	7'901'865
Exercisable at the end of the period		173'550		nil

The IPO of the Group as of 24 March 2006 resulted in a shortening of the restriction period for 5'667'075 options, of which 5'493'525 options were exercised during the reporting period. Thus of the remaining 3'291'629 options under the diverse programs of the Group 173'550 options are exercisable immediately and all other options are subject to a restriction period of at least until 31 December 2007.

The fair value of services in return for share options granted are measured by reference to the fair value of share options granted. The estimate of the fair value of the services received is measured based on a Black-Scholes model. Instead of the contractual life of the option, the input to the model is based on the expected time of execution, taking into account the exercise restriction of the options.

Fair value of share options granted in 2006, and related assumptions

Date of grant	30.06.2006	16.08.2006	09.10.2006	30.11.2006	30.11.2006	30.11.2006
Fair value per option and exercise price at measurement date	CHF 8.78	CHF 20.39	CHF 18.04	CHF 14.96	CHF 16.68	CHF 15.20
Share price	CHF 79.50	CHF 94.75	CHF 111.60	CHF 115.10	CHF 115.10	CHF 115.10
Exercise price	CHF 93.63	CHF 113.70	CHF 133.90	CHF 138.00	CHF 138.00	CHF 138.00
Expected volatility	20.38%	34.64%	28.18%	24.21%	24.21%	24.21%
Expected term of execution	5 years	5 years	5 years	5 years	6 years	10 years
Expected dividend ratio	2.50%	2.50%	2.50%	2.50%	2.50%	2.50%
Risk-free interest rate (based on Swap rates)	2.83%	2.72%	2.52%	2.47%	2.50%	2.62%
Total options granted	26'700	26'700	26'700	324'720	507'300	8'549
Amount to be recognized as service expense	234'400	544'280	481'698	4'858'610	8'462'725	130'000
Amount recognized in current year	234'400	90'713	80'283	809'768	1'208'961	130'000
Total amount recognized in current year						2'554'125

Since October 2006 the expected volatility applied is based on the 100 day volatility of the Group as of the day of grant. Up until this date the Group applied the historic volatility of a comparable listed company. There are no market conditions associated with the share option grants. Although the options imply a service period of 5 or 6 years, the Group already as of granting date recognized a sixth of the corresponding amount in the income statement since part of the option granting is deemed to be part of the compensation for past services rendered by the option holders.

Shares / Restricted share units

In the light of the IPO of the Company as of 24 March 2006, 10'930 shares were granted to staff and junior professionals of the Group. These shares are subject to a vesting period of one year since they were granted. The Group recognized a total expense of CHF 688'590 in its personnel expenses during the reporting period.

As of 30 November 2006, the Group has further granted 2'311 shares and restricted share units to staff and junior professionals of the Group. These shares are also subject to a vesting period of one year however the shares are in addition subject to a restriction period of maximum five years, which will be shortened if the employee resigns from the Group before this date.

These shares are kept within the books of the Group and disclosed separately in the statement of changes in equity until the physical transfer of the shares to the individual employee after either five years or on the last working day of the individual employee. The Group has recognized during the reporting period a total expense of CHF 128'646 in its personnel expenses.

31. PROVISIONS

The Group currently has no provisions.

32. DERIVATIVES ARISING FROM INSURANCE CONTRACTS

(a) Introduction

Princess Private Equity Holding Limited ("Princess")

On 9 February 2006, Swiss Re informed the board of Princess about the exercise of its mitigation rights. Based on this, the board of Princess submitted a proposal to its bondholders regarding a re-launch of this product. For further details about the reissue please refer to note 6.

Derivatives arising from insurance contracts

The derivative liability arising from the Princess insurance contract was derecognized as no further liability exists due to the early conversion of the convertible bond. Thus the Group recognized a gain of TCHF 10'337 in the income statement under gain on settlement of insurance contracts, net; refer to note 32 (c & f).

The derivative asset arising from the Princess insurance contract was also derecognized as no further asset exists due to the termination of the reinsurance agreement between Princess Management Limited (formerly Princess Management & Insurance Limited) and Swiss Re. Thus the Group recognized a loss of TCHF 467 in the income statement under gain on settlement of insurance contracts, net; refer to note 32 (d & f).

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Other liabilities in connection with insurance contracts

The agreement entered into by the Group with a third party providing services in connection with the ongoing management of the insurance contract relating to Princess was also settled by the Group. As the remuneration was dependant on the development of the net asset value of the convertible bond (based on a certain percentage of the deemed value of the insurance trust at 31 December 2010), the Group derecognized its liability by TCHF 1'396, recognizing a corresponding gain in the income statement under gain on settlement of insurance contracts, net, and settled the remaining amount of TCHF 4'412 in cash; refer to note 32 (e & f).

Pearl Holding Limited

As discussed in note 16, the Group entered an agreement regarding the extension and the increase of the redemption amount of the convertible bond issued by Pearl Holding Limited as of 1 January 2006. Thus the input parameters for the strike price and the term of the option used for the Black-Scholes model to calculate the put option values have been amended in comparison to the parameters applied as of 31 December 2005, in order to reflect the contractual changes. The liability has been increased by the initial put option value of EUR 28.5 million reflecting the further payment of the Group into the experience account as of 20 December 2006.

Since Pearl Management Limited only acts as policyholder and thus pays a fixed amount into the experience account, its exposure is limited to the sum of the balance paid into the experience account, although the actual insurance liability resulting from the transaction may be higher.

(b) Basic assumptions

As referred to in note 2.17 the Group recognizes a liability arising from the insurance contract with regards to Pearl Holding Limited ("Pearl"). The liability is valued applying a Black-Scholes model. The following assumptions have been made for the input parameters of the model:

	Pearl		Princess	
	2006	2005	2006	2005
Share price (in relation to bond notional)	99%	96%	n/a	101%
Strike price (in millions)	EUR 712.8	EUR 660	n/a	USD 700
Dividend yield	4.24%	4.33%	n/a	3.50%
Risk free interest rate (government bonds)	4.16%	3.07%	n/a	4.32%
Implicit volatility	12%	12%	n/a	12%
Term of option	30.09.2014	30.09.2010	n/a	31.12.2010
Strike price for valuation of asset (in millions)	n/a	n/a	n/a	USD 487

Share price

The share price is a reflection of the net asset value of the individual investment company as of the relevant balance sheet date.

Strike price

The strike price reflects the notional amount of the individual bond outstanding and repayable.

Dividend yield

The dividend yield reflects the constant outflows in the individual investment company with regards to investment management fee, insurance premium and administration fees. The investment management fees as well as

the insurance premium take into account a potential over-commitment of the product, as the fees are based on the higher of either "net asset value of the investment company" or "net asset value of private equity assets invested plus unfunded commitments". Since the second base may be higher than the net assets of the company, the dividend yield has to be adjusted accordingly to reflect it.

Implicit volatility

The implicit volatility is based on the historic volatility for a private equity portfolio, reflecting the given level of diversification in terms of stages, vintage years, industries and geographies.

(c) Derivative liabilities arising from insurance contracts

In thousands of Swiss francs

	Pearl		Princess	
	2006	2005	2006	2005
Balance at beginning of year	30'594	24'009	31'724	53'002
Recognition of initial put option value	44'770	-	-	-
Changes in fair value	5'235	6'370	-19'880	-27'913
Effect of settlement of insurance contract	-	-	-10'337	-
Effects of movement in FX	2'156	215	-1'507	6'635
Balance at end of year	82'755	30'594	-	31'724

(d) Derivative assets arising from insurance contracts

In thousands of Swiss francs

	Princess	
	2006	2005
Balance at beginning of year	2'266	7'797
Changes in fair value	-1'692	-6'382
Effects of settlement of insurance contract	-467	-
Effects of movement in FX	-107	851
Balance at end of year	-	2'266

(e) Other liabilities in connection with insurance contracts

In thousands of Swiss francs

	Princess	
	2006	2005
Balance at beginning of year	6'063	3'780
Changes in fair value	190	1'613
Effects of settlement of insurance contract	-1'396	-
Settlement of liability	-4'412	-
Effects of movement in FX	-445	670
Balance at end of year	-	6'063

The Group entered into an agreement with a third party provider providing services in connection with the ongoing management of the insurance contract relating to Princess. The remuneration was dependant on the development of the net asset value of the Princess bond, as a certain percentage of the final insurance trust has

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been agreed as final pay out. In connection with the dissolution of the insurance trust, the other liabilities in connection with insurance contracts have been settled as of 20 December 2006.

(f) Gain on settlement of insurance contracts, net

In addition to the transactions described in notes 16 and 32 (a), the following amounts were recorded in connection with the settlement of the Princess insurance contract:

- TCHF 12'002 paid to Swiss Re on 22 December 2006 for the settlement of the insurance contract.
- TCHF 6'297 received from Swiss Re for the settlement of a dividend assignment agreement between Swiss Re and Partners Group Holding, entered in 2004 to address a desired retrospective adjustment of the reinsurance fee.

As a summary, the settlement of the Princess insurance contract had the following total effect on the Group's income statement:

	2006	2005
Derecognition of the initial put option with regards to Princess	-4'519	-
Derecognition of the derivative asset arising from the Princess insurance contract	-467	-
Derecognition of the derivative liability arising from the Princess insurance contract	10'337	-
Derecognition of third party liability with regards to Princess	1'396	-
Payment to Swiss Re for the settlement of the Princess re-insurance contract	-12'002	-
Payment from Swiss Re for the settlement of the dividend assignment agreement	6'297	-
Total gain on settlement of insurance contracts, net	1'042	-

In the cash flow statement net payments made to Swiss Re are included in cash from operating activities. The proceeds from the dissolution of the Princess insurance trust in the amount of TCHF 74'847 are presented as part of investing activities.

33. OPERATING LEASES

Leases as a lessee

Non-cancelable operating lease rentals are payables as follows:

In thousands of Swiss francs

	2006	2005
Less than one year	2'556	2'096
Between one and five years	8'782	6'111
More than five years	482	651
	11'820	8'858

The Group classifies its office rental liabilities and car leases under operating leases. The office leases typically run for an initial period of two to five years, with an option to renew the lease after that date. None of the leases include contingent rentals.

During the previous reporting year, three sublease contracts were in place for a part of the office space in the Group's headquarters in Baar. Starting from 2006, one sublease contract, which is cancelable with a six month notice period, remains, as the two other contracts had been cancelled during 2005. The remaining sublease contract will expire as of 30 June 2007.

During the current year CHF 2'317'935 was recognized as an expense in the income statement in respect of operating leases and housekeeping costs in connection with operating leases (2005: CHF 1'944'150). The income of the sublease contract of CHF 79'239 (2005: CHF 203'608) is included in the lease expenses as a deduction.

34. CAPITAL COMMITMENTS

As of 31 December 2006 the Group had capital commitment contracts with private equity partnerships for TCHF 52'609 (2005: TCHF 19'593), whereof TCHF 29'482 (2005: TCHF 11'552) were not yet called by the relevant investment manager. The capital commitments are called over time, usually between one to five years since subscription for the commitment. In addition, the Group may selectively enter into capital commitment contracts to bridge investments for investment companies managed by the Group, refer also to note 19.

The Company is further subject to a commitment to settle its portion of the unpaid share-capital of Princess Management Limited (formerly Princess Management & Insurance Limited), Guernsey, of CHF 1'158'903 / USD 950'076 (2005: CHF 1'249'606 / USD 950'076), which has no effect on the consolidated financial statements.

35. CONTINGENCIES

The Group currently has neither contingent assets nor liabilities.

36. RELATED PARTY TRANSACTIONS

The Group has a related party relationship with its subsidiaries (see note 37), associates (see note 17), joint-ventures (see note 18), investment companies (see note 19), with its pension funds (see note 30) and with its management and significant shareholders.

Associates purchased services from the Group in the amount of CHF 300'000 (2005: CHF 300'000) and at the balance sheet date associates owed the Group CHF 75'000 (2005: CHF 75'000). The Group received dividends of CHF 3'039'361 (2005: CHF 2'478'336) from associates.

Investment companies purchased services (management fees and insurance fees) from the Group in the amount of TCHF 66'453 (2005: TCHF 61'419) and at the balance sheet date the investment companies owed the Group TCHF 12'140 (2005: TCHF 6'500).

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
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Board members and shareholders employed by the Group and their immediate relatives control 67.2% of the voting shares of the Company. Loans to board members and shareholders employed by the Group amount to nil (2005: nil) and are included in "other financial assets" (see note 20).

The Group purchased treasury shares from its shareholders as follows (see also note 26):

In effective number of shares

From shareholders, which are employed by the Group

2006 **2005**

- 801'000

- **801'000**

Purchase price per share

n/a 13.11

In 2005 the Group purchased 80.1% of the shares of Partners Group Product Investments from its shareholders, which are also shareholders of the Company, for a total consideration of CHF 160'200. In addition the Group sold a total of 3% of its share in Asset Management Partners to option holders of the Company in 2005 for a total consideration of CHF 6'000.

The Group is managed by the board of directors of the Company and the executive board of the Group (hereinafter referred to as "management"). The total personnel expenses of management included in personnel expenses (see note 12) amounts to:

In thousands of Swiss francs

Board members of Partners Group Holding

Short-term employment benefits

920 1'590

Post-employment benefits

137 126

Equity compensation benefits

130 -

1'187 **1'716**

Executive board

Short-term employment benefits

3'480 3'465

Post-employment benefits

309 348

Equity compensation benefits

445 128

4'234 **3'941**

Total board members and executive board

5'421 **5'657**

Management can also participate in the Group's share option program (see note 30). At the relevant balance sheet date, management was entitled to the following number of options and shares:

Outstanding options

In effective number of options

	2006	2005
Board members	8'549	-
Members of the Executive Board	534'000	3'471'000
Other Partners & Principals	974'550	2'916'975
Senior Vice Presidents	357'780	77'430
Total	1'874'879	6'465'405

Outstanding shares

In effective number of shares

	2006	2005
Board members	11'313'357	17'886'000
Members of the Executive Board	2'332'913	-
Other Partners & Principals	3'473'455	-
Total	17'119'725	17'886'000

37. GROUP ENTERPRISES

(a) Significant subsidiaries (full consolidation)

	Country of incorporation	Ownership interest 2006	2005
Partners Group	Switzerland	100%	100%
Partners Group Trading	Switzerland	100%	100%
Partners Group Investments	Switzerland	100%	100%
S.A.I.S. AG (merged)	Switzerland	0%	100%
Asset Management Partners	Switzerland	84%	84%
Partners Group Product Investments (merged)	Switzerland	0%	100%
Partners Group (Luxemburg) Sarl	Luxemburg	100%	100%
Partners Group (Guernsey) Limited	Guernsey	100%	100%
Partners Group Management I Limited	Guernsey	100%	100%
Partners Group Management II Limited	Guernsey	100%	100%
Partners Group Management III Limited	Guernsey	100%	100%
Partners Group Management IV Limited	Guernsey	100%	n/a
Partners Group Management V Limited	Guernsey	100%	n/a
Pearl Management Limited	Guernsey	100%	100%
Partners Private Equity Management Limited	Guernsey	100%	100%
Partners Group (Scotland) Limited	Scotland	100%	100%
Partners Group (UK) Limited	UK	100%	100%
Partners Group (USA) Inc.	USA	100%	100%
Partners Group (Deutschland) GmbH	Germany	100%	100%

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED 31 DECEMBER 2006 AND 2005**

(a) Significant subsidiaries (full consolidation continued)

	Country of incorporation	Ownership interest 2006	Ownership interest 2005
Partners Private Equity Management Inc.	Cayman Islands	100%	100%
Partners Group (Alternative Investments Asia-Pacific) Pte. Limited	Singapore	100%	100%
Princess Management Limited (formerly Princess Management & Insurance Limited)*	Guernsey	100%	50.004%

* Until the end of 2006 the company was recognized by applying proportionate consolidation.

(b) Investments in associates (equity method)

	Country of incorporation	Ownership interest 2006	Ownership interest 2005
LGT Private Equity Advisers	LI	40%	40%
Regional Investment Partners	USA	20%	20%

38. SUBSEQUENT EVENTS

On 14 February 2007 the Group signed a purchase agreement for 100% of the interests of PCA Real Estate Asset Management LLC, San Francisco. The acquisition is expected to be effective towards the end of the first half of 2007.

Up to March 2007, the following closings were held in 2007:

Name of partnership	Date of closing	Currency of fund	Funds raised at closing	Fund size after closing	General Partner	General Partner commitment
PG Emerging Markets 2007	24.01.2007	USD	50'000'000	95'000'000	PG Management II Ltd.	-
PG Direct Investments 2006	29.01.2007	EUR	50'000'000	203'131'313	PG Management III Ltd.	1'131'313
PG Global Mezzanine 2007	31.01.2007	EUR	49'494'949	49'494'949	PG (Luxembourg) Sarl	494'949
PG Global Value 2006	31.01.2007	EUR	10'101'010	170'808'081	PG Management II Ltd.	1'708'081
PG Asia-Pacific 2007	02.03.2007	USD	71'212'121	81'313'131	PG Management II Ltd.	813'131

These closings will have the effect of generating additional fee income for the Group. The Group's financial commitment is disclosed above under "General Partner commitment".

Up to 7 March 2007, Partners Group Holding bridged total amounts of TUSD 1'665 and TEUR 15'210 for five products in seven separate bridges. The bridge facilities bear interest at the respective 3-month LIBOR rate plus a margin of 0.85%. Six of the bridges were repaid up to 7 March 2007 and one is due for repayment at latest on 13 March 2007.

No other events took place between 31 December 2006 and 7 March 2007 that would require adjustments to the amounts recognized in these consolidated financial statements or would need to be disclosed under this heading.

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REPORT OF THE AUDITORS ON THE FINANCIAL STATEMENTS
OF PARTNERS GROUP HOLDING



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Report of the Statutory Auditors to the General Meeting of

Partners Group Holding, Baar-Zug

As statutory auditors, we have audited the accounting records and the financial statements (income statement, balance sheet and notes / pages 95-102) of Partners Group Holding for the year ended 31 December 2006.

These financial statements are the responsibility of the board of directors. Our responsibility is to express an opinion on these financial statements based on our audit. We confirm that we meet the legal requirements concerning professional qualification and independence.

Our audit was conducted in accordance with Swiss Auditing Standards, which require that an audit be planned and performed to obtain reasonable assurance about whether the financial statements are free of material misstatement. We have examined on a test basis evidence supporting the amounts and disclosures in the financial statements. We have also assessed the accounting principles used, significant estimates made and the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the accounting records and financial statements and the proposed appropriation of available earnings comply with Swiss law and the company's articles of incorporation.

We recommend that the financial statements submitted to you be approved.

KPMG Ltd

Swen Wyssbrod
Swiss Certified Accountant
Auditor in Charge

Alexander Gut
Swiss Certified Accountant

Zurich, 7 March 2007

**INCOME STATEMENT
FOR THE YEARS ENDED 31 DECEMBER 2006 AND 2005**

	2006	2005
	CHF	CHF
Income from financial investments	143'593'229	62'167'357
Value adjustment on financial investments	56'660	826'308
Reversal of provision on subordinated loans	3'871'001	-
Other financial income	3'461'535	1'238'405
Total income	150'982'425	64'232'070
Personnel expenses	-26'990	-
Insurance premium	-45'337'994	-
Administrative expenses	-144'192	-257'900
Expense for provision on subordinated loans	-	-4'971'001
Other financial expenses	-7'719'136	-1'293'287
Profit before taxes	97'754'113	57'709'882
Taxes	-337'142	54'029
Net profit for the year	97'416'971	57'763'911

BALANCE SHEET
AS OF 31 DECEMBER 2006 AND 2005

	2006	2005
	CHF	CHF
Assets		
Current assets		
Cash and cash equivalents	66'338'608	30'524'986
Securities	5'732'843	2'887'825
Treasury shares	9'926'290	18'961'728
Other receivables		
- third parties	316'765	1'059'150
- group companies	50'588'057	2'857'673
Deferred expenses and accrued income	86'357	67'684
Total current assets	132'988'920	56'359'046
Non-current assets		
Financial investments		
- participations	45'283'828	41'826'797
- loans to group companies	8'923'501	9'951'852
- loans to employees	433'974	197'291
- other financial investments	1'707'239	482'992
Total non-current assets	56'348'542	52'458'932
Total assets	189'337'462	108'817'978
Liabilities and shareholders' equity		
Liabilities		
Other short-term liabilities		
- third parties	38'939	75'950
- group companies	4'371'940	16'072'671
Accrued expenses	141'726	165'623
Provision for subordinated loans	1'100'000	4'971'001
Total liabilities	5'652'605	21'285'245
Shareholders' equity		
Share capital	267'000	267'000
Legal reserves		
- legal reserve	218'100	218'100
- reserves for treasury shares	48'619'937	18'961'728
Available earnings		
- retained earnings	37'162'849 ¹⁾	10'321'994 ¹⁾
- net profit / (loss) for the year	97'416'971	57'763'911
Total shareholders' equity	183'684'857	87'532'733
Total liabilities and shareholders' equity	189'337'462	108'817'978
¹⁾ Balance as of 1 January	10'321'994	34'232'234
Allocation of previous year's result	57'763'911	-13'410'240
Net treasury shares bought in period /		
reallocation to reserve for treasury shares	-29'658'209	-10'500'000
Merger with subsidiary company	-1'264'847	-
Balance as of 31 December	37'162'849	10'321'994

1. Commitments and contingencies (third parties)

Commitments

Not paid in capital (other investments)

(Luna shares USD 51'250, prior year USD 51'250)

62'515

67'408

Contingencies

Not paid in capital (participations)

(Princess Management Limited,
(formerly Princess Management & Insurance Limited), Guernsey;
USD 950'076, prior year: USD 950'076)

1'158'903

1'249'606

2. Participations

Partners Group, Baar

(Financial Company)

Share capital CHF 100'000

Share 100%

1'914'100

744'100

Partners Group Trading, Baar

(Investment Company)

Share capital CHF 100'000

Share 100%

100'000

100'000

Partners Group Product Investments, Baar

(Investment Company)

Share capital CHF 200'000

Merged with Partners Group Holding

-

200'000

European Webgroup, Baar

(Investment Company)

liquidated

-

1

S.A.I.S. Group, Baar

(Hedge Fund Management)

Share capital CHF 100'000

Merged with Partners Group

-

1'170'000

NOTES TO THE FINANCIAL STATEMENTS
OF PARTNERS GROUP HOLDING

2. Participations (continued)

Princess Management Limited, Guernsey

(formerly Princess Management & Insurance Limited)

(Private Equity Management)

Share Capital USD 1'250'000 (paid in 24%, prior year 24%)

Share 100%

2006

CHF

2005

CHF

475'743

475'743

Partners Group (USA) Inc, New York

(Private Equity Advisory)

Share capital USD 75'000

Share 100%

1

1

Partners Group (Guernsey) Limited, Guernsey

(Private Equity Administration)

Share capital GBP 40'000

Share 100%

100'400

100'400

Partners Group (UK) Ltd.

(Private Equity Advisory)

Share capital GBP 250'000

Share 100%

558'785

332'835

Partners Group (Luxembourg) Sarl

(Private Equity Advisory)

Share capital EUR 31'000

Share 100%

3'435'972

48'084

Pearl Management Limited, Guernsey

(Private Equity Management)

Share capital EUR 20'000

Share 100%

30'450

30'450

Partners Private Equity Management Inc, Cayman Islands

(Private Equity Management)

Share capital USD 100

Share 100%

p.m.

p.m.

2. Participations (continued)

Partners Private Equity Management Limited, Guernsey

(Private Equity Management)

Share capital CHF 5

Share 100%

2006

CHF

p.m.

2005

CHF

p.m.

LGT Private Equity Advisers AG, Vaduz

(Private Equity Management)

Share capital CHF 1'000'000

Share 40%

400'000

400'000

Partners Group Private Equity Performance Holding Limited, Guernsey

(Investment Company)

Share capital EUR 10'000

Share 100% (prior year 30%)

15'712

4'380

Pearl Holding Limited, Guernsey

(Investment Company)

Share capital EUR 10'000

Share 100% (prior year 30%)

1

1

Partners Group Management I Limited, Guernsey

(Private Equity Management)

Share capital EUR 20'000

Share 100%

22'794'439

22'794'439

Partners Group Management II Limited, Guernsey

(Private Equity Management)

Share capital EUR 20'000

Share 100%

10'953'657

10'953'657

Partners Group Management III Limited, Guernsey

(Private Equity Management)

Share capital EUR 20'000

Share 100%

4'023'189

4'023'189

NOTES TO THE FINANCIAL STATEMENTS OF PARTNERS GROUP HOLDING

2. Participations (continued)

Partners Group Management IV Limited, Guernsey

(Private Equity Management)

Share capital EUR 20'000

Share 100%

2006

CHF

31'861

2005

CHF

-

Partners Group Investments, Baar

(Investment company)

Share capital CHF 100'000

Share 100%

100'000

100'000

Partners Group (Deutschland) GmbH, Frankfurt

(Private Equity Advisory)

Share capital EUR 25'000

Share 100%

127'988

127'988

Asset Management Partners, Baar

(Wealth Management Advisory)

Share capital CHF 200'000

Share 84%

168'000

168'000

Regional Investment Partners L.L.C., Dallas, TX

(Private Equity investment research)

Share capital USD 210'000

Share 20%

53'529

53'529

Total value at cost

45'283'827

41'826'797

Total book value

45'283'827

41'826'797

3. Number of treasury shares as of 31 December

	Number of shares	Average price	Total value
Balance at 1 January 2005	741'800	11.41	8'461'728
Purchase of treasury shares for cash	801'000	13.11	10'500'000
Balance at 31 December 2005	1'542'800		
Purchase of treasury shares for cash	479'219	87.42	41'893'948
Exercised options	-791'525	4.24	-3'356'495
Sale of treasury shares for cash	-39'579	112.86	-4'466'949
Balance at 31 December 2006	1'190'915		

The shares are valued at the respective transaction prices. The average per share amounts to CHF 40.83 (31 December 2005: CHF 12.29).

The company has 3'291'629 outstanding employee options which will vest over the next 10 years (see also note 30 to the consolidated financial statements).

4. Subordinated loans

The position "loans to group companies" includes one subordinated loan:

	2006	2005
	CHF	CHF
Partners Group Trading	3'900'000	3'900'000
Partners Group Product Investments	-	1'071'001
Total	3'900'000	4'971'001

In 2006, the company has set up a provision in the amount of CHF 1'100'000 for this loan.

NOTES TO THE FINANCIAL STATEMENTS OF PARTNERS GROUP HOLDING

5. Conditional capital increase

The extraordinary general meeting held on 14 December 2005 approved a conditional capital increase of CHF 13'350 (1'335'000 shares).

6. Guarantees

	2006	2005
	CHF	CHF
Guarantees for subsidiaries	10'430'752	10'464'476

7. Shareholders above 5% (in % of shares issued)

	2006	2005
Gantner Alfred	14.11%	22.33%
Erni Marcel	14.11%	22.33%
Wietlisbach Urs	14.11%	22.33%

There are no other issues to be disclosed regarding Art. 663b of the Swiss Code of Obligations

PROPOSAL BY THE BOARD OF DIRECTORS OF PARTNERS GROUP HOLDING
FOR THE APPROPRIATION OF AVAILABLE EARNINGS AS OF 31 DECEMBER

	2006 CHF	2005 CHF
Profit for the year	97'416'971	57'763'911
Retained earnings ¹⁾	37'162'849	10'321'994
Available earnings	134'579'820	68'085'905
Proposal by the Board of Directors to the General Meeting		
To be distributed to shareholders	70'755'000	-
To be carried forward	63'824'820	68'085'905
¹⁾ Balance as of 1 January	10'321'994	34'232'234
Allocation of previous year's result	57'763'911	-13'410'240
Treasury shares bought in period / reallocation to reserve for treasury shares	-29'658'209	-10'500'000
Merger with subsidiary company	-1'264'847	-
Balance as of 31 December	37'162'849	10'321'994



P A S S I O N F O R P O W E R F U L R E S O U R C E S

Partners Group Holding is committed to meeting high standards of corporate governance, with the aim of guiding our company to further success. Partners Group Holding bases its corporate governance on the "Swiss Code of Best Practice for Corporate Governance" and the "Directive on Information relating to Corporate Governance" issued by the SWX Swiss Exchange.

The Corporate Governance section contains information on the following:

- Group structure & shareholdings
- Capital structure
- Board of Directors
- Executive Board
- Compensation, shareholdings and loans
- Shareholders' participation
- Changes of control and defense measures
- Auditors
- Information policy

In this corporate governance report, references to "Partners Group", "we", "us" and "our" are to Partners Group Holding together with its consolidated subsidiaries, unless the context requires otherwise.

1. Group structure and shareholders

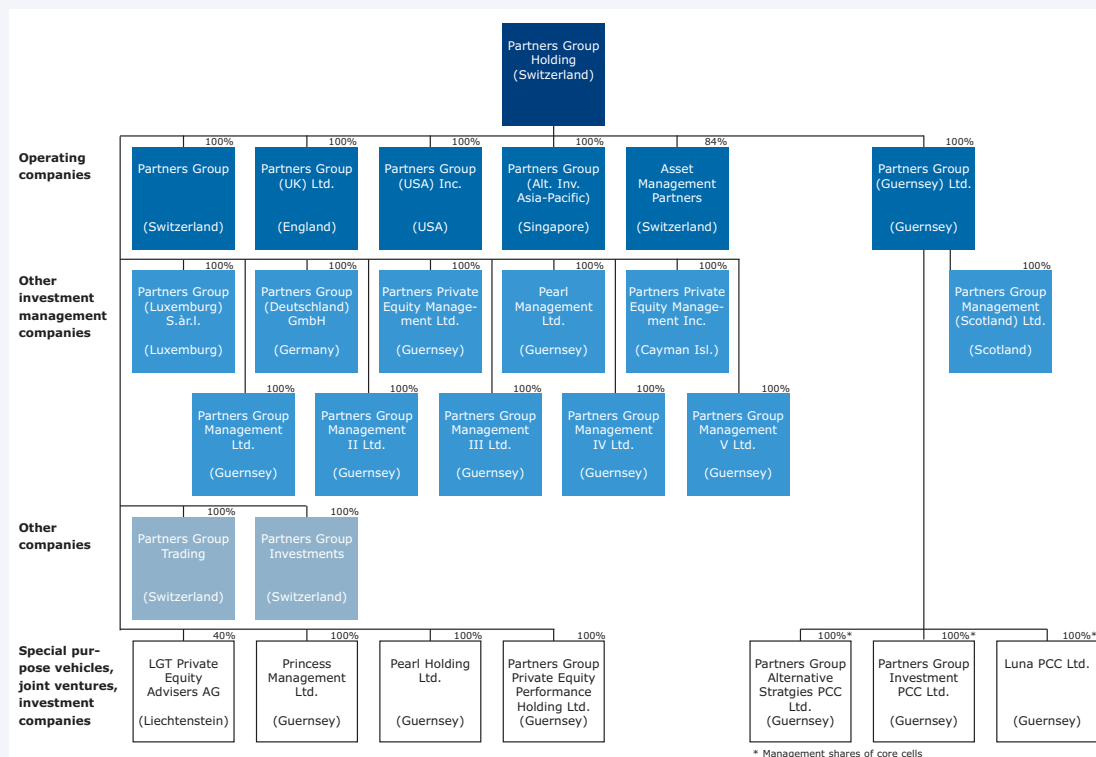
1.1 Group structure

Partners Group Holding operates through majority or wholly owned subsidiaries in Switzerland, the United Kingdom, the United States, Singapore, Guernsey, and other jurisdictions. The chart below provides an overview of the group structure.

1.1.1 Listed companies belonging to the Group

Partners Group Holding is a stock corporation incorporated under Swiss law with its registered offices and principal place of business at Zugerstrasse 57, 6341 Baar - Zug.

Partners Group Holding is listed on the SWX Swiss Exchange under Swiss Security Number 002460882 and ISIN number



CORPORATE GOVERNANCE

CH0024608827. The market capitalization of the company as of 31 December 2006 is CHF 3.9 billion. All other group companies are privately held.

1.1.2 Unlisted companies belonging to the Group

For more detailed information on the unlisted subsidiaries of the group, including names, domiciles, share capital and ownership interests, please see note 37 to the consolidated financial statements of the Annual Report 2006.

1.2 Significant shareholders

Partners Group Holding has one group of shareholders holding more than 5% of the shares and voting rights of the company. This group is composed of Messrs. Alfred Gantner, Urs Wietlisbach and Dr. Marcel Erni, along with 26 other partners and principals of Partners Group. All members of this group have entered into a lock-up agreement which imposes certain selling restrictions and/or individual non-compete arrangements on the members of the group for a time period of up to March 2013. As of 31 December 2006, this group holds 17'107'725 shares and 1'121'400 call options, corresponding to 64.10% in shares and 4.20% in call options for a total of 68.30 %.

1.3 Cross-shareholdings

Partners Group Holding has no cross-shareholdings with another company or group of companies.

2. Capital structure

2.1 Capital

The issued nominal share capital of Partners Group Holding amounts to CHF 267'000, comprising 26'700'000 fully paid-in registered shares with a nominal value of CHF 0.01 each.

2.2 Authorized and conditional share capital

Partners Group Holding currently has no authorized capital.

The Extraordinary General Meeting of Shareholders held on 14 December 2005 approved the creation of a conditional capital of a maximum of CHF 13'350, divided into 1'335'000 fully paid-in registered shares of a nominal value of CHF 0.01 each. The share capital may be increased through the exercise of options granted to the members of the Board of Directors and employees of Partners Group in the aggregate amount of the conditional capital. Pre-emptive rights as well

as the shareholders' advance subscription rights are excluded in favor of the option holders. The Board of Directors will determine the details of any issue of conditional capital according to the terms of the related option rights. The acquisition of the registered shares by exercising the option rights and the further transfer of the shares are subject to the transfer restrictions set forth in section 2.6 below.

2.3 Changes in capital

Apart from the creation of the conditional capital as described in section 2.2 above, no further changes in capital have occurred during the last three years.

2.4 Shares and participation certificates

Partners Group Holding has issued 26'700'000 fully paid-in registered shares with a nominal value of CHF 0.01 each and transferability in accordance with our articles of association, as described in section 2.6 below. Shareholders do not have the right to ask for printing and delivery of share certificates. A shareholder may, however, at any time demand that Partners Group Holding issue a confirmation of such shareholder's shareholding.

Each share carries one vote at the shareholders' meetings. All shares have equal rights. Voting rights and certain other non-economic rights attached to the shares, including the right, subject to certain conditions, to call and to attend shareholders' meetings, may be exercised only after a shareholder has been registered in the share register of Partners Group Holding as a shareholder with voting rights. Such registration requires the approval of the Board of Directors and is restricted, see section 2.6 below. All shares are entitled to full dividend rights.

Partners Group Holding has not issued (non-voting) participation certificates.

2.5 Profit sharing certificates

Partners Group Holding has not issued any profit sharing certificates.

2.6 Limitations on transferability and nominee registration

Any transfer of shares will not be recognized for purposes of having voting rights with respect to such shares unless a transfer is approved by the Board of Directors. This limitation also applies to the establishing of a usufruct. According to art. 6 of the articles of association, the Board of Directors

may refuse to register a transferee as a shareholder with voting rights to the extent that said transferee's total shareholding would exceed 10% of the total share capital as registered in the commercial register. The Board of Directors may also refuse to register a transferee as a shareholder with voting rights if the transferee does not expressly declare that it has acquired the shares in its own name and for its own account. If the shares pass by inheritance or matrimonial property law, the transferee may not be refused as a shareholder with voting rights. Entries in the share register may be cancelled if they are based on false information on the part of the transferee.

Partners Group Holding has issued special provisions for the registration of nominees. Nominees may be entered in the share register with voting rights for a maximum of 5% of the total share capital as set forth in the commercial register. The Board of Directors may allow a nominee to exceed this limit if such nominee discloses the name, address and shareholding of any person for whose account it is holding 0.5% or more of the share capital as set forth in the commercial register. The Board of Directors shall conclude agreements with such nominees concerning disclosure requirements, representation of shares and exercise of voting rights.

Any reversal or amendment of the statutory rules governing the transfer limitation require a quorum of at least two-

thirds of the represented votes at the shareholders' meeting and the absolute majority of the represented nominal value of shares.

2.7 Convertible bonds and options

Partners Group Holding currently has no convertible bonds outstanding.

Since 30 June 2000, Partners Group Holding has established regular share option programs that entitle key management personnel as well as a large number of other employees to purchase shares in the entity. The options can be settled either by the issuance of conditional capital or by the delivery of existing shares. Please see note 30 (b) to the consolidated financial statements in the Annual Report 2006 for comprehensive information on the calculation and development of the employee options.

3. Board of Directors

The Board of Directors of Partners Group Holding is entrusted with the ultimate strategy and direction of the company and the supervision of the management. As of 31 December 2006, the Board of Directors consists of six members, of which three are executive members.

The table below shows the current composition of the Board of Directors:

Name	Director since	Term expires	Nationality	Age	Committee membership ¹	Function
Alfred Gantner	1997	2007	Swiss	38	RAC, NCC, BDC ²	Director, Executive Chairman
Dr. Marcel Erni	1997	2008	Swiss	41	BDC	Director, Executive Vice Chairman, Chief Investment Officer
Urs Wietlisbach	1997	2009	Swiss	45	NCC, BDC	Director, Executive Vice Chairman, Chief Markets Officer
Ulrich Fehring	1998	2008	German	65	NCC ²	Director
Robert Schenker	1997	2007	Swiss	64	RAC ²	Director
Dr. Wolfgang Zürcher	2005	2009	Swiss	42	RAC	Director

¹ Detailed information on committees is provided in section 3.4 below
 RAC: Risk and Audit Committee
 NCC: Nomination and Compensation Committee
 BDC: Business Development Committee

² Committee Chair

CORPORATE GOVERNANCE

3.1 Members of the Board of Directors

The executive members of the Board of Directors, Messrs. Alfred Gantner, Urs Wietlisbach and Dr. Marcel Erni, do not hold any material management positions or any board membership outside Partners Group Holding. The texts below provide information on the professional history and education of each member of the Board of Directors, including other activities and functions such as mandates on boards of important corporations, organizations and foundations, or permanent functions for important interest groups.

Alfred Gantner is a founding partner of Partners Group and serves as the firm's executive chairman, leading the business strategy and corporate development of the firm. As a member of both the private equity and hedge fund investment committee, he has been instrumental in building the firm's private equity and hedge funds investment management business and participated in a large number of private equity (primary, secondary and direct investments) and hedge fund investments on a global basis. Prior to founding Partners Group, Mr. Gantner worked for Goldman Sachs & Co. where, after stays in New York and London, he built up an institutional client base in Switzerland. He started his career in the securities trading department of the UBS Private Banking Group (Cantrade) in Zurich and Geneva. He holds an MBA degree from the Marriott School of Management at Brigham Young University, USA.

Dr. Marcel Erni is a founder of Partners Group, a member of both the business development committee and the private equity investment committee and serves as an executive vice chairman. As Chief Investment Officer (CIO) he is responsible for the firm's investment strategy and development. He has been pivotal in building the firm's direct investment business and has extensive private equity investment experience both in direct and fund investments. In his former function as co-head of the hedge funds investment management group, he was instrumental in building the firm's hedge fund business. Prior to founding Partners Group, Mr. Erni was a private banker at Goldman Sachs & Co. in Zurich. Previously, he was a management consultant at McKinsey & Co. He holds an MBA degree from the University of Chicago and a doctorate and master's degree in finance and banking from the University of St. Gallen (HSG), Switzerland.

Urs Wietlisbach is a founder of Partners Group, a member of both the business development committee and private equity investment committee and serves as an executive vice chairman. As Chief Markets Officer (CMO) he is responsible for the markets strategy and development as well as client relationship management. He was initially responsible for the firm's partnership investment activities and instrumental in building Partners Group's private equity fund portfolio and a global industry network. Later, he also focused on business development responsibilities, first in Europe, and subsequently in the USA and the Asia-Pacific region. Prior to founding Partners Group, Mr. Wietlisbach was an executive director at Goldman Sachs & Co. where, after assignments in London and New York, he was appointed head of the firm's institutional clients business in Switzerland. Previously, he was a relationship manager for multinational corporate clients at Credit Suisse in New York and Zurich. He holds a master's degree in business administration from the University of St. Gallen (HSG), Switzerland.

Ulrich Fehring has been an Advisor to and Member of the Board of Directors of Partners Group since 1998. Additionally, Mr. Fehring has acted as manager of Partners Group (Deutschland) GmbH since June 2005. Previously, he served in various capacities with the Warburg Group, Schröder Münchmeyer Hengst, Bank in Liechtenstein and Credit Suisse Deutschland. His last assignment with Credit Suisse Deutschland was as Chief Executive Officer of the group's activities in Germany. His assignments were in Switzerland, Germany, New York and London. Ulrich Fehring holds other board mandates (Aufsichtsratsvorsitzender) with Lupus alpha KAG, Frankfurt (asset management firm) and with Pensionskasse für die Deutsche Wirtschaft, Duisburg. Mr. Fehring holds a commercial apprenticeship degree. Apart from the function at Partners Group (Deutschland) GmbH mentioned above, neither Mr. Fehring nor any of his close family members have ever been members of the senior management of Partners Group Holding or any of its subsidiaries, nor do they have any significant business connections with either Partners Group Holding or one of its subsidiaries. Mr. Fehring does not exercise any official functions or hold a political post. Mr. Fehring does not have any permanent management/consultancy functions for significant domestic and foreign interest groups.

Robert Schenker has been an Advisor to and Member of the Board of Directors of Partners Group since 1998. Previously he held various positions at the former Swiss Bank Corporation – now part of UBS – in New York and Switzerland. His last assignments with Swiss Bank Corporation were in Zurich as Chief Executive Manager from 1990 to 1996 and in Basle as a Member of the Executive Board of Swiss Bank Corporation in Switzerland in 1997. Robert Schenker holds board mandates with SAM Sensory and Marketing International AG, Cham; ADECHSA GmbH, Zug (subsidiary of GlaxoSmithKline plc, London); Stawin AG, Winterthur; Zoo Zurich AG and is president of WWF Switzerland. Mr. Schenker holds a Swiss Commercial Diploma and a Standard and Advanced Certificate of the American Institute of Banking, New York. Neither Mr. Schenker nor any of his close family members have ever been members of the senior management of Partners Group Holding or any of its subsidiaries, nor do they have any significant business connections with either Partners Group Holding or one of its subsidiaries. Apart from those mentioned above, Mr. Schenker does not exercise any official functions, hold a political post or have any permanent management/consultancy functions for significant domestic and foreign interest groups.

Dr. Wolfgang Zürcher is a member of the board of directors of Partners Group and a partner of Wenger & Vieli, Attorneys-at-Law. He advises national and international clients with respect to mergers and acquisitions, capital markets and banking law. Before joining Wenger & Vieli in 1996, Dr. Zürcher worked as an assistant at the chair of corporate and banking law at the University of Zurich and with an international law firm in the United States. Wolfgang Zürcher holds a doctorate in law from the University of Zurich as well as an LL.M. degree from the University College, London. Neither Dr. Zürcher nor any of his close family members have ever been members of the senior management of Partners Group Holding or any of its subsidiaries, nor do they have any significant business connections with either Partners Group Holding or one of its subsidiaries. Dr. Zürcher does not exercise any official functions or hold a political post. Dr. Zürcher does not have any permanent management/consultancy functions for significant domestic and foreign interest groups.

3.2 Cross-involvement

There are no cross-involvements with the Boards of Directors of other listed companies.

3.3 Elections and terms of office

The Board of Directors consists of at least three members, all of which are elected individually (staggered renewal) by the shareholders' meeting, usually for a term of three years, unless the shareholders' meeting establishes different terms of office for individual members. The year of first appointment to the Board of Directors and the expiry of the current term of each member are listed in the table at the beginning of section 3. There are no limits on terms of office.

3.4 Internal organizational structure

The Board of Directors has adopted written internal regulations, the Rules of the Organization and of Operations (ROO), for the management of the company and of its subsidiaries pursuant to article 716b of the Swiss Code of Obligations (Company Law), the rules of the SWX Swiss Exchange and the company's Articles of Association.

The Board of Directors has ultimate responsibility for the management of Partners Group Holding. While three members are non-executive, the three executive members of the Board of Directors also assume management responsibilities.

Once a year, during the first Board meeting following the Annual General Meeting of Shareholders, the Board of Directors appoints its Chairman from amongst its members, and appoints its secretary, who need not be a member of the Board of Directors. The Board of Directors meets as often as business requires, but no less than once a year; in 2006, 5 meetings were held, which each lasted approximately 3 hours. The Board of Directors has a quorum if the majority of its members are present. Resolutions are adopted with the majority of the votes of the members present. In the event of a tie, the Chairman casts the deciding vote. Resolutions by circular letter require the absolute majority of all members of the Board of Directors.

The Board of Directors has established three sub-committees: the Risk and Audit Committee, the Nomination and Compensation Committee and the Business Development Committee. Each committee advises the Board on the matters specified below, often with the assistance of the Executive Board and others involved in the management of Partners Group Holding. The members and chairmen of these committees are determined by the Board of Directors.

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Any of the committee members may call committee meetings. In order for resolutions to be valid, the majority of a committee's members must be present (physically or by phone/video conference) at the meeting. All resolutions must be approved by unanimous consent; otherwise the business will be transferred back to the full Board of Directors. Resolutions adopted by way of a circular resolution are permissible.

Risk and Audit Committee

The Risk and Audit Committee is in charge of ensuring diligent performance of internal and external auditing as well as financial controlling in addition to performing other tasks related to risk management. The Risk and Audit Committee approves internal audit's organization and tasks, orders the performance of specific audits and supervises internal audit's activities. As of 31 December 2006, the members of the Risk and Audit Committee were Messrs. Robert Schenker (Chair), Alfred Gantner and Dr. Wolfgang Zürcher. The Risk and Audit Committee held three meetings in 2006, which each lasted approximately two hours and were all also attended by internal audit. The CEO of Partners Group Holding regularly attends Risk and Audit Committee meetings. The majority of the committee members were present at all meetings.

Nomination and Compensation Committee

The Nomination and Compensation Committee advises the Board of Directors and the Executive Board regarding: (i) the composition of the Board of Directors and (ii) the remuneration policy and strategy for directors and personnel. As of 31 December 2006, the members of the Nomination and Compensation Committee were Messrs. Ulrich Fehring (Chair), Alfred Gantner and Urs Wietlisbach. The Nomination and Compensation Committee met once in November 2006 for approximately two hours to discuss the annual compensation for the Board of Directors and the Executive Board as well as to confirm the overall compensation policy.

Business Development Committee

The Business Development Committee advises the Board of Directors and the Executive Board on matters of general policy and strategy, as well as on significant issues regarding strategic development. As of 31 December 2006, the members of the Business Development Committee were Messrs. Alfred Gantner (Chair), Urs Wietlisbach and Dr. Marcel Erni. The Chief Executive Officer and Chief Operating Officer are

advisers to the Business Development Committee, although they do not have voting rights. The Business Development Committee meets bi-weekly for approximately two hours to discuss strategic matters of the firm. The majority of the meetings throughout the year were attended by all committee members, as well as by the non-voting advisers.

3.5 Definition of areas of responsibility

The Board of Directors has delegated the day-to-day management of Partners Group Holding to the Executive Board unless provided otherwise by law, the Articles of Association or as described below. The Board of Directors has the right to issue specific rules for this purpose and to form the respective committees to determine the principles of business policy, the risk policy of the various business sectors as well as the authority and responsibilities of each of the Company's bodies.

The positions of the Chairman of the Board of Directors and the Chief Executive Officer are held by two separate persons, thus ensuring a system of internal checks and balances and an independence of the Board of Directors from the day-to-day management of the company, although the Chairman of the Board of Directors periodically attends the meetings of the Executive Board.

Apart from the non-transferable functions mentioned in the law and in the Articles of Association, the Board of Directors has a number of additional duties and powers, including, among other things, resolutions regarding the establishment of branch offices, all transactions in connection with real estate (outside of investment activities), establishment of employment policies, all activities pertaining to the shareholder register, acceptance of audit reports and budgets and the periodic review of internal organization structures.

Responsibilities delegated to the Executive Board of Partners Group Holding include the following:

1. direct management and conduct of the Company's business, ongoing monitoring of transactions within the scope of and with reference to the rules, directives, authority and responsibilities, individual resolutions and limits issued by the Board of Directors;
2. entering into business transactions to the extent these are within the limits established by rules, directives, authority and responsibilities, individual resolutions and limits set by the Board of Directors;

3. preparation and activation of directives, policies and job descriptions for employees to the extent this responsibility is not reserved to the Board of Directors;
4. employment and termination of employees within the scope of the limits established in the Rules on Authority and Responsibilities;
5. organization, management and implementation of accounting, financial planning and reporting including preparation of the management report and the annual financial statements for the attention of the Board of Directors;
6. preparation of the budget for approval by the Board of Directors;
7. execution of the resolutions adopted by the Board of Directors;
8. organization, attendance and coordination of pension benefit institutions;
9. organization of insurance management;
10. organization of risk management;
11. informing all executives regarding resolutions adopted by the Board of Directors and by the Executive Board concerning them; and
12. introduction of motions regarding any business to be submitted to the Board of Directors.

3.6 Information and control instruments vis-à-vis the senior management

The Board of Directors is kept informed of the activities of the Executive Board through a number of control instruments. The Executive Board is in a constant dialogue with the executive members of the Board of Directors (at least bi-weekly through the Business Development Committee) about the general course of business, the financial situation

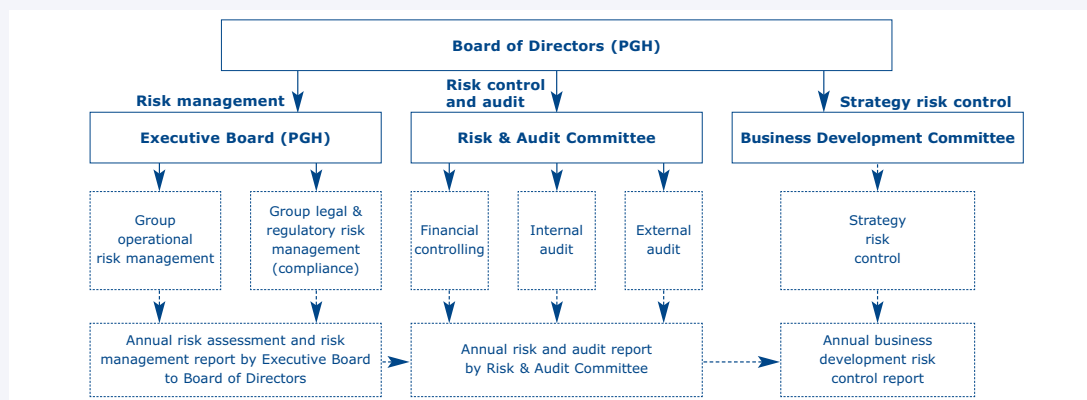
of the Company and any developments or events of importance to the Company and its business. In the event of extraordinary incidents or developments, the Executive Board will notify the chairman without delay. In addition, the three executive members of the Board of Directors receive the weekly Executive Board meeting documentation including the meeting minutes and are thus kept aware of all current events.

The Executive Board must submit decisions beyond the ordinary management or decisions that carry major implications, including, but not limited to decisions specifically reserved to the Business Development Committee or the Board of Directors, to the Business Development Committee or the Board of Directors, respectively.

The General Counsel of Partners Group Holding attends Executive Board meetings and takes an advisory role in order to ensure the compliance with all legal and regulatory requirements. The General Counsel is in particular responsible for the internal control of and compliance with third-party or regulatory obligations of the group entities as well as products and mandates.

3.6.1 Group Risk Management

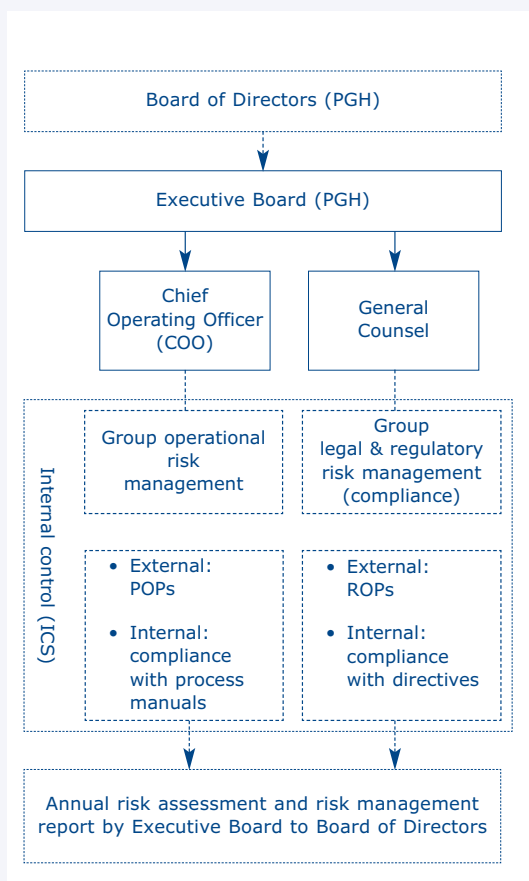
Partners Group Holding is aware that the proper assessment and control of risk are critical for the continued success of the Company. The Board of Directors holds the ultimate responsibility for the establishment of a framework relating to the group risk management, which comprises the following elements, (i) risk management, (ii) risk control and audit, and (iii) strategy risk control. The overall risk management of Partners Group Holding is illustrated below:



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3.6.1.1 Risk management

The ongoing risk management is delegated to the Executive Board, which provides an annual report to the Risk and Audit Committee. In establishing appropriate processes regarding the risk management, a distinction is made between group operational risk management and group legal and regulatory risk management. In these areas, Partners Group has created internal task control systems for product obligations and procedures (POPs) and regulatory obligations and procedures (ROPs). The risk management and control within both areas together form the internal control system as set out in the diagram below:



3.6.1.2 Risk control and audit

The risk control and audit of Partners Group Holding is delegated to the Risk and Audit Committee, which establishes appropriate processes regarding financial controlling, inter-

nal and external auditing. The committee provides an annual risk control and audit report to the Board of Directors.

The internal audit department established by the Board of Directors is an independent, objective assurance and consulting entity designed to add value and improve the firm's operations. Internal audit conducts a periodic review and prepares written reports on audit findings and the status of corrective actions. The Head Internal Audit reports administratively to the Chief Executive Officer and functionally to the Risk and Audit Committee of the Board of Directors.

3.6.1.3 Strategy Risk Control

The Business Development Committee within the Board of Directors has the responsibility to establish appropriate processes regarding the group strategy risk control. The Business Development Committee provides a strategy risk control report to the Board of Directors on an annual basis.

3.6.2 Management Information System

Partners Group Holding has a management information system (MIS) in place to further support the internal control and information procedures as well as the financial controlling of the firm. A comprehensive report is provided to the Chief Executive Officer and Chief Operating Office on a monthly basis and to the Board of Directors on a quarterly basis while ad-hoc reports can be generated as needed.

3.6.3 Conflict resolution

Partners Group strives to avoid situations that result in conflicts of interest. However, in certain situations conflicts cannot be avoided and for such instances the Conflict Resolution Board has been appointed by the group companies as the governing committee for handling all conflicts of interest within the group. The members of the Conflict Resolution Board are the Executive Chairman (Chair), the Chief Executive Officer, the Chief Financial Officer and the General Counsel.

4. Executive Board

In accordance with the articles of association and the rules of the organization and of operation enacted by the Board of Directors on 25 November 2005, the Board of Directors has delegated the operational management of the company to the Executive Board, unless otherwise required by law, the articles of association or the ROO.

4.1 Members of the Executive Board

The table below shows the current composition of the Executive Board:

Name	Joined Partners Group in	Nationality	Age	Position
Steffen Meister	2000	Swiss	36	Chief Executive Officer
Kurt Birchler	1997	Swiss	38	Chief Financial Officer
Philipp Gysler	1998	Swiss	39	Head Private Alternative Investment Strategies
Felix Haldner	2001	Swiss	43	Head Investment Solutions
Michel Jacquemai	2001	Swiss	40	Head Public Alternative Investment Strategies
Erik Kaas	2001	German	37	Head Markets
Jürg Wenger	1999	Swiss	47	Chief Operating Officer

None of the members of the Executive Board is a member of governing and supervisory bodies of important Swiss or foreign organizations outside of Partners Group. None of the members holds permanent management and consultancy functions for important Swiss or foreign interest groups, and none of the members has official functions or holds political posts. None of the members of the Executive Board has carried out tasks for Partners Group prior to joining the firm, except Felix Haldner, who acted for Partners Group in a consultant capacity during his employment at PricewaterhouseCoopers.

Steffen Meister is the Chief Executive Officer of Partners Group, and leads the executive board. He is a non voting member of the Business Development Committee. Previously, he served as deputy CEO of Partners Group, and prior to that, he was head of investment solutions, where he was responsible for developing and structuring the firm's transactions and investment products. He also used to be a member of Partners Group's investment committee for listed private equity investments. As a member of the hedge funds investment committee, he is materially involved in defining the firm's hedge fund investment strategy. Prior to joining Partners Group, Mr. Meister spent five years at Credit Suisse Financial Products (CSFP) in London and Zurich. At CSFP, he worked as a derivatives specialist focusing on structured solutions for corporate finance transactions. Previously, he had several assignments at Swiss Reinsurance Company and the Department of Mathematics of the Swiss Federal Institute of Technology (ETH). He holds a master's degree in mathematics from the Swiss Federal Institute of Technology, Zurich, Switzerland.

Kurt Birchler is Chief Financial Officer, a member of both the executive board and the quantitative private equity steering committee. Mr. Birchler joined the firm shortly after its inception. In his role as the firm's Chief Financial Officer, he was instrumental in building the group-wide finance department of Partners Group and all its relevant processes and systems, including reporting and controlling. Prior to joining Partners Group, Mr. Birchler worked for KPMG in the audit team serving USA and Japanese banks. Previously, he worked as a credit officer and recovery manager for mid-size companies in the real estate and trading sector at Swiss Bank Corporation (now UBS) and the Cantonal Bank of Zurich. He holds a Swiss Federal Diploma in Banking and an executive master's degree in corporate finance from the University of Central Switzerland.

Philipp Gysler is a member of the executive board, head of the private alternative investment strategies department and a member of the private equity investment committee. Previously, he held various private equity investment management positions at Partners Group and was instrumental in building Partners Group's portfolio of venture capital investments in Europe and the USA. Later, he established and subsequently managed Partners Group's New York based investment practice before relocating to Zug and assuming responsibility for the firm's private equity investment team. Prior to joining Partners Group, Mr. Gysler worked for UBS Warburg (now UBS Investment Bank) in Zurich, where he advised institutional clients regarding equities, derivatives and risk optimization strategies. He holds a master's degree in business administration from the University of St. Gallen (HSG), Switzerland.

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Felix Haldner is a member of the executive board and head of the investment solutions department. He is materially involved in private equity deal structuring and execution, respectively for advice on tax, legal, regulatory and structural matters, relating to direct and fund investments. He has developed and launched many major private equity investment products for Partners Group's institutional and private clients in Europe and overseas. Furthermore, he was instrumental in developing and implementing the firm's managed account platform and several major hedge funds investment products. Prior to joining Partners Group, Mr. Haldner was a partner at PricewaterhouseCoopers where he advised multinational insurance companies, investment management and banking clients on strategic tax planning matters and investment products. In 1998, 1999 and 2000 he was elected by "International Tax Review" as one of the top tax advisors in Switzerland. He holds a master's degree in business law from the University of St. Gallen (HSG), Switzerland, is admitted to the Swiss Bar and is a Certified Swiss Tax Expert.

Michel Jacquemai is a member of the executive board, head of the public alternative investment strategy department and chairman of the hedge funds investment committee. Over the last decade, he has established a global network within the hedge fund industry and is a pioneer in the managed accounts approach in hedge fund investing. Prior to joining Partners Group, Mr. Jacquemai co-founded and was the CEO of saisGroup, which was acquired by Partners Group in 2001. Previously, he managed institutional derivative portfolios and mutual funds at Credit Suisse Asset Management (CSAM). He also developed and managed CSAM's first alternative investment strategies product. He formerly was a derivatives and equities trader and interim CFO at OZ Zurich AG, after being with Eastman Chemical (Europe). He holds an economics and business administration degree from the Lucerne School of Economics and Business Administration and the Certified European Financial Analyst (EFFAS) designation.

Erik Kaas is a member of the executive board and head of the markets department. The markets team is globally responsible for deal and manager origination, business development and client relationship management. Erik Kaas was pivotal in building up the markets team to its global reach and expanding Partners Group's client base in Northern Europe. He has previously been a member of the firm's investment committee for listed private equity invest-

ments. Based on his relationships to selected hedge fund managers in Europe and the USA, he also contributes to Partners Group's manager origination process. Prior to joining Partners Group, Mr. Kaas worked for eight years at Goldman Sachs & Co. He spent his first five years at Goldman Sachs in London, New York and Tokyo before relocating to Zurich, where he was responsible for the institutional products business in Switzerland and Austria. He started his career in finance in the swaps and OTC bond options group at Liberty Eurobrokers in London. He holds a dual degree in business administration from the European Partnership of Business Schools in London and Reutlingen, Germany.

Jürg Wenger is Chief Operating Officer, a member of the executive board and a non voting member of the Business Development Committee as well as head of the resources department. He has been instrumental in building Partners Group's private equity administration, accounting and reporting systems and operations, as well as Partners Group's hedge fund platform and operations in Zug and Guernsey. Prior to joining Partners Group, Mr. Wenger spent 11 years with UBS, where he was head of the Central Switzerland resources division. Previously, he managed the private clients and management support unit at UBS in Zug. He holds a master's degree in business law from the University of Zurich, Switzerland.

4.2 Management contracts

Partners Group Holding has not entered into any management contracts with companies or individuals not belonging to the group.

5. Compensation, shareholdings and loans

5.1 Content and method of determining the compensation

The compensation of the members of the Board of Directors as well as the members of the Executive Board is set by the Board of Directors, who is advised in these matters by the Nomination and Compensation Committee. Please also see section 3.4 for further information regarding the Nomination and Compensation Committee.

5.1.1 Compensation levels

Executive members of the Board of Directors

The executive members of the Board of Directors receive an annual compensation of CHF 300'000. As co-founders of Partners Group, all three executive members of the Board of Directors hold significant shareholdings in the company and thus participate in the success of the company through dividend payments.

Non-executive members of the Board of Directors

The remuneration of the non-executive members of the Board of Directors consists of a fixed annual compensation of CHF 50'000 with no variable components, which is paid in either cash or options.

Members of the Executive Board

The annual remuneration of the Chief Executive Officer (CEO) is proposed by the Nomination and Compensation Committee, and approved by the Board of Directors. The CEO's compensation consists of a base salary which is paid in cash on a monthly basis as well as a variable bonus and may also include stock options. The variable portions are performance-based and dependent on the defined corporate goals for the year being met while taking current market developments into consideration.

The annual compensation for the further members of the Executive Board is proposed by the Nomination and Compensation Committee with the involvement of the CEO, and approved by the Board of Directors. As with the CEO's compensation, the remuneration consists of a base salary, which is paid in cash on a monthly basis as well as a variable bonus and may also include stock options. The variable portions are performance-based and dependent on the attainment of the business department goals while taking the corporate goals as well as the current market environment into consideration.

5.1.2 Determination process

At its annual meeting, the Nomination and Compensation Committee reviews the compensation for the members of the Board of Directors as well as of the Executive Board. As well as proposing compensation changes, if any, for the members of the Board of Directors, the Committee proposes the coming year's annual salary for the members of the Executive Board and the variable component (bonus and stock options) for the current year, with the performance

assessment mainly based on qualitative criteria and further augmented by quantitative criteria where measurable and appropriate. After a detailed and thorough review of the business unit, business group, business department and corporate goals for the year with the involvement of the appropriate professionals, the Nomination and Compensation Committee convenes to set the compensation levels it will propose to the Board of Directors. At this meeting, the Board of Directors is presented with overall statistics on compensation payments and developments within the firm and is presented with and ratifies the detailed compensation proposals for all executive and non-executive members of the Board of Directors as well as of the Executive Board.

5.2 Total compensation

The remuneration (compensation and post-employment benefits, excluding options) paid to the non-executive members of the Board of Directors for the financial year 2006 was CHF 25'499 in aggregate.

The total compensation (base salary, variable bonus and employer's contribution to retirement plans, excluding options) paid to the three executive members of the Board of Directors and the members of the Executive Board for the financial year 2006 was CHF 4.8 million. There are no arrangements entitling the executive members of the Board of Directors or the members of the Executive Board to special compensation in the case of termination of employment without cause. Termination is subject to a six-month notice period during which salary continues to be paid.

The following chart shows an overview of the remuneration paid to the members of the Board of Directors and the Executive Board.

	2006	2005
Non-executive members of the Board of Directors		
Short-term employment benefits	20'000	239'597
Post-employment benefits	5'499	-
Executive members of the Board of Directors and Executive Board		
Short-term employment benefits	4'380'000	4'815'000
Post-employment benefits	441'145	474'230

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5.3 Compensation for former members of governing bodies

No members of governing bodies left Partners Group Holding during the financial year.

5.4 Share allotment in the financial year

No shares were allotted to either any member of the Board of Directors or of the Executive Board during the financial year 2006.

5.5 Share ownership

	Number of shares held
Non-executive members of the Board of Directors and parties closely linked	12'000
Executive members of the Board of Directors and Executive Board and parties closely linked	13'634'270

5.6 Options

	Number of options held
Non-executive members of the Board of Directors and parties closely linked	8'549
Executive members of the Board of Directors and Executive Board and parties closely linked	534'000

Information on the definition of these options is disclosed in the table below:

	2006	2005
Non-executive members of the Board of Directors		
Amount allotted	8'549	-
Exercise period	1.12.12–30.11.16	-
Exercise ratio	1:1	-
Exercise price (in CHF)	138.00	-
Executive members of the Board of Directors and Executive Board		
Amount allotted	186'900	347'100
Exercise period	1.12.12–30.11.16	1.1.11–31.12.15
Exercise ratio	1:1	1:1
Exercise price (in CHF)	138.00	44.94

5.7 Additional fees and remuneration

Fees in the amount of CHF 0.4 million were billed to Partners Group Holding or one of its subsidiaries for consultancy services by a party closely linked to one of the non-executive members of the Board of Directors.

5.8 Loans

No loans have been granted to any member of either the Board of Directors or the Executive Board or to parties closely linked to them.

5.9 Highest total compensation for a member of the Board of Directors

The total compensation to the highest-paid member of the Board of Directors amounted to CHF 0.3 million for the financial year 2006.

	in CHF
Base salary	198'000
Variable bonus	102'000
Employer's contribution to retirement plan	46'712
Options (fair value)	-
Total	346'712

6. Shareholders' participation*6.1 Voting rights & representation measures*

Each share entitles to one vote. Entitled to attend shareholders' meetings and to exercise voting rights are shareholders recorded with voting rights in the shareholder register as of a qualifying date prior to the shareholders' meeting set by the Board of Directors. Registration in the shareholder register with the attached voting rights is restricted by the limits on transferability and nominee registration as set forth in section 2.6 above.

All registered shareholders are invited to attend shareholders' meetings. If they do not wish to attend, any shareholder may be represented at the shareholders' meeting by (i) a legal representative who needs not be a shareholder, (ii) a representative of the Company, (iii) an independent proxy or (iv) their bank. The Board of Directors will decide as to whether the authority/proxy is recognized.

6.2 Statutory quorums

The articles of association for Partners Group Holding provide that, unless provided otherwise by mandatory provisions of law, the following resolutions of the shareholders' meeting require at least two-thirds of the represented votes and the absolute majority of the represented nominal value of shares:

- the cases provided for by law in Art. 704 para. 1 of the Swiss Code of Obligations;
- dissolution of the Company with liquidation;
- reversal or amendment of the transfer limitation as set forth in section 2.6 above.

Votes and elections in the shareholders' meeting are open unless provided otherwise by the Chairman or decided otherwise by the shareholders' meeting.

6.3 Convocation of shareholders' meetings

The Annual General Meeting of Shareholders (AGM) takes place within six months after the close of the financial year. All registered shareholders receive a written invitation to the AGM including detailed descriptions of the items to be discussed and the motions of the Board of Directors no later than 20 days before the date of the AGM. The complete meeting agenda is also published in the Swiss Official Gazette of Commerce (SHAB).

Shareholders representing at least one-tenth of the share capital may at any time request that a shareholders' meeting be called and a specific item be placed on the agenda. The request for calling a meeting and/or for placing an item on the agenda must be submitted in writing at least 45 days ahead of the meeting by stating the item on the agenda and the motions to be introduced by the shareholders.

6.4 Placing of items on the agenda

Shareholders representing at least one-tenth of the share capital may submit proposals to be placed on the agenda at a shareholders' meeting, provided these items are received by the Board of Directors no later than 45 days prior to the meeting by stating the item on the agenda and the motions to be introduced by the shareholders.

6.5 Inscriptions into share register

The general rules for registration as a shareholder apply as described above in sections 2.4 and 2.6. The qualifying date for the registration of shares is defined by the Board of Directors for every shareholder meeting.

7. Changes of control and defense measures

7.1 Opting-out

Partners Group Holding has elected to opt out of the rule that an investor acquiring 33 1/3% of all voting rights has to submit a public offer for all outstanding shares.

7.2 Clauses on change of control

The employment contracts with the members of both the Board of Directors and the Executive Board do not contain any clauses activated by a change in control. Partners Group Holding also has no provisions for "golden parachutes" in place.

8. Auditors

8.1 Duration of mandate and term of office

The consolidated financial statements and the statutory accounts of Partners Group Holding are audited by KPMG Ltd. The statutory and group auditors are elected for one-year periods at the Annual General Meeting of shareholders. KPMG Ltd was first elected statutory and group auditor on 21 November 2001. The lead auditor, Swen Wyssbrod, has been in charge of the mandate since 3 March 2006.

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8.2 Auditing Fees

For the financial year 2006, KPMG Ltd and other KPMG companies received a total of CHF 0.7 million for audit services.

8.3 Additional fees

In addition, KPMG Ltd and other KPMG companies received CHF 0.5 million in fees for tax advice and other services rendered to Partners Group Holding and its subsidiaries for the financial year 2006.

8.4 Supervision and control vis-à-vis the external auditors

The Board of Directors is responsible for the acceptance and processing of the reports from the statutory and group auditors. In this, the Board of Directors is supported by the Risk and Audit Committee, which periodically monitors the qualification, independence and performance of the external auditors.

The Risk and Audit Committee primarily bases its evaluation on a presentation of all audit findings by KPMG Ltd. The assessment further includes documents such as the Management Letter as well as oral and written statements made by KPMG Ltd. concerning individual aspects or factual issues in connection with the accounting and the audit. Among others, evaluated issues include risk factors, processes and the internal control system (see also section 3.6.1 on Group Risk Management).

Key factors in assigning the external audit mandate to KPMG Ltd were the quality of service provided combined with the international consulting expertise in regard to audit and accounting matters offered by the company. These factors are subject to a periodic review, in which the performance is assessed by applying the following criteria:

- weekly review meeting during audit process
- detailed audit budget proposal containing expected hours and the relevant hourly rate
- comprehensive debriefing after completion of audit, during which improvement suggestions on both sides are discussed

Please also refer to the sections concerning the Risk and Audit Committee (3.4) as well as Internal Audit (3.6.1.2) above.

9. Information policy

As a company listed on the SWX Swiss Exchange, Partners Group Holding is committed to pursuing an open, transparent and consistent communication strategy vis-à-vis its shareholders as well as the financial community.

Key dates for 2007 are as follows:

Event	Date
Annual General Meeting	27 April 2007
Pre-close announcement interim AuM	5 July 2007
Publication Interim Report	27 August 2007

All registered shareholders receive our annual reports, which provide an overview of all Partners Group Holding activities. The semi-annual and annual reports are also available for download on our website at www.partnersgroup.net. Partners Group Holding also distributes all current news via regular press releases. Shareholders and other interested parties may subscribe to press releases at www.partnersgroup.net to receive all information automatically upon publication via email. All this information can be found on our website at www.partnersgroup.net in the "Investor Relations" and "News" sections.

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