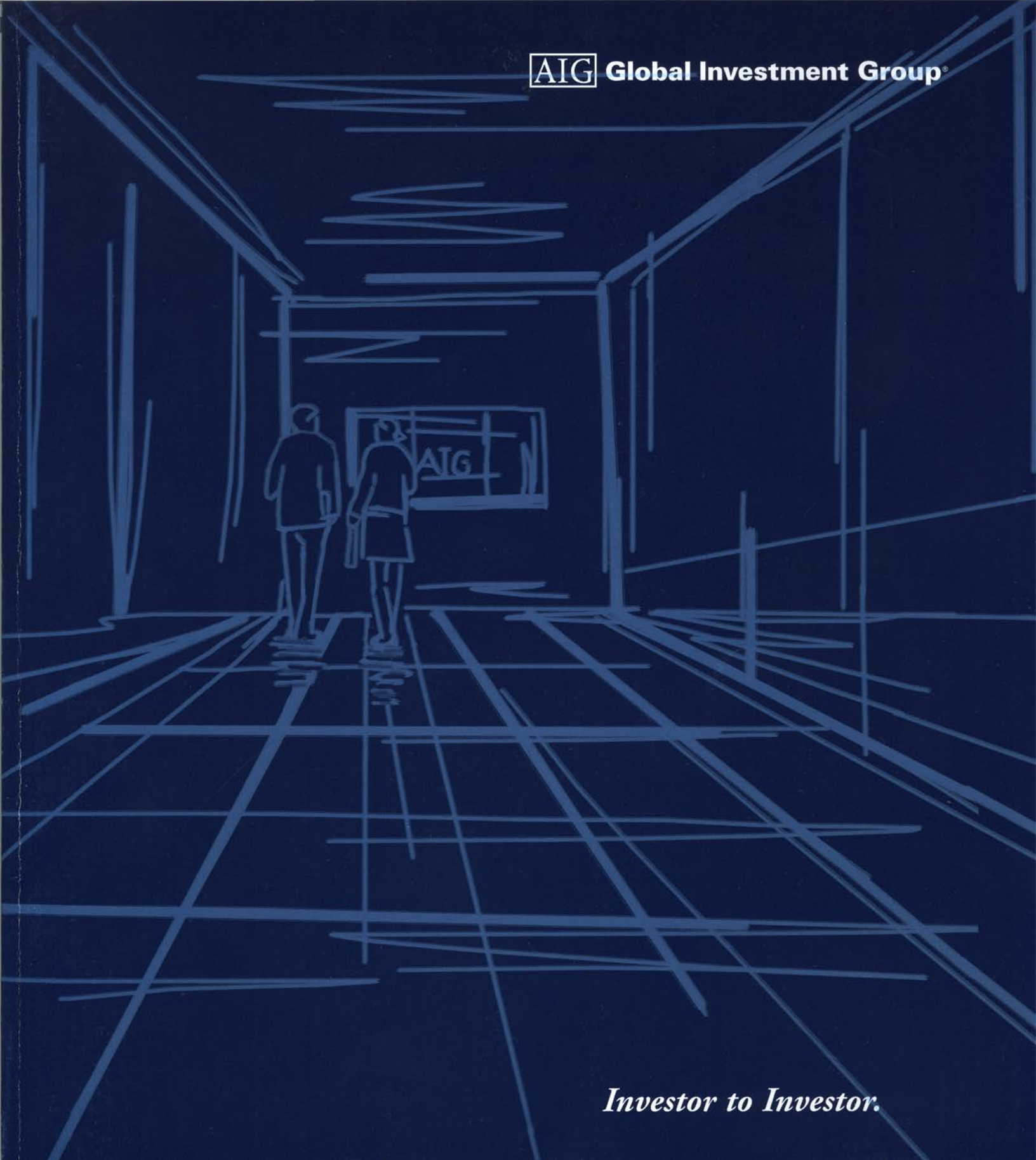


Annual Report

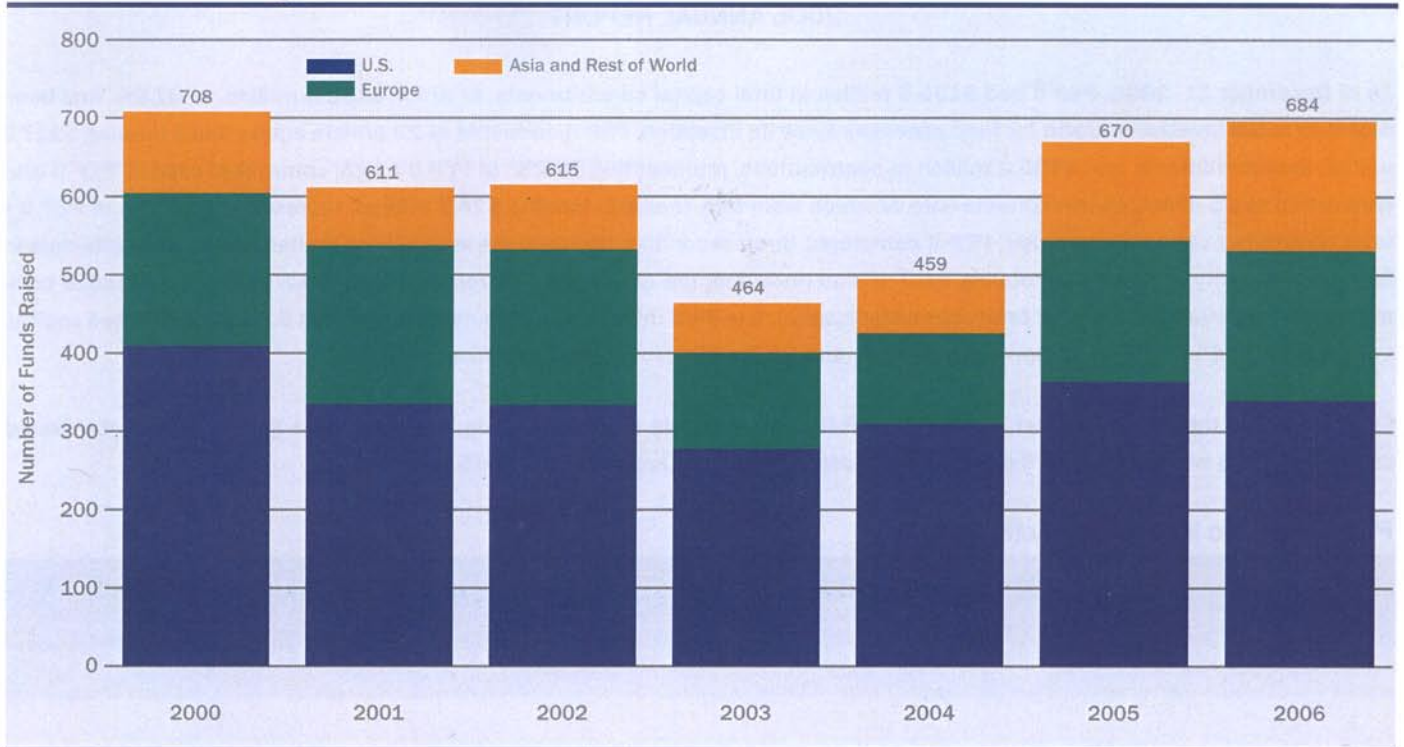
AIG PRIVATE EQUITY PORTFOLIO II, L.P.
2006 Annual Report

AIG Global Investment Group®



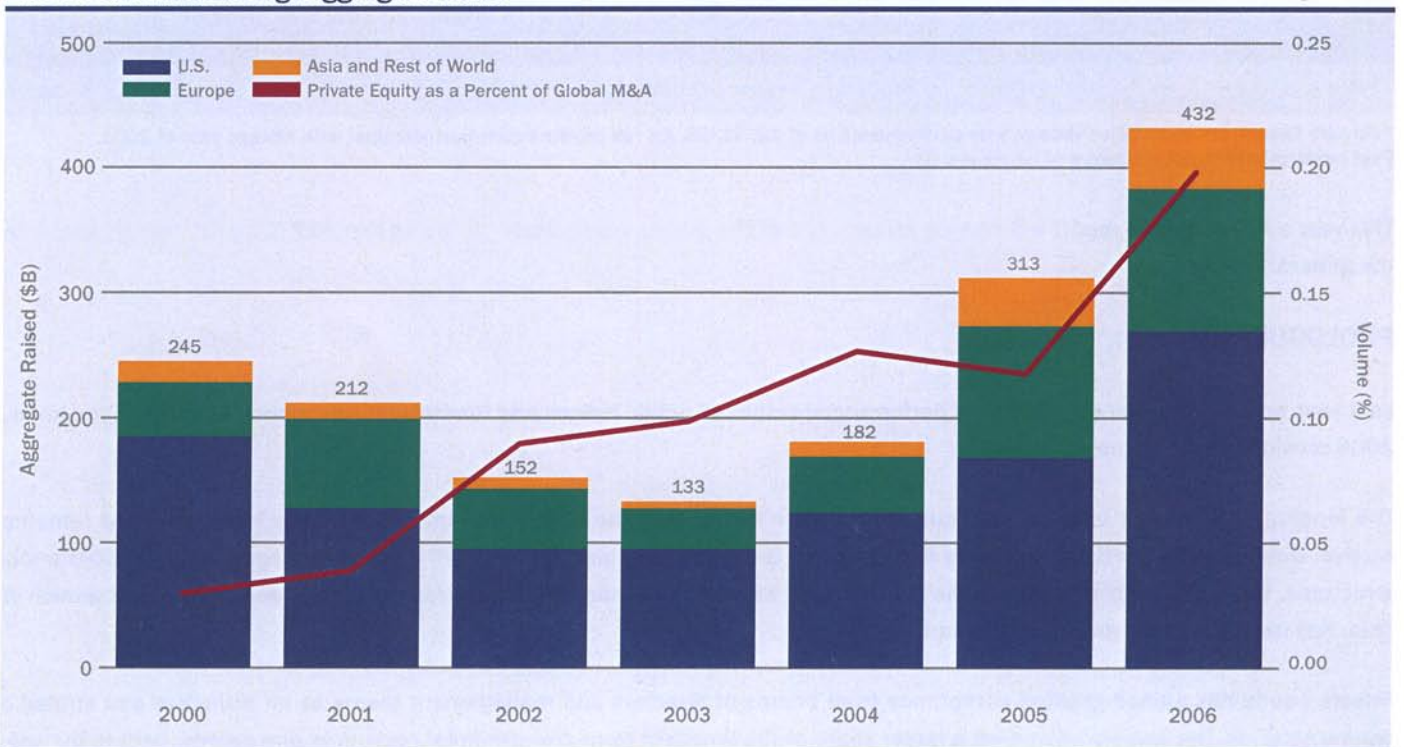
Investor to Investor.

2006 Total Fundraising: Number of Funds



Source: Private Equity Intelligence

2006 Total Fundraising: Aggregate Value



Source: Private Equity Intelligence

2006 proved to be another excellent year for global mergers and acquisitions (“M&A”), surpassing the record set in 2000. Global announced M&A activity reached a record of \$3.8 trillion, an increase of 37.9% over last year’s volume. Private equity firms continued to drive M&A activity in 2006, as deals with buy-side financial sponsor involvement announced during the year reached \$757.6 billion, or 19.9% of global M&A volume.²

² Thomson Financial Fourth Quarter 2006 Mergers & Acquisitions Review

Finally, performance across the asset class was strong during 2006, and private equity returns continued to outperform public indices. In 2006, Cambridge Associates' U.S. Venture Capital Index³ recorded a 17.6% return versus a 7.9% return for 2005, and its U.S. Private Equity Index⁴ returned 25.8% versus 27.4% for 2005. In 2004, these same statistics were 15.4% for the U.S. Venture Capital Index and 23.5% for its U.S. Private Equity Index. Venture Economics reported that 2006 returns for venture and buyout were 19.0% and 24.2%. In comparison to 2005, those same returns were 14.1%, and 28.9%, respectively.

U.S. PRIVATE EQUITY MARKET OVERVIEW

The U.S. market is a major focus for PEP II, since as of December 31, 2006, over 72.0% of invested capital was in U.S. companies.

2006 was a good year for U.S. public equity markets, with the S&P 500 Index generating a return of 15.8%. While there were periods of uncertainty, the economy proved to be even-keeled and resilient, an environment that benefited private equity. The federal funds rate has been held at 5.25% since June 2006, GDP grew at 3.3%, unemployment hit a five year low, and the Dow Jones Industrial Average broke through 12,000 and provided a push to 13,000 early in 2007. However, the year did not go without incident. There was a marked slowdown in housing, sub-prime lending woes, rising core inflation, a declining dollar, and slowing job growth.

The deluge of cheap and attractive debt, coupled with an increase in the number and size of private equity players has driven acquisition multiples to a 10-year high. The average purchase multiple of EBITDA in large LBOs has risen to 8.6x, up slightly from 8.2x in 2005. On an aggregate basis, purchase multiples of EBITDA in deals with EBITDA of \$50M or less decreased to 8.1x from 8.5x in 2005, although the fourth quarter of 2006 showed an average multiple of 8.8x. Of course, fueling much of this has been liberal debt, so it is not surprising to see that in 2006 the average debt-to-EBITDA multiple in LBOs with more than \$50 million of EBITDA was 5.4x, up from 5.3x in 2005. Average debt-to-EBITDA multiples in the middle market remained flat year-over-year at 4.7x.⁵

While the credit statistics of many leveraged businesses continue to, at least relative to recent years, deteriorate, the flexible structures provided by lenders may prevent and/or delay future liquidity issues for these companies. Lenders are currently viewed as a commodity and private equity professionals are manipulating the supply so that many deals include PIK toggles, equity cures, and are either covenant lite or completely free of covenants, just to name a few. As we said last year, "as long as there is an ample supply of capital, as is the case today, the leverage landscape will remain benign. However, this flow of money can turn on a dime, and when it does, it will prove to be a challenging time for many highly leveraged businesses. We hope that our self-selection will help to limit exposure to such companies."

Positives for the U.S. Private Equity Markets

- Spurred by increased regulations and activist shareholders, public markets continue to provide a fertile ground for LBO activity. The value of public-to-private deals has almost tripled since 2004, including a record \$150 billion of de-listings in 2006, of which \$97 billion occurred in the U.S.⁶
- Corporate profits continue to grow strongly. Net Debt to EBITDA for the non-financial corporate sector is now at a 20-year low, while the EBITDA interest cover ratio is at its best level in 30 years.⁷ This highlights the sizable opportunity for companies to be levered up.
- There still remains significant room for private equity to grow compared to historic levels. In market-cap relative terms, buyout levels would have to triple to reach 1980s peak levels.⁸

Past performance is not indicative of future results.

³The Cambridge Associates LLC U.S. Venture Capital Index®

⁴The Cambridge Associates LLC U.S. Private Equity Index®

⁵Standard & Poor's Leveraged Commentary & Data

⁶Take Privates Triple Since 2004, PrivateEquityOnline, January 2, 2007

⁷Private Equity in 2007, Credit Suisse, February 14, 2007

⁸Barbarians at the Gate, UBS Investment Research, February 12, 2007

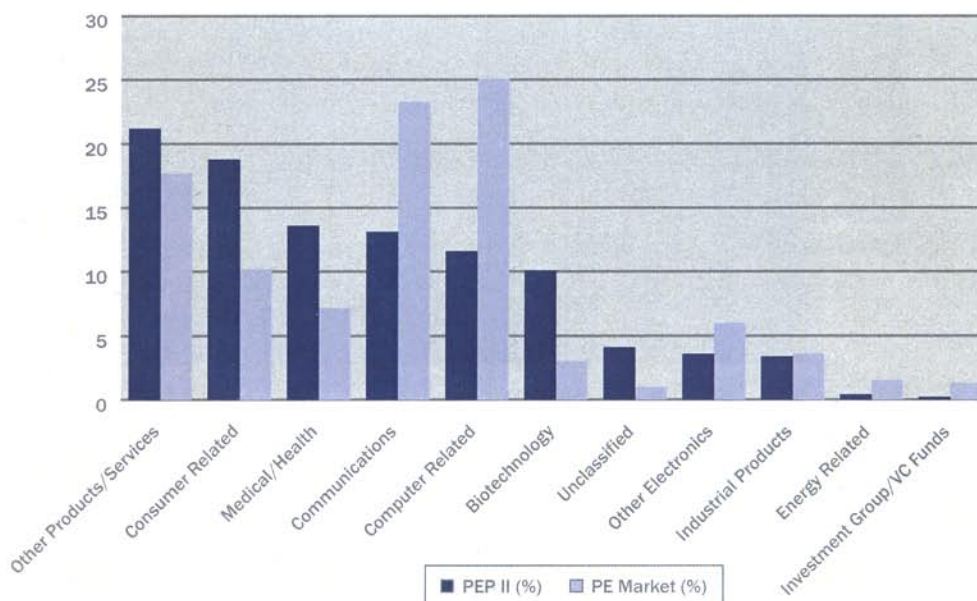
AIG Private Equity Portfolio II, L.P.
 Portfolio Comparison to Private Equity Market
 Industry Distributions as Percent of Cost as of December 31, 2006

Company Industry	PEP II (%)	PE Market (%)	Variance (%)
Other Products/Services	21.2	17.7	3.5
Consumer Related	18.8	10.2	8.5
Medical/Health	13.6	7.2	6.4
Communications	13.1	23.3	(10.2)
Computer Related	11.6	25.1	(13.5)
Biotechnology	10.1	3.0	7.1
Unclassified	4.1	1.0	3.1
Other Electronics	3.6	6.0	(2.5)
Industrial Products	3.4	3.6	(0.3)
Energy Related	0.4	1.5	(1.1)
Investment Group/VC Funds	0.2	1.3	(1.2)
Total	100.0	100.0	

Source: Thomson Financial Venture Economics

Communications and Computer Related investments fell below the benchmark by 10.2% and 13.5%, respectively. At the same time, Other Products/Services, and Consumer Related investments exceeded the benchmark by 3.5% and 8.5%, respectively.

Percent of Cost



Source: Thomson Financial Venture Economics

CVC EUROPEAN EQUITY PARTNERS III, L.P.

18 Grenville Street, St. Heiler, Jersey Channel Island HE4 8PX

KEY CONTACT: MR. MICHAEL D. SMITH

Inception September 2001

Partnership Size \$3.5 Billion

Strategy The Fund's main strategy is to "buy and build," and specializes in large management buyouts of companies in a wide range of industries located and operated in Europe.

Status of PEP II's Investment in CVC European Equity Partners III, L.P.

PEP II's Commitment: \$5,550 (\$000s)

	A	B	C	(B+C)	(B+C)-A	
Date	Capital Drawn	Current Unrealized Value	Distributions	Total Value	Gain/(Loss)	Net IRR
Dec-06	\$6,051	\$5,223	\$8,249	\$13,473	\$7,422	44.3%
Dec-05	\$6,051	\$4,775	\$4,516	\$9,291	\$3,240	32.0%
Dec-04	\$4,748	\$4,486	\$2,225	\$6,711	\$1,963	32.6%

Current Status Performance Rating: Above Expectations

CVC European Equity Partners III, L.P. ("Fund III") has made excellent progress in terms of generating value and cash returns to investors. Although only in its sixth year, the fund has already returned net cash of 1.4x commitments drawn. Fund III's IRR is currently 47% net to investors with a 2.7x multiple on a cash plus residual value on a cash drawn basis. During the first quarter of 2006, two cash distributions totaling \$631 million were made. These consisted mainly of proceeds from the sale of Spirit Group, the recapitalization of the Automobile Association, proceeds from the sale of approximately 50% of our residual holdings in Halfords and IG Group, and a qualified distribution. During the second quarter of 2006, a cash distribution of \$230 million was made. This consisted mainly of proceeds from the restructuring of Kappa following its merger with Smurfit, proceeds from the sale of a division of Retail Network, proceeds from the sale of Mister Minit, proceeds from the IPO of Debenhams and the exercising of the "Greenshoe" option, and a dividend from IG Group. During the third quarter of 2006, a cash distribution of \$902 million was made. This consisted mainly of proceeds from the sale of DT Group, proceeds from the sale of a division of Retail Network, proceeds from a small repayment of shareholder loan in Grupo Cortefiel, and a dividend from Halfords. During the fourth quarter of 2006, a cash distribution totaling \$707 million was made. This consisted mainly of proceeds from the sale of El Arbol, proceeds from the sale of two divisions of Retail Network, proceeds from the refinancing of Flint Group, proceeds from the partial disposal of the investment in IG Group, and further proceeds from the re-capitalization of the Automobile Association. In January 2007, CVC completed the recapitalization of Betafence, with Fund III receiving proceeds of approximately €26.5 million. In January 2007, CVC and PAI agreed to sell Provimi to Permira. The sale is expected to complete in March 2007, with CVC receiving approximately €250 million, representing a multiple of 2.2x original cost.

Portfolio Overview at December 31, 2006 (\$000s)

Current Portfolio

Active Investments:	
Above Cost	16
Below Cost	2
At Cost	0
Total	18
Cost	\$1,375,338
Value	\$4,348,271
Gain/(Loss)	\$2,972,933

