

# European Assets Trust NV

Interim Report 2005



# Company Summary

## Objective

The investment objective of the Company is to achieve growth of capital through investment in quoted medium-sized companies in Europe, excluding the United Kingdom.

<b>The Company</b>	The Company is an investment company with variable capital incorporated in the Netherlands and its shares are listed on the London Stock Exchange and Euronext Amsterdam Stock Market
<b>Benchmark Index</b>	HSBC Smaller Europe (ex UK) Index
<b>Investment manager</b>	F&C Asset Management plc – Crispin Longden
<b>Equity shareholders' funds</b>	€185.4 million at 30 June 2005
<b>Capital structure</b>	The Company has a simple capital structure, being financed exclusively by ordinary shares. It may also employ gearing up to 20 per cent of assets
<b>AITC Membership</b>	The Company is a member of the Association of Investment Trust Companies
<b>Website</b>	The Company's internet address is: <a href="http://www.europeanassets.co.uk">www.europeanassets.co.uk</a>
<b>Telephone</b>	F&C Asset Management Investment Services 0800 389 3676



- The Company's sterling net asset value total return\* rose over the six months by 13.7 per cent (19.2 per cent in Euros); and over the past year by 32.7 per cent (31.8 per cent in Euros)
- The Company's sterling share price total return\* rose over the six months by 19.0 per cent (24.7 per cent in Euros); and over the past year by 43.8 per cent (42.8 per cent in Euros)
- In accordance with the Company's stated policy, dividends payable for the year of 6 per cent based on net asset value at the start of the year. The dividend of €0.555 per share for 2005 represents an increase of 19.4 per cent over the previous year

## Total Return\* Performance

### Net Asset Value in Sterling v HSBC Smaller Europe (ex UK) Index



\*Capital performance with dividends added back.

## Performance Summary

	Euro		Sterling	
	Six months to 30 June 2005	Six months to 30 June 2004	Six months to 30 June 2005	Six months to 30 June 2004
<b>Total Return</b>				
Net asset value total return per share	<b>19.2%</b>	7.9%	<b>13.7%</b>	2.7%
Market price total return per share	<b>24.7%</b>	6.4%	<b>19.0%</b>	1.3%
HSBC Smaller Europe (ex UK) Index	<b>20.1%</b>	12.3%	<b>14.4%</b>	7.0%
<b>Dividends per share</b>	<b>€0.35</b>	€0.31	<b>24.0p</b>	20.9p

Dividend announced for 2005  
totalling €0.555 per share

	30 June 2005	31 December 2004	30 June 2005	31 December 2004
<b>Capital</b>				
Total assets (less current liabilities)	<b>€185.4m</b>	€161.2m	<b>£125.2m</b>	£114.1m
Net asset value per share	<b>€10.05</b>	€8.75	<b>678.9p</b>	619.6p
Market price per share	<b>€9.35*</b>	€7.80*	<b>631.5p</b>	552.5p
HSBC Smaller Europe (ex UK) Index	<b>297.66</b>	253.62	<b>201.04</b>	179.55
<b>Discount (difference between share price and net asset value)</b>			<b>7.0%</b>	10.8%

### Summary of net asset value for the seven months to 30 June 2005

	Euro	Sterling
31 December 2004	€8.75	£6.196
31 January 2005	9.17	6.336
28 February 2005	9.60	6.618
31 March 2005	9.50	6.537
30 April 2005	9.20	6.222
31 May 2005	9.63	6.524
30 June 2005	10.05	6.789

Sources: AITC/Datastream/HSBC

\*London Stock Exchange prices/net asset value converted into Euros at period end exchange rate.



### Performance

Continental European smaller company share prices registered strong gains in the first six months of 2005. The HSBC Smaller Europe (ex UK) Index climbed by 20.1 per cent in Euro total return\* terms over the period, almost double the return recorded by the equivalent large capitalisation index. After briefly dipping in March and April, share prices resumed their upwards trend towards the end of the first half. Instrumental in the late spring move was a temporary fall in oil prices and a resurgence in the value of the US dollar. These factors outweighed news of disappointing economic growth rates across continental Europe in the first quarter of 2005 with both Italy and now the Netherlands in technical recession. Another mitigating factor was the company results season which lived up to best expectations. Despite the risks posed to companies' cost base from the dramatically higher prices for oil and other basic raw materials, margins continue to benefit from earlier cost cutting and negligible wage inflation. Further support for the small and mid-sized asset class came from a marked increase in takeover activity both from private equity houses and corporate buyers.

The net asset value of European Assets Trust rose by 19.2 per cent in Euro total return\* terms over the first six months of 2005. Several recent additions to the Trust's portfolio made particularly noteworthy gains over the period. Spanish-based **Fadesa** rose by 68 per cent in Euro total return\* terms, benefiting from earnings upgrades and broader broker coverage. This innovative developer of residential property now ranks among the larger holdings in the Trust's portfolio. The higher oil price helped French company, **Groupe Bourbon** to a gain of 59 per cent in the first six months of 2005. Its oil platform service and maintenance vessels are expected to profit from a likely increase in exploration and production activity. Another strong performer was Italian civil engineering firm **Astaldi** which published an aggressive but convincing business plan to 2009. Astaldi shares gained 50 per cent by the end of June. Not all of the Trust's Italian investments were so successful. Broadband internet provider **Fastweb** fell by 10 per cent as investors responded to increasing competition in the domestic market. Growing competition was also a factor behind the drop of 14 per cent in the share price of **Indesit**, the white goods manufacturer. We have 'bitten the bullet' with both these poorly-performing stocks and liquidated the positions. One of the key criteria for retention of a stock in the portfolio is for the company to hold a franchise of sufficient strength to withstand competitive pressure. The benefits of a strong franchise are demonstrated by the example of Trust holding, **Jurys Doyle Hotel Group**. The company stands out among hotel operators by offering accommodation at a unique brand of value-for-money Inns in prime locations. This proven business model has now lured a potential corporate buyer for the group who is prepared to offer a minimum 30 per cent premium to the price in the market.

The Investment Managers welcome recent announcements concerning the simplification and liberalisation of the Dutch tax regime; the measures should benefit the Company.

### Gearing

During the first six months of the year, the Managers employed gearing in the range of 2 per cent to 8 per cent of asset value in order to take advantage of new investment opportunities. The use of flexible borrowing powers is a useful feature to enhance returns to shareholders in favourable market conditions.

\*Capital performance with dividends added back



## Investment Manager's Review continued

### Outlook

It is all too easy to focus on the political, social and economic problems which face Europe. The French and Dutch referenda on the EU constitution delivered a clear 'no' vote. Ageing populations are increasing the strains on already over-burdened social welfare schemes. Economic growth across Europe is slow to gain traction.

This challenging backdrop however masks positive developments initiated by management and employees of many companies. With the 'one size fits all' Euro, companies in countries with legacy weak currencies are forced to accept that their declining sales or profits momentum is not going to be 'rescued' by devaluation or interest rate reductions. Longer working hours are being agreed in return for job guarantees. Performance-related pay is becoming the norm for senior company managers. For smaller companies, where work practices have not yet become entrenched, the shift in business practice and thinking is easier to make. On visits to and by company management, we encounter a desire to generate long-term stakeholder value, not just for shareholders but also for employees and communities. For the communities, the proof comes in the form of greater attention to environmental and social issues. For employees, the proof comes in the form of profit related bonuses rather than formulaic 'holiday allowances'. For shareholders, the proof comes in the form of a marked improvement in measures of return on capital and return on equity within the smaller capitalisation asset class.

In selecting stocks for inclusion in the Trust's portfolio, the Managers pay particular attention to these measures and to the consistency of cashflow and value creation. This is manifest in a number of the Trust's key holdings. Our companies look to grow their franchise by reinvesting their annual cashflow in value-enhancing acquisitions or organic growth. In the event that opportunities are not available, or do not meet the criterion of value enhancement, management is now committed to return cash to shareholders. Towards the back of this report you will find a brief description of the Trust's top five holdings and a summary of their financial results. You will see from this that **Indra** this year raised its dividend by 226 per cent, **Neopost** by 180 per cent and **Andritz** by 40 per cent. **Fadesa**, a newly-listed company, paid a dividend for the first time and **Logitech** is creating shareholder value not by paying out a cash dividend but by buying back shares for cancellation. We consider the outlook to be favourable for the companies in the smaller capitalisation asset class in general and especially so for the companies in the portfolio of European Assets Trust.

### Crispin Longden

Investment Manager

F&C Asset Management plc

25 July 2005

## Dividend Information

### 2005

Two dividends of €0.175 per share each have been paid in January and May 2005 and a further dividend will be paid in August 2005 of €0.205 per share. This will result in total dividends paid for the year of €0.555 per share. The increase in the August dividend is to compensate shareholders for a small element of Dutch withholding tax that will apply to it. The Board works with its advisers to seek to minimise Dutch tax.



Company	Nature of Business	Market Value €000	% of Total Assets	Country of Incorporation
Indra Sistemas	IT Services & Defence	9,822	5.3	Spain
Logitech	Computer Peripherals	9,563	5.2	Switzerland
Neopost	Mailing Systems	8,951	4.8	France
Fadesa Inmobiliaria	Property Development	8,869	4.8	Spain
Andritz	Paper Machinery Manufacturer	7,215	3.9	Austria
Anglo Irish Bank	Banks	6,721	3.6	Ireland
Astaldi	Civil Engineering	6,370	3.4	Italy
Paddy Power	Licensed Betting	5,997	3.2	Ireland
Latécoère	Aeronautics Manufacturer	5,931	3.2	France
Carbone Lorraine	Carbon & Graphite Producer	5,888	3.2	France
<b>Ten largest investments</b>		<b>75,327</b>	<b>40.6</b>	
SBS Broadcasting Group	TV & Radio Broadcaster	5,839	3.2	Luxembourg
Actelion	Biotechnology	5,621	3.0	Switzerland
Boliden	Mining & Smelting	5,347	2.9	Sweden
IAWS	Food Producer	5,260	2.8	Ireland
Hera	Utility	5,180	2.8	Italy
Lindt & Sprüngli	Confectionery Manufacturer	5,117	2.8	Switzerland
Ryanair	Airline	5,093	2.8	Ireland
Grafton Group	Building Materials	5,077	2.7	Ireland
Georg Fischer	Industrial Systems Supplier	5,055	2.7	Switzerland
Kingspan Group	Building Materials	4,880	2.6	Ireland
<b>Twenty largest investments</b>		<b>127,796</b>	<b>68.9</b>	
Voestalpine	Steel Manufacturer	4,632	2.5	Austria
Barón de Ley	Winery	4,562	2.5	Spain
Takkt	Office Equipment Mail Order	4,320	2.3	Germany
Uralita	Building Materials	4,310	2.3	Spain
Zardoya Otis	Elevators & Escalators	4,270	2.3	Spain
Jurys Doyle Hotel Group	Hotels	4,113	2.2	Ireland
Neochimiki Lavrentiadis	Detergents Manufacturer	4,080	2.2	Greece
Sonae SGPS	Industrial Holding Company	3,990	2.2	Portugal
Marr	Food Wholesaler	3,368	1.8	Italy
Manitou BF	Aerial Platform Manufacturer	3,225	1.8	France
<b>Thirty largest investments</b>		<b>168,666</b>	<b>91.0</b>	
<b>Other investments (11)</b>		<b>26,034</b>	<b>14.0</b>	
<b>Total investments</b>		<b>194,700</b>	<b>105.0</b>	
<b>Net current liabilities</b>		<b>(9,269)</b>	<b>(5.0)</b>	
<b>Equity shareholders' funds/total assets</b> (less current liabilities)		<b>185,431</b>	<b>100.0</b>	

# Revenue Account

## for the six months ended 30 June

	Notes	2005 €000	2004 €000
<b>Income from investments</b>			
Securities		1,781	1,503
Deposit interest		65	38
Securities lending		83	63
<b>Total income from investments</b>	1	1,929	1,604
Realised and unrealised movements on investments		30,065	10,530
<b>Total income</b>		31,994	12,134
<b>Expenses and interest</b>			
Administration expenses	4	(1,236)	(966)
Interest		(295)	(96)
<b>Net income</b>	2	30,463	11,072
Distributed by dividends	3	6,224	5,498
Earnings per share		€1.65	€0.60
Dividends per share		€0.35	€0.31

The financial statements for the half-year ending 30 June 2005 have not been audited.

### Accounting principles

The accounting policies applied in preparing the half-year figures at 30 June 2005 are consistent with those underlying the 2004 annual accounts.

Moneys are deposited at market rates.

Securities lending, on a collateral basis, takes place at market rates.

The Company does not use futures and options as financial instruments.

Notes:

- Income is stated after deduction of irrecoverable withholding taxes of €170,451 (2004 – €194,615).
- Income for the six month period should not be taken as an indication of income for the full year.
- Two dividends of €0.175 per share each have been paid in January and May 2005 respectively, a further dividend of €0.205 per share will be paid on 24 August 2005. These dividends are mostly funded from accumulated capital gains.
- The total expenses ratio, based on average shareholders' funds for the first half of the year amounted to 1.43 per cent annualised (first half year 2004 – 1.33 per cent annualised). Based on Dutch regulations, the expense ratio, which includes interest and tax, over the first half of the financial year which, within the scope of the Investment Institutions Supervision Act (Wet toezicht beleggingsinstellingen), should be reported by investment institutions, amounts to 1.76 per cent annualised (first half year 2004 – 1.47 per cent annualised).





	Notes	30 June 2005 €000	31 December 2004 €000
<b>Investments</b>			
Securities	5	194,700	164,591
Net current liabilities	6	(9,269)	(3,399)
<b>Total assets less current liabilities</b>		<b>185,431</b>	161,192
<b>Equity shareholders' funds</b>		<b>185,431</b>	161,192
Net asset value per share	7	€10.05	€8.75
Expressed in sterling		679p	620p

The number of €0.46 shares in issue at 30 June 2005 was 18,446,261 (31 December 2004 – 18,420,953).

Notes:

- Securities are valued at market price.
- The Company has €15,000,000 drawn down on its bank facilities at 30 June 2005 (31 December 2004 – €10,000,000).
- 25,308 shares were issued during the six months to 30 June 2005 via the scrip dividend option.

## Summary of changes in shareholders' funds for the six months to 30 June

	2005 €000	2004 €000
Total as at 1 January	161,192	143,005
Profit for period	30,463	11,072
Dividends distributed	(6,224)	(5,498)
Total as at 30 June	<b>185,431</b>	148,579



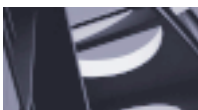
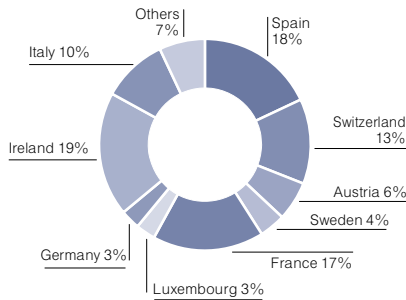
# Statement of Cash Flows

for the six months ended 30 June

	2005 €000	2004 €000
<b>Cash flow from investment activities</b>		
Interest, dividends and other income	1,825	1,583
Purchases of shares	(56,779)	(33,889)
Sales of shares	50,771	42,019
Administrative expenses and interest charges	(1,454)	(958)
	<b>(5,637)</b>	8,755
<b>Cash flows from financial activities</b>		
Dividends paid	(6,224)	(5,498)
(Payment)/refund of tax	(1,459)	3,357
Loan facility	5,000	—
	<b>(2,683)</b>	(2,141)
<b>Cash at bank</b>		
Net (decrease)/increase for the period	<b>(8,320)</b>	6,614
Balance as at 31 December	<b>8,870</b>	(991)
Balance as at 30 June	<b>550</b>	5,623

## Portfolio Analysis

### Geographic Analysis



**INDRA SISTEMAS – Spain, IT Services & Defence**

Indra Sistemas is Spain's premier information technology services company, specialising in systems integration and consulting projects. The group is also an important niche player in the supply of electronic simulation and surveillance equipment for the civilian and military avionics industry.

<b>Full Year Results to 31 December</b>		<b>2004</b>	<b>2003</b>	<b>% Change</b>
Turnover	€m	1,079.2	981.4	+10.0
EPS	€	0.58	0.49	+18.4
DPS	€	0.521	0.16	+225.6

**LOGITECH – Switzerland, Computer Peripherals**

Logitech is a leading designer, manufacturer and marketer of peripheral equipment for personal computers and gaming consoles. A clear leader in the field of cordless devices, the product portfolio ranges from computer mice to PC digital cameras, loudspeakers and headsets.

<b>Full Year Results to 31 March</b>		<b>2005</b>	<b>2004</b>	<b>% Change</b>
Turnover	\$m	1,482.6	1,268.4	+16.9
EPS	\$	3.07	2.69	+14.1
DPS	\$	–	–	–

**NEOPOST – France, Mailing Systems**

Together with the US giant Pitney Bowes, Neopost holds a commanding share of the market for postal franking machines and folding/inserting systems for bulk mailing. Changes to postal rates and the advent of digital technology dictate a healthy renewal rate for such equipment.

<b>Full Year Results to 31 January</b>		<b>2005</b>	<b>2004</b>	<b>% Change</b>
Turnover	€m	755.7	750.9	+0.6
EPS	€	3.50	2.76	+26.8
DPS	€	3.50	1.25	+180.0



# Company Reviews

Continued

## **FADESA INMOBILIARIA – Spain, Property Development**

Fadesa ranks as one of Spain's leading property development companies in a competitive, fragmented market. The company undertakes its large-scale residential developments from scratch, buying up virgin rural land and securing planning permission prior to construction.

<b>Full Year Results to 31 December</b>		<b>2004</b>	<b>2003</b>	<b>% Change</b>
Turnover	€m	702.2	628.9	+11.7
EPS	€	1.08	0.76	+42.1
DPS	€	0.27	–	n/a

## **ANDRITZ – Austria, Pulp & Paper Machinery Manufacturer**

Andritz is an engineering conglomerate with strong franchises in a number of niche engineering spheres. It builds, installs and services large-scale plants for the production of pulp and paper, steel, animal feed and sewage treatment.

<b>Full Year Results to 31 December</b>		<b>2004</b>	<b>2003</b>	<b>% Change</b>
Turnover	€m	1,481.0	1,225.0	+20.9
EPS	€	5.42	3.37	+60.8
DPS	€	1.40	1.00	+40.0



## Investing in European Assets Trust NV

There are a number of ways in which you can invest in European Assets Trust. As with any listed company, you can buy shares through a stockbroker. Alternatively, a range of products are available for you to invest in European Assets Trust, with or without financial advice. These products are offered by F&C Asset Management plc.

### Plans suitable for direct investment

F&C offers a number of cost-effective plans suitable for direct investment including:

- A tax-efficient Individual Savings Account;
- An Investment Plan, for both lump sums and regular savings;
- A Pep Transfer Plan, where you can transfer your existing Pep investments without affecting their tax status; and
- A Children's Savings Plan offering a flexible and tax-efficient way for parents or other family members to provide for long term needs such as school fees or the cost of a university education.

The minimum investment amounts are £1,500 for a lump sum (£500 for the Children's Savings Plan), or £50 a month by Direct Debit.

For more information on any of these plans, please call our Investment Services team on **0800 389 3676** or visit **[www.zerocharge.co.uk](http://www.zerocharge.co.uk)**

### Plans available through advisers

F&C also has a range of products available through advisers, which offer free Investment Protection on an investor's death.

These plans include:

- The tax-efficient Investment Trust Isa;
- The Investment Trust Share Plan, for both lump sums and regular savings; and
- The Investment Trust Pep, through which you can transfer your existing Pep investments without affecting their tax status.

The minimum investment amounts are £1,500 for a lump sum, or £50 a month by Direct Debit.

Please contact your financial adviser for further information on any of these products.

*The above has been approved by F&C Asset Management plc which is Authorised and regulated by the Financial Services Authority (FSA). Stock market and currency movements may cause the value of shares and the income from them to fall as well as rise and investors may not get back the amount originally invested.*



# Investing in European Assets Trust NV

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## Other data

### Major investors

As far as known, no shareholder should be considered a major shareholder in the sense of the Investment Institutions Supervision Resolution (in general, a major shareholder is a shareholder who owns at least 25 per cent of the shares of the Company).

### Outsourcing

In January 2002, DNB published the DNB circular 'Outsourcing of main duties', which requires investment funds to provide an overview of main duties outsourced. The Company has drawn up service level agreements for the outsourced duties with the following external parties, which among others deal with requirements regarding mutual transfer of information, terms of notice, compliance with regulation and fees.

#### *Main duty:*

Accounting + IT  
Managing Director  
Asset management

#### *Outsourced to:*

KAS BANK NV  
FCA Management BV  
F&C Asset Management plc

### Taxation

Information on taxation can be found in the Annual Report.



## Corporate Information

### Management Board Director

FCA Management BV  
Chamber of Commerce  
Rotterdam, nr. 33239987

### Supervisory Board

Sir John Ward CBE (Chairman)  
Prof S Bergsma (Deputy Chairman)  
N L A Cook  
W D Maris  
G W B Warman

### Registered Office

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Chamber of Commerce  
Rotterdam, nr. 33039381

### Investment Managers

F&C Asset Management plc  
80 George Street  
Edinburgh EH2 3BU  
Tel No. 0131 465 1000  
Facsimile No. 0131 225 2375

### UK Registrars and Transfer Office

Lloyds TSB Registrars  
PO Box 28448  
Finance House  
Orchard Brae  
Edinburgh EH4 1WQ

### Registrar's Shareholder Helpline

Tel No. 0870 601 5366

### Registrar's Broker Helpline

Tel No. 0870 600 0158

### Brokers

In The Netherlands–  
Theodoor Gilissen Securities  
Nieuwe Doelenstraat 12–14  
PO Box 567  
1000 AN Amsterdam

### In the United Kingdom– UBS

1 Finsbury Avenue  
London EC2M 2PP

### Auditors

Ernst & Young  
Accountants  
Drentestraat 20  
1083 HK Amsterdam

### Lawyers

In The Netherlands–  
De Brauw Blackstone Westbroek  
Tripolis 300  
Burgerweeshuispad 301  
1070 AB Amsterdam

### In the United Kingdom–

Norton Rose  
Kempson House  
Camomile Street  
London EC3 7AN

For further information contact F&C Asset Management  
Investment Services on 0800 389 3676



