



EUROCASTLE

REG-Eurocastle Inv. Ltd 3rd Quarter Results - Part 1

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Eurocastle Investment Limited
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Contact:
International Administration (Guernsey) Limited
Company Administrator
Attn: Mark Woodall
Tel: +44 1481 723450

EUROCASTLE INVESTMENT LIMITED

FINANCIAL REPORT FOR THE NINE MONTHS ENDED 30 SEPTEMBER 2005

Nine Months 2005 Highlights

- Share offer completed in June 2005, raising net proceeds of e95 million
- Increased dividend by 12.1% from e0.33 per share in Q1 to e0.37 per share in Q3
- Completed two further non-recourse term financings for target real estate debt portfolios of £200 million and e400 million
- Net profit after taxation of e29.6 million for the nine months, or e1.39 per diluted share
- Funds from operations ("FFO") of e22.0 million for the nine months, or e1.04 per diluted share
- FFO return on average invested capital was 12.7%

Third Quarter 2005 Highlights

- Total assets amounted to e1,927.7 million at the quarter end
- Equity book value total of e306.2 million, or e12.65 per share
- Net profit after taxation of e16.4 million for the quarter, or e0.65 per diluted share
- FFO of e9.3 million, or e0.37 per diluted share
- Third quarter dividend of e0.37 per share, to be paid on 11 November 2005
- FFO return on average invested capital during the quarter was 12.5%

----- Selected Financial Data (amounts in e'000, except share data and supplemental data) Operating Data -----	----- Three Months Ended 30 September 2005 -----	----- Nine Months Ended 30 September 2005 -----	----- Nine Months Ended 30 September 2004 -----
Net profit after taxation	16,352	29,567	6,970
-----	-----	-----	-----

Earnings per diluted share	0.65	1.39	0.49
-----	-----	-----	-----
FFO	9,298	22,000	6,970
-----	-----	-----	-----
FFO per diluted share	0.37	1.04	0.49
-----	-----	-----	-----
Weighted average number of shares outstanding, diluted	25,046,485	21,206,023	14,302,043
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Balance Sheet Data		As of	As of
		30 September	31 December
		2005	2004
-----		-----	-----
Asset backed securities (includes cash to be invested and securities pledged under repurchase agreements)		1,203,752	1,264,484
-----		-----	-----
Real estate loans (includes loans pledged under repurchase agreements)		99,632	21,938
-----		-----	-----
Investment property		398,042	318,514
-----		-----	-----
Real estate fund units		181,992	-
-----		-----	-----
Cash and cash equivalents		17,500	10,293
-----		-----	-----
Total assets		1,927,734	1,627,619
-----		-----	-----
Debt obligations		1,550,281	1,154,310
-----		-----	-----
Shareholders' equity		306,237	206,420
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Reconciliation of Funds from Operations (FFO) to net profit after taxation	Three Months Ended	Nine Months Ended	Nine Months Ended
	30 September	30 September	30 September
	2005	2005	2004
-----	-----	-----	-----
Net profit after taxation	16,352	29,567	6,970
Decrease/(increase) in fair value of investment properties	68	(445)	-
Increase in fair value of real estate fund units	(7,122)	(7,122)	-
-----	-----	-----	-----
Funds from operations (FFO)	9,298	22,000	6,970
-----	=====	=====	=====

FFO is an appropriate measure of the underlying operating performance of real estate companies because it provides investors with information regarding our ability to service debt and make capital expenditures. Furthermore, FFO is used to compute our incentive compensation to our manager. FFO, for our purposes, represents net profit after taxation (computed in accordance with IFRS), excluding changes in the fair value of investment properties and mark to market fluctuations in real estate fund units. We consider gains and losses on resolution of our investments to be a normal part of our recurring operations and therefore do not exclude such gains and losses when arriving at FFO. FFO does not represent cash generated from operating activities in accordance with IFRS and therefore should not be considered an alternative to cash flow as a measure of liquidity, and is not necessarily indicative of cash available to fund cash needs. Our calculation of FFO may be different from the calculation used by other companies and, therefore, comparability may be limited.

Supplemental Total Real Estate and Other ABS Securities and Real Estate Loans Data

	As of 30 September 2005	As of 31 December 2004
Total debt investments (excluding restricted cash)	1,278,683	1,023,218
Weighted average asset yield	4.06%*	4.18%
Weighted average liability cost	2.72%	2.73%
Weighted average net spread	1.34%	1.45%
Weighted average credit rating	BBB+	BBB+
Weighted average asset credit spread (above Euribor)	1.95%*	1.99%
Percentage investment grade of securities portfolio	92%	93%
Number of securities and loans	106	87

* includes assets and liabilities referenced under a total return swap

Supplemental Total Credit Leased Real Estate Data

	As of 30 September 2005	As of 31 December 2004
Investment properties at fair value	398,042	318,514
Real estate fund units	181,992	-
Total investment in credit leased real estate assets	580,034	318,514
Weighted average asset yield	7.99%	7.10%
Weighted average liability cost	4.78%	4.56%
Weighted average net spread	3.21%	2.54%

EUROCASTLE INVESTMENT LIMITED AND SUBSIDIARIES

CHAIRMAN'S STATEMENT

Overview

Eurocastle Investment Limited (LSE: ECT) reports net profit after taxation for the quarter ended 30 September 2005 of e16.4 million, or e0.65 per diluted share, as compared to e3.2 million, or e0.17 per diluted share, for the third

quarter of 2004. The Company also reports net profit after taxation for the nine months ended 30 September 2005 of e29.6 million, or e1.39 per diluted share, as compared to e7.0 million, or e0.49 per diluted share, for the first nine months of 2004. Funds from operations (or FFO) amounted to e22.0 million and e9.3 million, respectively, for the nine months and quarter ended 30 September 2005. This amount excludes a e7 million increase in the fair value of the Company's credit-leased real estate classified as investment properties and real estate fund units. Eurocastle generated an FFO return on average invested common equity of 12.5% for the quarter, and 12.7% for the nine months, ended 30 September 2005. As of 30 September 2005, the Company's shareholders' equity was e306.2 million or e12.65 per outstanding share, as compared to e203.3 million, or e11.01 per outstanding share, as of 30 September 2004.

Eurocastle's core business strategy is to invest in and manage a diverse portfolio consisting primarily of European credit-leased real estate and European real estate related debt. Based on current opportunities, we see the increased emphasis on investment in the credit-leased real estate side of our business continuing. The Company's objective is to deliver stable and growing dividends and attractive risk-adjusted returns to shareholders by optimizing the difference between the yield on investments and the cost of financing these investments. Since Eurocastle's IPO in June 2004, the Company's annualized dividend to shareholders has increased by approximately 23% from e1.20 to e1.48 per share.

Eurocastle was very active on the investment side during the third quarter and has built a strong pipeline of accretive investments for the near term. Substantially all of the proceeds from Eurocastle's equity capital raise in June 2005 have been invested or committed to investment. Accordingly, Eurocastle expects to be back shortly to raise additional capital.

Third Quarter 2005 Dividend

Eurocastle aims to pay out substantially all of its funds from operations in the form of quarterly dividends to shareholders. On 18 October 2005, the Board of Directors declared a dividend of e0.37 per share for the quarter ended 30 September, an increase of e0.02 per share from the prior quarter. The record date for this increased dividend was 28 October 2005 and the payment date is 11 November 2005.

Investment Activity

Credit-Leased Real Estate Investment Portfolio

Eurocastle has made significant progress in growing its European credit-leased real estate investment portfolio, which comprises investment properties and real estate fund units. During the third quarter, the Company purchased approximately e254 million of credit leased real estate investments in Germany and Italy. These purchases, which are described below, brought directly or indirectly Eurocastle's total credit-leased real estate investments to e580 million at 30 September 2005, or 31% of the Company's total investment portfolio.

i) Investment Properties

During the third quarter, the Company purchased 30 recently developed German retail stores for approximately e79 million. The stores are well-located throughout Germany and are leased on a long-term basis to a number of leading German grocery retailers. In addition, Eurocastle has agreed to acquire or received letters of intent from vendors to sell 47 other German retail properties for approximately e134 million. These transactions are expected to close in the fourth quarter 2005, increasing Eurocastle's credit-leased real estate investment portfolio to approximately e700 million.

ii) Real Estate Fund Units

In July 2005, Eurocastle purchased a e175 million interest (net of accrued

income) in a real estate investment fund that owns a portfolio of 394 properties in Italy. The properties are 100% occupied under long-term lease agreements with Italian government agencies.

Real Estate Debt Portfolio

In the nine months ended 30 September 2005, Eurocastle purchased approximately e391 million of real estate related securities and e77 million of real estate related loans, with approximately e240 million in face amount of real estate related securities and real estate loans having been purchased during the quarter ended 30 September 2005. The securities purchased during the quarter had an average credit rating of BBB and an average credit spread above Euribor of 1.15%. Purchases of CMBS in the third quarter amounted to e66.6 million, with an average spread of 1.19% and average rating of BBB. RMBS purchases in the third quarter amounted to e84.0 million, with an average spread of 0.87% and average rating of BBB+. Other ABS purchases in the third quarter amounted to e35.5 million, with an average spread of 1.78% and average rating of BB+. Real estate related loans purchased amounted to e53.5 million with an average spread of 2.66%.

After allowing for sales of securities and principal redemptions, the net increase in face amount of real estate related securities and real estate related loans during the third quarter was e155.7 million, raising the amount of these investments from e1.1 billion at the last quarter end to approximately e1.3 billion at 30 September 2005, an increase of approximately 14%.

The European real estate debt markets remain strong with record-level new issuances. The Company expects this growth to continue to provide significant accretive investment opportunities in real estate related debt. Attractive opportunities to invest in the B-Note and mezzanine loan markets are increasing as this market expands in Europe and we were able to grow the portfolio of these loans by 111% in the third quarter. Eurocastle has developed a robust pipeline of these securities and loan investments for the near term.

Capital Markets

During the second quarter, Eurocastle successfully completed a public offering of 5,740,000 shares resulting in gross proceeds to the Company of approximately e99 million (net proceeds e95 million).

On 14 July 2005, Eurocastle established a e400 million three year extendable revolving credit facility. This facility was used to refinance a significant part of the portfolio previously financed under short-term repurchase agreements, and is being used to acquire further real estate debt. At 30 September 2005, approximately e161.9 million had been drawn under this facility.

During the third quarter, Eurocastle financed its credit-leased real estate investment purchases with fixed rate term loans, which has eliminated exposure to increased interest rates. This is consistent with our objective of locking in the spread between the yield on our investments and the cost of financing those investments.

Investment Portfolio

Credit-Leased Real Estate Investment Portfolio

As of 30 September 2005, Eurocastle owned an approximately e580 million portfolio of credit-leased real estate investments, comprising investment properties of e398 million and real estate fund units of e182 million. This portfolio represents 30% of the Company's total assets.

i) Investment Properties

The credit-leased real estate portfolio included e318 million of German bank properties purchased in December 2004 and e80 million of German retail stores.

The German bank investment consists of 96 properties, or approximately 295,000 square meters of office space, which is leased primarily to Deutsche Bank for an average of 6.4 years. Since acquiring the portfolio in December 2004, Eurocastle has added 16 new leases, bringing the total occupancy of this portfolio to approximately 76%. The Company also owns 30 recently developed German retail properties. These properties are located in popular sites throughout Germany and are leased to some of the country's largest grocery retailers for an average term of approximately 11 years.

ii) Real Estate Fund Units

Eurocastle has a e182 million interest in a real estate investment fund that owns a portfolio of 394 Italian properties. The properties are let to Italian government agencies. The original term of the Lease Agreement is 9 years, automatically renewable for a further 9 years. The properties have a total occupancy of 100%.

Real Estate Debt Portfolio

As of 30 September 2005, Eurocastle's total real estate debt portfolio of approximately e1.3 billion, which represents approximately 68% of the Company's total assets, included e604.8 million of CMBS, e574.2 million of other asset backed securities, e99.6 million of loans and e24.7 million of cash held pending investment in additional real estate related debt. The real estate debt portfolio is well diversified with 106 securities and loans and an average life of approximately 4.06 years; approximately 96% of the portfolio comprises floating-rate securities. The portfolio is geographically diversified with direct exposures of 52% in the UK, 13% in Italy, 13% in Germany, 11% Pan European and 5% in France. The average credit quality of the securities portfolio is BBB+ and approximately 92% of the securities are rated investment grade. The portfolio's weighted average credit spread was approximately 1.95% as of 30 September 2005.

Eurocastle's real estate debt portfolio has continued to perform well. As of 30 September 2005, none of the Company's securities or loans have defaulted, and there have been no principal losses to date. Eurocastle continues to seek investments that will generate superior risk-adjusted returns with a long-term objective of capital preservation and earnings stability in varying interest rate and credit cycles.

About Eurocastle

Eurocastle Investment Limited is a Euro-denominated Guernsey closed-end investment company listed on the London Stock Exchange as a property investment company. The Company invests in and manages a diverse portfolio consisting primarily of European credit-leased real estate and real estate related debt. Eurocastle is managed by Fortress Investment Group LLC, a global alternative investment and asset management firm with approximately US\$15 billion of equity capital currently under management. For more information regarding Eurocastle and to be added to our email distribution list, please visit www.eurocastleinv.com.

Conference Call

Management will conduct a conference call on Wednesday, 2 November 2005 to review the Company's financial results for the quarter ended 30 September 2005. The conference call is scheduled for 1:00 P.M. London time (8:00 A.M. New York time). All interested parties are welcome to participate on the live call. You can access the conference call by dialing +1-866-323-3742 (from within the U.S.) or +1-706-643-0550 (from outside of the U.S.) ten minutes prior to the scheduled start of the call; please reference "Eurocastle Third Quarter Earnings Call."

For those who are not available to listen to the live call, a replay will be available until 11:59 P.M. New York time on 18 November 2005 by dialing +1-800-642-1687 (from within the U.S.) or +1-706-645-9291 (from outside of the

U.S.); please reference access code "1596968."

EUROCASTLE INVESTMENT LIMITED AND SUBSIDIARIES

INDEPENDENT REVIEW REPORT TO EUROCASTLE INVESTMENT LIMITED

Introduction

We have been instructed by the Company to review the financial information for the nine months ended 30 September 2005 which comprises Consolidated Income Statements, Consolidated Balance Sheets, Consolidated Statements of Cash Flows, Consolidated Statements of Changes in Equity and the related notes 1 to 18. We have read the other information contained in the interim report and considered whether it contains any apparent misstatements or material inconsistencies with the financial information.

This report is made solely to the Company in accordance with guidance contained in Bulletin 1999/4 'Review of interim financial information' issued by the United Kingdom Auditing Practices Board. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company, for our work, for this report, or for the conclusions we have formed.

Directors' responsibilities

The interim report, including the financial information contained therein, is the responsibility of, and has been approved by the directors. The directors are responsible for preparing the interim report in accordance with the Listing Rules of the Financial Services Authority which require that the accounting policies and presentation applied to interim figures should be consistent with those applied in preparing the preceding annual accounts except where any changes, and the reasons for them, are disclosed.

Review work performed

We conducted our review in accordance with guidance contained in Bulletin 1994/4 'Review of interim financial information' issued by the Auditing Practices Board for use in the United Kingdom. A review consists principally of making enquiries of group management and applying analytical procedures to the financial information and underlying financial data, and based thereon, assessing whether the accounting policies and presentation have been consistently applied, unless otherwise disclosed. A review excludes audit procedures such as tests of controls and verification of assets, liabilities and transactions. It is substantially less in scope than an audit performed in accordance with United Kingdom Auditing Standards and therefore provides a lower level of assurance than an audit. Accordingly we do not express an audit opinion on the financial information.

Review conclusion

On the basis of our review we are not aware of any material modifications that should be made to the financial information as presented for the nine months ended 30 September 2005.

Ernst & Young LLP
London
01 November 2005

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