



## EUROCASTLE

### REG-Eurocastle Inv. Ltd Interim Results - Part 3

August 4, 2005

RNS Number:7149P

Eurocastle Inv. Ltd

Part 3 : For preceding part double-click [nRN1D7149P]

	Unaudited 30 June 2005 e'000	31 December 2004 e'000
Asset backed securities, available for sale (includes cash to be invested)	923,682	796,522
Asset backed securities pledged under repurchase agreements	289,703	467,962
Total asset backed securities	1,213,385	1,264,484

Cumulative net unrealised gains on available for-sale-securities and hedge instruments recognised in the statement of changes in equity were as follows:

	Unaudited 30 June 2005 e'000	31 December 2004 e'000
Unrealised gains on available-for-sale securities	10,562	7,833
Unrealised losses on available-for-sale securities	(1,310)	(1,229)
Unrealised (loss)/gain on hedge instruments (Note 14)	(6,179)	713
	3,073	7,317

#### 5. REAL ESTATE LOANS

			Gross Unrealised			Weighted Average			
	Current Face Amount	Amortised Cost Basis	Gains	Losses	Carrying Value	S&P Rating	Coupon	Yield	Maturity (Years)
	e'000	e'000	e'000	e'000	e'000				
Real estate loans	47,485	47,239	-	-	47,239	*	6.82%	8.27%	3.91

\* Included in real estate loans are loans with a total current face amount of e24.2 million and with an average rating of BB- from Standard and Poors.

Real estate loans with a carrying value of e14.07 million have been pledged to third parties in sale and repurchase agreements. In accordance with the revisions to IAS 39 Financial Instruments: Recognition and Measurement,

effective 1 January 2005, these loans have been reclassified as pledged assets as follows:

	Unaudited 30 June 2005 e'000	31 December 2004 e'000
Real estate loans	33,170	21,938
Real estate loans pledged under repurchase agreements	14,069	-
Total real estate loans	47,239	21,938

#### 6. OTHER ASSETS

	Unaudited 30 June 2005 e'000	31 December 2004 e'000
Interest receivable	11,379	7,800
Rent receivable	702	344
Deferred financing costs	-	217
Prepaid insurance	36	227
Derivative assets	76	990
Unsettled security transactions	417	-
Other assets	308	-
	12,918	9,578

Deferred financing costs represented costs associated with the issuance of a collateralised debt obligation and were offset against the proceeds of the issuance.

#### 7. INVESTMENT PROPERTIES

The table below shows the items aggregated under investment property in the consolidated balance sheet:

EUR '000 (unaudited)	Land & Buildings	Leasehold Property	Total
At 1 January 2005	303,480	15,034	318,514
Additions	404	20	424
Increase in fair value	446	67	513
At 30 June 2005	304,330	15,121	319,451

The property portfolio consists of 96 office and retail assets located throughout metropolitan and regional Germany, predominantly in western Germany. The properties were acquired from Deutsche Bank, which remains the largest occupant of the portfolio, occupying approximately 52% of the portfolio by area. Deutsche Bank's weighted average unexpired lease term is 7.0 years.

Fair values of the investment properties have been assessed by the company based on a valuation carried out by external valuers.

#### 8. BONDS PAYABLE

CDO Bonds

As at 30 June 2005 (unaudited)

Class	Rating	Current Face Amount e'000	Carrying Amount e'000	Weighted Average Cost of Financing	Weighted Average Maturity (in years)
A, B and C Notes	AAA/AA/ A	799,058	789,563	2.63%	8.6
=====	=====	=====	=====	=====	=====

As at 31 December 2004

Class	Rating	Current Face Amount e'000	Carrying Amount e'000	Weighted Average Cost of Financing	Weighted Average Maturity (in years)
A and B Notes	AAA/AA	351,000	347,877	2.78%	7.3
=====	=====	=====	=====	=====	=====

None of the CDO bonds are due to be repaid within one year of the balance sheet date.

## 9. BANK BORROWINGS

The bank borrowings comprises of:

		Unaudited 30 June 2005 e'000	31 December 2004 e'000
Warehouse borrowing (Note 9.1)		-	350,843
Term finance (Note 9.2)		244,004	244,006
Revolving credit facility (Note 9.3)		-	14,000
		244,004	608,849
		=====	=====

### 9.1 Warehouse Borrowings

In July 2004, through its subsidiaries CDO II and CDO III, the Company exercised its option to purchase securities under the securities portfolio contract for an aggregate purchase price of approximately e77.5 million. The Company financed the purchase price through a revolving credit facility arrangement with a major investment bank, whereby the securities purchased, along with subsequent securities acquired, were financed and held in a custody account by the bank. The Company used this credit facility as a means of accumulating securities intended to be used in future securitisation transactions. The Company completed the securitisation of CDO III on 28 April 2005 and the securitisation of CDO II on 5 May 2005. The proceeds of the securitisation issues allowed the CDO II and CDO III warehouse borrowings to be repaid in full during the period.

The terms of the credit facility provided for interest to be calculated with reference to floating rate benchmarks (i.e. Euribor or Sterling Libor) plus 75 basis points.

### 9.2 Term Financing for Investment Properties

On 23 December 2004, in order to finance the acquisition of investment properties the Company's subsidiaries entered into a e246.5 million term loan facility with a major real estate lending bank. The facility is secured in the

customary manner for German real estate lending, granting security over, inter alia, all the real estate purchased as well as over rental streams and bank accounts. The term of the facility is 8.1 years with final maturity in April 2013. The interest rate on the loan is Euribor + 1.18% p.a, payable quarterly.

### 9.3 Revolving Credit Facility

In December 2004, the Company entered into a revolving e35 million credit facility with a major investment bank as a means of securing access to temporary working capital. The facility is secured by receivables flowing from CDO I, CDO II, CDO III and EFL and with security assignments of the Company's rights under its management agreement with Fortress Investment Group LLC. The facility contains a number of financial covenants including a maximum leverage ratio and a minimum interest cover ratio. The interest rate on drawn amounts is Euribor + 2.5% p.a., while on undrawn amounts it is 0.5% p.a. The facility was increased to e50 million on 26 May 2005.

## 10. REPURCHASE AGREEMENTS

In 2004, the Company's consolidated subsidiary EFL entered into a master repurchase agreement with certain major investment banks to finance the purchase of available-for-sale securities. The obligations under those agreements are guaranteed by the Company. The terms of the repurchase agreements provide for interest to be calculated with reference to floating rate benchmarks (i.e. Euribor or Sterling Libor) which reset or roll monthly or quarterly, with the corresponding security coupon payment dates, plus an applicable spread.

The Company's carrying amount and weighted average financing cost of these repurchase agreements was approximately e303.8 million and 2.33%, respectively at 30 June 2005.

## 11. TRADE AND OTHER PAYABLES

	Unaudited 30 June 2005 e'000	31 December 2004 e'000
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Security deposit	5,006	5,000
Unsettled security purchases	20,336	254,051
Interest payable	6,551	2,283
Accrued expenses	3,393	2,264
Due to affiliates - Manager	1,971	237
Derivative liabilities	6,179	-
Finance & operating lease payable	2,886	2,925
Other payables	134	127
-----	-----	-----
	46,456	266,887
=====	=====	=====

## 12. EARNINGS PER SHARE

Basic earnings per share is calculated by dividing net profit (loss) available to ordinary shareholders by the weighted average number of shares of ordinary stock outstanding during the period.

Diluted earnings per share is calculated by dividing net profit (loss) available to ordinary shareholders by the weighted average number of ordinary shares outstanding plus the additional dilutive effect of potential ordinary shares during the period.

The Company's potential ordinary shares during the period were the stock options issued under its share option plan.

There have been no other transactions involving ordinary shares or potential ordinary shares since the reporting date and before the completion of the financial statements.

The following is a reconciliation of the weighted average number of ordinary shares outstanding on a diluted basis.

	Unaudited Six Months Ended 30 June 2005	Unaudited Six Months Ended 30 June 2004
Weighted average number of ordinary shares, outstanding basic	18,529,515	11,930,263
Dilutive effect of ordinary share options	724,450	25,352
Weighted average number of ordinary shares outstanding, diluted	19,253,965	11,955,615

### 13. SHARE CAPITAL AND RESERVES

The Company was registered in Guernsey on 8 August 2003 under the provisions of the Companies (Guernsey) Law, 1994 (as amended). On 21 October 2003, the Company issued 118,576,700 shares at e1.00 each. Pursuant to a written resolution of the Company dated 18 June 2004 the Shareholders resolved to receive one share for every ten shares previously held by them. In June 2004, through its initial public offering, the Company received subscriptions for and issued 6,600,000 ordinary shares at a price of e12 each. At the same time, the Company issued 5,000 shares to Paolo Bassi and 1,000 shares to Keith Dorrian in their capacity as Directors of the Company. The shares issued to the Directors were non-cash shares, and were issued with nil proceeds. In April 2005 the Company issued a further 5,000 shares to Paolo Bassi and 1,000 to Keith Dorrian in their capacity as Directors of the company for nil proceeds. On 29 June 2005 the Company made a second public offering and issued 5,740,000 ordinary shares at a price of e17.25 each. After issue costs, the secondary offering raised e95 million for the Company.

Under the Company's Articles of Association, the Directors have the authority to effect the issuance of additional ordinary shares or to create new classes of shares as they deem necessary.

#### Other Reserves

Other reserves represent the fair value of share options at the grant date, granted to the Manager in December 2003, June 2004 and June 2005.

### 14. HEDGE ACCOUNTING - CASH FLOW HEDGES OF INTEREST RATE RISK

The Company's policy is to hedge its exposure to interest rates and foreign currencies on a case-by-case basis. Hedge accounting is only applied to cash flow hedges of interest rate risk exposures. Interest rate swaps under which the Company pays a fixed rate and receives a floating rate have been used to hedge the interest rate risk on floating rate long-term bank borrowing.

The gain or loss on measurement of the fair value of the interest rate swaps has been recognised in the statement of changes in equity to the extent that the swaps are effective.

The details of interest rate swaps entered into by the Company are as follows:

	30 June 2005	
	e000	e000
	-----	-----
Nominal amount	210,000	210,000
Pay rate	3.47 %	3.47%
Receive rate	3 Month Euribor	3 Month Euribor
Remaining life	7.8 years	8.3 years
Fair value of swaps (liabilities)	(6,179)	713
/assets	-----	-----

#### 15. SHARE OPTION PLAN

In December 2003, the Company (with the approval of the Board of Directors and pursuant to the confidential information memorandum dated August 2003) adopted a nonqualified share option plan (the "Company Option Plan") for officers, Directors, employees, consultants and advisors, including the Manager. In December 2003, for the purpose of compensating the Manager for its successful efforts in raising capital for the Company, the Manager was granted options representing the right to acquire 1,185,767 ordinary shares at an exercise price of e10 per share (number of shares and exercise price adjusted for share consolidation). The fair value of the options at the date of grant was e0.2 million and was estimated by reference to an option pricing model.

In June 2004 following the IPO, the Manager was granted an additional 660,000 options at an exercise price of e12 per share. The fair value of the additional options at the date of grant was e0.2 million and was also estimated by reference to an option pricing model. In June 2005 following the secondary public offering, the Manager was granted an additional 574,000 options at an exercise price of e17.25 per share. The fair value of the additional options at the date of grant was e0.6 million. The Manager's options represent an amount equal to 10% of the ordinary shares issued by the Company. The options granted to the Manager were fully vested on the date of grant and expire ten years from the date of issuance.

The fair value at the date of grant of options granted to the Manager has been offset against the proceeds from issuance of ordinary shares as the grant of options is a cost of capital.

#### 16. DIVIDENDS PAID & DECLARED

Unaudited  
Six months ended  
30 June 2005  
e000  
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Paid during the 6 months ended 30 June 2005:

Equity dividends on ordinary shares:

Fourth quarter dividend for 2004: e0.33 (2003: nil)	6,093
First quarter dividend for 2005: e0.33 (2004: nil)	6,095

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12,188

Second quarter dividend declared on 14 June 2005:  
e0.35 (2004: nil)

6,464  
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#### 17. SUBSEQUENT EVENTS

Subsequent to the half year end, the Company invested approximately e184 million in assets backed by a portfolio of commercial properties under long-term leases with the Italian government. Consistent with the Company's policy of match funding, this investment has been term financed on a fixed rate basis. In addition, the Company has established a e400 million three year extendable

revolving credit facility under which e168.7 million of assets are currently financed.

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