

**ARCH SUSTAINABLE FINANCE IC LIMITED**  
**REPORT AND FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED**  
**31 MARCH 2009**

**ARCH SUSTAINABLE FINANCE IC LIMITED**  
**FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 31 MARCH 2009**

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**ARCH SUSTAINABLE FINANCE IC LIMITED  
ADMINISTRATION  
FOR THE YEAR ENDED 31 MARCH 2009**

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<b>Registered Office of the Company</b>	PO Box 466 Bordeaux Court Les Echelons St. Peter Port Guernsey GY1 6AW
<b>Directors of the Company</b>	Robert Addison Neal Meader Peter Radford
<b>Investment Manager</b>	Arch Financial Products LLP 7 Savile Row Mayfair London W1S 3PE
<b>Custodian and Bankers</b>	MeesPierson (C.I.) Limited (formerly Fortis Bank (C.I.) Limited) Martello Court Admiral Park St. Peter Port Guernsey GY1 3QJ
<b>Auditors</b>	Moore Stephens Town Mills South La Rue du Pre St. Peter Port Guernsey GY1 3HZ
<b>Administrator, Secretary and Listing Sponsor</b>	Bordeaux Services (Guernsey) Limited Bordeaux Court Les Echelons St. Peter Port Guernsey GY1 6AW
<b>Legal Advisers Guernsey</b>	Carey Olsen PO Box 98 Carey House Les Banques St Peter Port Guernsey GY1 4BZ
<b>Registered Number</b>	46980

**ARCH SUSTAINABLE FINANCE IC LIMITED  
DIRECTORS' REPORT  
FOR THE YEAR ENDED 31 MARCH 2009**

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The Directors of Arch Sustainable Finance IC Limited (“the Fund”) are pleased to submit their report and audited financial statements for the year ended 31 March 2009.

**THE FUND**

The Fund is an incorporated cell of Arch Guernsey ICC Limited (“the ICC”), a closed-end incorporated cell company registered with limited liability in Guernsey on 21 December 2006 and authorised by the Guernsey Financial Services Commission under the Incorporated Cell Companies Ordinance, 2006. The Fund was registered with limited liability on 21 May 2007 and listed on CISX in August 2007.

The Fund has created three classes of Shares designated Dollar Shares, Euro Shares and Sterling Shares each of which is denominated in the specified currency and which rank pari passu to each other. Each Share Class will hold an undivided share in a single portfolio of assets held by the Fund but may have certain assets or liabilities attributable solely to the Share Class, such assets and liabilities to include, but not be limited to, forward foreign exchange agreements utilised by the Manager for currency hedging purposes. Additional Share Classes may be created in the future and may have characteristics different from the Share Classes specified above. At the date of these accounts only shares in the Sterling class had been issued.

**INVESTMENT OBJECTIVES**

The investment objective of the Fund is to provide Shareholders with capital appreciation over the medium to long term through an economic exposure to a diverse range of investments in sustainable opportunities. The Fund is designed to capture the expected growth investments whose value and profitability are underpinned by major long-term environmental, social and economic trends.

**RESULTS AND DIVIDENDS**

The results for the year are shown on page 9.

The Directors do not recommend the payment of a dividend for the financial year.

**DIRECTORS**

The Directors, all of whom are non-executive directors, are as listed on page 1. All the Directors were appointed on incorporation. During the year business relationships existed between the Directors of the Fund and Related Parties to the Fund, these relationships are detailed in notes 3 to 5 of the financial statements.

**STATEMENT OF DIRECTORS' RESPONSIBILITIES**

The Companies (Guernsey) Law, 2008 requires Directors to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the Fund and of the profit or loss of the Fund for that year. In preparing these financial statements the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable accounting standards have been followed subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on a going concern basis unless it is inappropriate to presume that the Fund will continue in business.

The Directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the Fund and to enable them to ensure that the financial statements comply with The Companies (Guernsey) Law, 2008, The Protection of Investors (Bailiwick of Guernsey) Law, 1987 and the Fund’s principal documents. They are also responsible for safeguarding the assets of the Fund and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

**ARCH SUSTAINABLE FINANCE IC LIMITED**  
**DIRECTORS' REPORT (continued)**  
**FOR THE YEAR ENDED 31 MARCH 2009**

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**DIRECTORS' STATEMENTS**

The Directors make the following statements:-

- so far as they are aware, there is no relevant audit information of which the Company's auditor is unaware; and
- the Directors have taken all steps they ought to have taken to make themselves aware of any relevant audit information and established that the Company's auditor is aware of that information; and
- the financial statements give a true and fair view and have been prepared in accordance with International Financial Reporting Standards and with The Companies (Guernsey) Law, 2008 and The Protection of Investors (Bailiwick of Guernsey) Law, 1987.

**THE INVESTMENT MANAGER**

Arch Financial Products LLP (the "Manager") has been appointed Investment Manager to the Fund pursuant to an Investment Management Agreement dated 23 May 2007, (the "Management Agreement") between the Investment Manager and the Fund.

The Manager's appointment may be terminated on three months' notice given by either party or immediately at any time by the Fund upon material breach of the Management Agreement by the Manager, the insolvency, liquidation (save for the purpose of a previously approved winding up) or receivership of the Manager or if the Manager ceases to be qualified to act as such or, if for good and sufficient reason, the Fund is of the opinion that a change of manager is desirable in the interests of Shareholders and an Extraordinary Resolution is passed removing the Manager.

**THE ADMINISTRATOR**

The Manager has delegated to Bordeaux Services (Guernsey) Limited certain of its administrative duties pursuant to an Administration Agreement dated 24 May 2007, (the "Administration Agreement") between the Administrator and the Manager. The Administrator has also been appointed to act as secretary of the ICC and the Fund.

The Administration Agreement may be terminated by either party on not less than three months' notice, or earlier upon certain breaches of the Administration Agreement or the insolvency or receivership of either party or if the Administrator ceases to be qualified to act as such.

**CUSTODIAN**

The Manager has appointed MeesPierson (C.I.) Limited as the Custodian of the Fund under the terms of a Custodian Agreement dated 24 May 2007 (between the ICC and the Custodian).

The appointment of the Custodian can be terminated by the Fund or the Custodian (subject to the appointment of a replacement) upon not less than three months' prior written notice or earlier upon default by any party.

**STATUS OF TAXATION**

The Income Tax Authority of Guernsey has granted the Fund exemption from Guernsey income tax under the Income Tax (Exempt Bodies) (Guernsey) Ordinance, 1989 and the income of the Fund may be distributed or accumulated without deduction of Guernsey income tax. Exemption under the above mentioned Ordinance entails payment by the Fund of an annual fee of £600 for each year in which the exemption is claimed. It should be noted, however, that interest and dividend income accruing from the Fund's investments may be subject to withholding tax in the country of origin. With effect from 1 January 2008 the standard rate of income tax for most companies in Guernsey is zero per cent. Tax Exempt status continues to exist and the Fund will continue to apply for this status.

The Fund has not suffered any withholding tax in the year on its direct investments, although withholding tax may have been suffered within certain investments held by the Fund.

**ARCH SUSTAINABLE FINANCE IC LIMITED**  
**DIRECTORS' REPORT (continued)**  
**FOR THE YEAR ENDED 31 MARCH 2009**

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**AUDITORS**

The auditors Moore Stephens have indicated their willingness to continue in office, and a resolution concerning their reappointment will be proposed at the Annual General Meeting.

**N Meader**

**Director**

**Date: 20 December 2009**

**ARCH SUSTAINABLE FINANCE IC LIMITED**  
**INVESTMENT MANAGER'S REPORT**  
**FOR THE YEAR ENDED 31 MARCH 2009**

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The Company was incorporated in May 2007 and listed in August 07. The Company share price fell by 7.97% (offer-to-mid) in the period from inception to end March 2009. For the year ended March 2009, the share price of the Company fell by 15.02% (over the same period, the net asset value rose by 12.05%). As such, it has comfortably outperformed traditional asset classes such as listed equities and real estate, on a like-for-like basis. Against the backdrop of significant duress in public markets, this represents a decent return for investors, both in absolute and relative terms. Investors should be aware that the share price can differ from the net asset value of the Company. At any point in time, the net asset value can be higher or lower than the share price. It is worth pointing out that there will be occasions where there may be a significant difference between share prices and net asset values at a particular date, especially during periods where asset prices are highly volatile, leading to post-dated changes in the net asset value calculation.

The investment strategy of the Company is to combine (in broadly equal proportion) the exciting and profitable features of the Investment Manager's sustainable opportunities strategy with the steadier risk/return characteristics of private finance, in order to reduce overall market risk. Given the respectable return generated since the inception of the Company in the summer of 2007, and the relatively low volatility, it could reasonably be argued that this strategy has been one of the very few that have succeeded in delivering uncorrelated returns at a time when wealth destruction has been almost universal.

In terms of the sustainable opportunities segment of the portfolio of the Company, the central investment proposition is to prosper from (i) the growing scarcity of natural resources on our planet, (ii) the increasing regulatory costs of their usage and (iii) socio-economic and demographic trends as the world population continues to grow and urbanise. Governments, investors and businesses all have vested interests to continue to exploit their natural resources and to develop major infrastructural projects, in order to better serve the future needs of their populations. At the same time environmental stewardship is an increasingly dominant global investment theme.

Similarly long term socio-economic trends and infrastructural demands are driving changes in investment behaviour within developed and developing nations. Western standards of living are becoming much more prevalent in the newly industrializing world, and this is driving demand for life essentials such as the provision of food, water, health, energy, housing and industrial infrastructure. The continuing supply/demand imbalance in natural resources provides a large number of risk-subsidised opportunities for investment, in natural resource assets, transportation and distribution. By focusing on sectors and value chains where there is a structural supply shortage, the Company is less vulnerable to cyclical change and able to obtain a higher likelihood of decent returns with lower risk.

Sample investment exposures within this segment of the portfolio of the Company include the following:

- An investment into a general partnership that invests into companies at the forefront of using and/or producing climate change technology. This investment is still in its early stages;
- An investment into a Fund that invests into distressed life insurance policies (this has produced extremely favourable returns over the past year);
- An investment into a Fund that is a specialist investor in life and non-life securities (this has delivered respectable positive returns over the past financial year);
- An investment into a Fund that invests into collateralised export finance loans to Latin American companies involved in the production of bio-energy (returns over the past six-nine months have been decent);
- An investment into a Fund that derives regular royalty income from oil and gas rights (again, this has generated very good returns over the past 12-18 months).

**ARCH SUSTAINABLE FINANCE IC LIMITED  
INVESTMENT MANAGER'S REPORT (continued)  
FOR THE YEAR ENDED 31 MARCH 2009**

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The private finance segment of the Company constituted around 26% of the assets as at March 31st 2009. Within the private finance segment, the Company has two different types of exposure, firstly through an investment into the shares of various private finance cell companies run by Arch (around 18% of the Company's assets), and secondly through an exposure to some direct asset-backed shipping loans (around 8% of the Company's assets).

The investment in the private finance cell companies is a way of providing shareholders with a widely diversified exposure to this asset class. The underlying investments in the cell companies are generally well-collateralised cash flow financings for companies at attractive rates driven by scarceness of capital. Private finance is also referred to asset-backed lending and can include bridge financing, term lending and structured financing arrangements. In general terms, these private finance cell companies performed reasonably well for most of the last financial year – for example, the Sterling share class of Arch Private Finance IC Ltd rose by 5% in the nine months to December 2008.

However, the share prices fell significantly in the first quarter of 2009, especially in March, most likely reflecting the selling pressure exerted by major investors due in turn to redemptions by their investors. With regard to the asset-backed shipping loans undertaken by the Company, the decline in the value of the shipping collateral underpinning these loans has been a drag on performance. However, in recent months these loans have been restructured in an attempt to ensure respectable risk-adjusted returns over time.

Despite the worst liquidity environment for decades, cash levels within the Company is slowly improving, both on a current cash and forward cash basis. This is an important development, as liquidity pressures are the most damaging to value preservation at this time.

**Arch Financial Products LLP  
31 March 2009**

**ADDITIONAL POST-MARCH 2009 COMMENTARY ON ANY SIGNIFICANT DEVELOPMENTS**

Since the end of the financial year for the Company, global capital markets have experienced a significant recovery, after a period of unprecedented turmoil in the previous 12-18 months. For example, most of the major equity indices (such as the FTSE 100) have risen by 50% since the lows recorded in the first half of March 2009. Although equity and credit markets have recovered, some asset markets remain somewhat depressed, such as residential and commercial property. Some stabilization has been observed very recently, but property market conditions overall remain challenging.

Private market assets have generally lagged the recovery in public markets, as might be expected, it is worth pointing out that private assets did not fall as hard as publicly listed securities in the first instance. In the private equity space, deal flow has definitely improved over recent months and the prospects are encouraging, notwithstanding the ongoing dearth of credit availability. In private finance, the recovery in collateral values has provided some comfort to lenders. However it is fair to say that the general disposition towards asset backed lending remains very cautious and that distressed opportunities still abound. Reflecting on developments over recent months, the Company has disposed of some of its external fund holdings in order to generate liquidity. At this time the cash position of the Company is very healthy.

**Arch Financial Products LLP  
30 November 2009**

**ARCH SUSTAINABLE FINANCE IC LIMITED  
INDEPENDENT AUDITORS' REPORT  
TO THE MEMBERS OF ARCH SUSTAINABLE FINANCE IC LIMITED**

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We have audited the financial statements of Arch Sustainable Finance IC Limited (the "Fund") for the year ended 31 March 2009 which comprise the Income Statement, the Balance Sheet, the Statement of Changes in Net Assets attributable to holders of Participating Redeemable Preference Shares, the Statement of Cash Flows and the related notes. These financial statements have been prepared under the accounting policies set out therein.

This report is made solely to the Fund's members, as a body, in accordance with Section 262 of The Companies (Guernsey) Law, 2008. Our audit work has been undertaken so that we might state to the Fund's members those matters we are required to state to them in an auditors' report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Fund and the Fund's members as a body, for our audit work, for this report, or for the opinions we have formed.

**Respective responsibilities of Directors and Auditors**

The Directors' responsibilities for preparing the financial statements in accordance with applicable Guernsey Law and International Financial Reporting Standards ("IFRS") as set out in the Directors' Report on pages 2 to 4.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with The Companies (Guernsey) Law, 2008, The Protection of Investors (Bailiwick of Guernsey) Law, 1987 and the Fund's principal documents. We also report to you if, in our opinion, the information in the Directors' Report is not consistent with the financial statements, if the Fund has not kept proper accounting records or if we have not received all the information and explanations we require for our audit.

We read the other information contained in the Annual Report and consider whether it is consistent with the audited financial statements. The other information comprises only the directors' report, the investment manager's report and the portfolio statement. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the parent company financial statements. Our responsibilities do not extend to any other information.

**Basis of Opinion**

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the Directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Fund's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

**ARCH SUSTAINABLE FINANCE IC LIMITED**  
**INDEPENDENT AUDITORS' REPORT (continued)**  
**TO THE MEMBERS OF ARCH SUSTAINABLE FINANCE IC LIMITED**

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**Opinion**

In our opinion the financial statements:

- give a true and fair view, in accordance with IFRS, of the state of the Fund's affairs as at 31 March 2009 and of its loss for the year then ended; and
- have been properly prepared in accordance with The Companies (Guernsey) Law, 2008, The Protection of Investors (Bailiwick of Guernsey) Law, 1987 and the Fund's principal documents.

**MOORE STEPHENS**  
**Chartered accountants**  
Town Mills South  
La Rue du Pre  
St. Peter Port  
Guernsey  
GY1 3HZ

Date: 20 December 2009

**ARCH SUSTAINABLE FINANCE IC LIMITED**  
**INCOME STATEMENT**  
**FOR THE YEAR ENDED 31 MARCH 2009**

	Notes	Year ended 31 March 2009 £	Period from 21 May 2007 to 31 March 2008 £
<b>INCOME</b>			
Bank interest		35,016	114,999
Investment interest		199,536	140,450
Dividend income		40,928	35,787
Other net changes in fair value on financial assets and financial liabilities at fair value through profit or loss		-	1,533,101
<b>Total income</b>		<b>275,480</b>	<b>1,824,337</b>
<b>Expenses</b>			
Administration fees	3, 4	16,247	6,852
Audit fees		9,508	1,116
Custodian fees	4	13,891	7,151
Directors' fees and expenses	5	295	230
Foreign exchange loss		1,918,615	117,786
Investment manager's initial dealing charge	3	-	152,728
Management fees	3	247,114	131,947
Performance fees	3	50,807	252,517
Other operating expenses		12,154	20,906
Other net changes in fair value on financial assets and financial liabilities at fair value through profit or loss		1,222,102	-
<b>Total expenses</b>		<b>3,490,733</b>	<b>691,233</b>
<b>(Decrease)/increase in net assets attributable to holders of Participating Redeemable Preference Shares during the year/period</b>		<b>(3,215,253)</b>	<b>1,133,104</b>
Weighted average shares in existence during the year/period		16,193,717	9,638,589
<b>(Loss)/earnings per Participating Redeemable Preference Share</b>		<b>(£0.20)</b>	<b>£0.12</b>

The notes on page 13 – 25 form an integral part of these financial statements.

**ARCH SUSTAINABLE FINANCE IC LIMITED**  
**BALANCE SHEET**  
**AS AT 31 MARCH 2009**

	Notes	2009 £	2008 £
<b>Assets</b>			
<b>Current assets</b>			
Financial assets at fair value through profit or loss	6	14,596,938	14,110,497
Other receivables and prepayments	7	18,487	78,947
Cash and cash equivalents		2,431,474	1,034,737
<b>Total assets</b>		<b>17,046,899</b>	<b>15,224,181</b>
<b>Equity and liabilities</b>			
Share Capital – Management Shares	10	2	2
Participating Redeemable Preference Shares	10	18,676,376	13,676,376
Retained (deficit)/earnings	10	(2,082,149)	1,133,104
<b>Total equity</b>		<b>16,594,229</b>	<b>14,809,482</b>
<b>Liabilities</b>			
<b>Current liabilities</b>			
Net amounts due out on open forward foreign exchange	11	27,228	144,063
Amounts due to brokers		363,101	-
Other payables	8	62,341	270,636
<b>Total liabilities</b>		<b>452,670</b>	<b>414,699</b>
<b>Total equity and liabilities</b>		<b>17,046,899</b>	<b>15,224,181</b>
<b>Net Asset Value per Participating Redeemable Preference</b>	12	<b>£0.9203</b>	£1.0829

These financial statements were approved by the board and authorised for issue on 20 December 2009.

For and on behalf of  
**ARCH SUSTAINABLE FINANCE IC LIMITED**

**N Meader**

Director

The notes on page 13 – 25 form an integral part of these financial statements.

**ARCH SUSTAINABLE FINANCE IC LIMITED**  
**STATEMENT OF CHANGES IN NET ASSETS ATTRIBUTABLE TO HOLDERS OF**  
**PARTICIPATING REDEEMABLE PREFERENCE SHARES**  
**FOR THE YEAR ENDED 31 MARCH 2009**

	Year ended 31 March 2009	Period from 21 May 2007 to 31 March 2008
Note	£	£
<b>Net assets attributable to holders of Participating Redeemable Preference Shares at start of year/period</b>	<b>14,809,480</b>	-
Movement due to issue and redemption of shares:		
Amounts receivable on issues	10 <u>5,000,000</u>	<u>13,676,376</u>
	<b>19,809,480</b>	13,676,376
(Decrease)/increase in net assets attributable to holders of Participating Redeemable Preference Shares	<b>(3,215,253)</b>	1,133,104
<b>Net assets attributable to holders of Participating Redeemable Preference Shares at end of year/period</b>	<b><u>16,594,227</u></b>	<b><u>14,809,480</u></b>

The notes on page 13 – 25 form an integral part of these financial statements.

**ARCH SUSTAINABLE FINANCE IC LIMITED**  
**STATEMENT OF CASH FLOWS**  
**FOR THE YEAR ENDED 31 MARCH 2009**

	<b>Year ended 31 March 2009</b>	Period from 21 May 2007 to 31 March 2008
	<b>£</b>	<b>£</b>
<b>Cash flows from operating activities</b>		
(Decrease)/increase in net assets attributable to holders of Participating Redeemable Preference Shares	<b>(3,215,253)</b>	1,133,104
<i>Adjusted for:</i>		
Bank interest received	<b>(35,016)</b>	(114,999)
Decrease/(increase) in receivables	<b>60,460</b>	(78,945)
(Decrease)/increase in payables	<b>(208,295)</b>	270,636
Realised (profit)/loss on sale of investments	<b>(2,360,951)</b>	754,464
Unrealised loss/(profit) on investments	<b>3,583,052</b>	(2,287,565)
Purchase of investments at fair value through profit or loss	<b>(12,332,399)</b>	(16,293,585)
Sale proceeds from disposal of investments at fair value through profit or loss	<b>10,986,958</b>	5,668,819
Asset swap	-	(1,952,630)
<b>Net cash used in operating activities</b>	<b><u>(3,521,444)</u></b>	<b><u>(12,900,701)</u></b>
<b>Cash flows from financing activities</b>		
Bank interest received	<b>35,016</b>	114,999
Proceeds from issue of Participating Redeemable Preference Shares	<b>5,000,000</b>	13,676,376
<b>Net cash inflow from financing activities</b>	<b><u>5,035,016</u></b>	<b><u>13,791,375</u></b>
Net increase in cash and cash equivalents	<b>1,513,572</b>	890,674
Effect of exchange rate changes during the year/period	<b>(116,835)</b>	144,063
<b>Net movement in Cash and cash equivalents</b>	<b>1,396,737</b>	1,034,737
Cash and cash equivalents, start of the year/period	<b>1,034,737</b>	-
<b>Cash and cash equivalents, end of the year/period</b>	<b><u>2,431,474</u></b>	<b><u>1,034,737</u></b>

The notes on page 13 – 25 form an integral part of these financial statements.

**ARCH SUSTAINABLE FINANCE IC LIMITED**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 31 MARCH 2009**

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**1. GENERAL INFORMATION**

Arch Sustainable Finance IC Limited (the “Fund”) is an incorporated cell of Arch Guernsey ICC Limited (the “ICC”), a closed-ended incorporated cell company registered with limited liability and domiciled in Guernsey on 21 December 2006 and authorised by the Guernsey Financial Services Commission under the Incorporated Cell Companies Ordinance, 2006. The Fund was registered with limited liability on 21 May 2007.

The principal activity of the Fund is to provide Shareholders with capital appreciation over the medium to long term through economic exposure to a diverse range of investments in sustainable opportunities. The Fund is designed to capture the expected growth investments whose value and profitability are underpinned by major long-term environmental, social and economic trends.

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The following principal accounting policies have been applied consistently in the preparation of the financial statements:

**Statement of Compliance and basis of preparation**

The audited financial statements have been prepared on a going concern basis, under the historical cost convention as modified by the revaluation of investments and assets and liabilities at fair value through profit or loss and in accordance with International Financial Reporting Standards (“IFRS”) issued by the International Accounting Standards Board (“IASB”) and with The Companies (Guernsey) Law 2008.

The preparation of financial statements in conformity with IFRS requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from such estimates.

**Interpretations effective for the year ended 31 March 2009 but not relevant:**

IFRIC 11, IFRIC 2 - Group and share transactions;

IFRIC 12 - Service concession arrangements;

IFRIC 13 - Customer loyalty programmes;

IFRIC 14 - The limit on a defined benefit asset, minimum funding requirements and their interaction;

IFRIC 15 - Agreements for the construction of real estate;

IFRIC 16 - Hedges of a net investment in a foreign operation;

IFRIC 17 - Distributions of non-cash assets to owners; and

IFRIC 18 - Transfers of assets from customers.

**Standards, amendments and interpretations to existing standards issued at 31 March 2009 that are not yet effective and have not been early adopted by the fund:**

IAS 1 (Revised), ‘Presentation of financial statements’ (effective from 1 January 2009). The revised standard will prohibit the presentation of items of income and expenses (that is, ‘non-owner changes in equity’) in the statement of changes in equity, requiring ‘non-owner changes in equity’ to be presented separately from owner changes in equity. All non-owner changes in equity will be required to be shown in a performance statement, but entities can choose whether to present one performance statement (the Statement Of Comprehensive Income) or two statements (the Income Statement and Statement Of Comprehensive Income).

Where entities restate or reclassify comparative information, they will be required to present a restated balance sheet as at the beginning comparative period in addition to the current requirement to present balance sheets at the end of the current period and comparative period. The Fund will apply IAS 1 (Revised) from 1 January 2009 and it is likely the Fund will present solely a Statement Of Comprehensive Income. This change is not expected to significantly change the presentation of the Fund’s performance statement.

**ARCH SUSTAINABLE FINANCE IC LIMITED**  
**NOTES TO THE FINANCIAL STATEMENTS (continued)**  
**FOR THE YEAR ENDED 31 MARCH 2009**

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**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

**Standards, amendments and interpretations to existing standards issued at 31 March 2009 that are not yet effective and have not been early adopted by the fund (continued):**

IFRS 1 (amendment), First time adoption of IFRS and IAS 27, Consolidated and separate financial statements (effective from 1 January 2009). The amendments to IFRS 1 allows an entity to determine the 'cost' of investments in subsidiaries, jointly controlled entities or associates in its opening IFRS financial statements in accordance with IAS 27 or using a deemed cost. The amendment to IAS 27 requires all dividends from a subsidiary, jointly controlled entity or associate to be recognised in the Income Statement in the separate financial statement. Both revisions will be effective for financial years beginning on or after 1 January 2009. The revision to IAS 27 will have to be applied prospectively. The new requirements affect only the parent's separate financial statement and do not have an impact on the consolidated financial statements.

IAS 27 (revised), Consolidated and separate financial statements (effective from 1 July 2009). IAS 27 is issued to enhance the relevance, reliability and comparability of the information that a parent entity provides in its separate financial statements and in its consolidated financial statements for a Company of entities under its control. The amendments shall be applied for annual periods beginning on or after 1 July 2009. However an entity shall not apply these amendments for annual periods beginning before 1 July 2009 unless it also applies IFRS 3 as revised in 2008.

IFRS 8 - Operating segments (Effective date - 1 January 2009). IFRS 8 replaces IAS 14 and aligns segment reporting with the requirements of the US standard - Statement of Financial Accounting Standards ("SFAS") 131, 'Disclosures about Segments of an Enterprise and Related Information'. The new standard requires a 'management approach', under which segment information is presented on the same basis as that used for internal reporting purposes.

The IASB's latest annual improvements project was completed in April 2009 and changed a number of standards, but these changes, except for those listed below, are not expected to have a material impact on the Fund.

IFRS 7 (amendment) - Financial Instruments: Disclosures - Improving Disclosures about Financial Instruments (Effective date - 1 January 2009). The amendments require enhanced disclosures about fair value measurements and liquidity risk. Among other things, the new disclosures:

- clarify that the existing IFRS 7 fair value disclosures must be made separately for each class of financial instrument
- add disclosure of any change in the method for determining fair value and the reasons for the change
- establish a three-level hierarchy for making fair value measurements:
  1. quoted prices (unadjusted) in active markets for identical assets or liabilities (Level 1);
  2. inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices) (Level 2); and
  3. inputs for the asset or liability that are not based on observable market data (unobservable inputs) (Level 3).
- add disclosure, for each fair value measurement in the Statement Of Financial Position, of which level in the hierarchy was used and any transfers between levels, with additional disclosures whenever level 3 is used including a measure of sensitivity to a change in input data.
- clarify that the current maturity analysis for non-derivative financial instruments should include issued financial guarantee contracts.
- add disclosure of a maturity analysis for derivative financial liabilities.

**ARCH SUSTAINABLE FINANCE IC LIMITED**  
**NOTES TO THE FINANCIAL STATEMENTS (continued)**  
**FOR THE YEAR ENDED 31 MARCH 2009**

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**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

**Functional and Presentation Currency**

The Fund's subscriptions and redemptions of Participating Redeemable Preference Shares are denominated in Sterling. The performance of the Fund is measured and reported to investors in Sterling. The Directors consider Sterling as the currency that most accurately represents the economic effects of the underlying transactions, events and conditions. The financial statements are presented in Sterling, which is the Fund's functional and presentation currency.

**Foreign Currency**

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at period-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the Income Statement. Translation differences on non-monetary financial assets and liabilities such as equities at fair value through profit or loss are recognised in the Income Statement.

Forward foreign currency contracts are treated as derivative contracts and as such are recognised at fair value on the date on which they are entered into and subsequently re-measured at their fair value. Fair value is determined by rates in active currency markets. All derivatives are carried as assets when fair value is positive and as liabilities when fair value is negative.

**Preliminary Expenses**

The fees and expenses incurred in connection with the establishment of the fund were £7,000. For the purpose of establishing the Net Asset Value per Participating Redeemable Preference Share of the Fund for issues and redemptions of shares these establishment costs are amortised on a straight line basis over 5 years. For the purpose of the Fund's financial statements these establishment costs have been written off as incurred to the Income Statement in accordance with IFRS.

**Financial Assets at Fair Value through Profit or Loss**

The Fund classifies its investments as financial assets at fair value through profit or loss. These financial assets are classified as held for trading or designated by the Directors at fair value through profit or loss at inception. Financial assets held for trading are those acquired principally for the purposes of selling in the short term.

All purchases and sales of investments are recognised on trade date - the date on which the Fund commits to purchase or sell the investment.

Financial assets at fair value through profit or loss are initially recognised at fair value. Transaction costs are expensed in the Income Statement. Subsequent to initial recognition, all financial assets at fair value through profit and loss are measured at fair value. Gains and losses arising from changes in the fair value are presented in the Income Statement in the period in which they arise.

Directors value all investments based upon the latest available information notified to the Fund by the fund manager, administrator or Company, of the funds held in the Fund's investment portfolio. The valuation date of such funds may not always be coterminous with the valuation date of the Fund and in such cases the valuation of the fund as at the last valuation date is used. The net asset value reported by the fund manager or administrator may be unaudited and may differ from the amounts which would have been realised from a redemption of the investment in the relevant fund as, in some cases, the notified net asset values are based upon estimates. The Directors believe that such valuations are reasonable.

**ARCH SUSTAINABLE FINANCE IC LIMITED**  
**NOTES TO THE FINANCIAL STATEMENTS (continued)**  
**FOR THE YEAR ENDED 31 MARCH 2009**

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**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

**Cash and Cash Equivalents**

Cash and cash equivalents are defined as cash in hand, demand deposits and highly liquid investments readily convertible to known amounts of cash and subject to insignificant risk of changes in value. For the purposes of the Statement of Cash Flows, cash and cash equivalents consist of cash in hand and deposits in bank.

**Participating Redeemable Preference Shares**

The Fund has no planned end date and shareholders will not be entitled to require the Fund to redeem their shares at any time. Accordingly the Participating Redeemable Preference Shares have been classified as equity in accordance with IAS 32 "Financial Instruments: Presentation".

**Segmental Reporting**

The Directors are of the opinion that the Fund is engaged in a single segment of business, being investment business.

**Financial Assets and Liabilities**

The financial assets and liabilities of the Fund are defined as investments, cash and cash equivalents and other receivables and payables. The currency exposure of the Fund's net financial assets is disclosed in note 9.

**Significant Estimates and Judgements**

The Directors make estimates and assumptions concerning the future. 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 are outlined below:

**Fair value of unlisted financial instruments**

The Fund holds instruments that are unlisted on recognised exchanges. The Directors make judgements as to the fair value of these instruments based on estimates supplied by the administrators of the underlying investments.

**Income and Expenses**

Bank interest and investment interest are recognised on a time-proportionate basis using the effective interest method.

Expenses are recognised on an accruals basis.

**Taxation**

The Income Tax Authority of Guernsey has granted the Fund exemption from Guernsey income tax under the Income Tax (Exempt Bodies) (Guernsey) Ordinance, 1989 and the income of the Fund may be distributed or accumulated without deduction of Guernsey income tax. Exemption under the above mentioned Ordinance entails payment by the Fund of an annual fee of £600 for each year in which the exemption is claimed. It should be noted, however, that interest and dividend income accruing from the Fund's investments may be subject to withholding tax in the country of origin. With effect from 1 January 2008 the standard rate of income tax for most companies in Guernsey is zero per cent. Tax Exempt status continues to exist and the Fund will continue to apply for this status.

The Fund has not suffered any withholding tax in the period on its direct investments, although withholding tax may have been suffered within certain investments held by the Fund.

**ARCH SUSTAINABLE FINANCE IC LIMITED**  
**NOTES TO THE FINANCIAL STATEMENTS (continued)**  
**FOR THE YEAR ENDED 31 MARCH 2009**

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**3. RELATED PARTIES AND RELATED PARTY TRANSACTIONS**

During the year business relationships existed between the Directors of the Fund and Related Parties to the Fund:

Robert Addison is a director of Arch Financial Products LLP, the Investment Manager.

The Fund is responsible for the continuing fees of the Investment Manager in accordance with the Investment Management Agreement dated 23 May 2007.

**Management Fees**

Pursuant to the provisions of the Management Agreement, the Investment Manager is entitled to receive a management fee during the year ended 31 March 2009 at 1.5% per annum of the Net Asset Value of the Fund. In the year to 31 March 2009 management fees totalling £247,114 (31 March 2008: £131,947) were due to Arch Financial Products LLP. As at 31 March 2009 the management fee payable was £44,504 (31 March 2008: £74,295).

The Manager deducts an initial dealing charge of 2% in respect of subscriptions into the Fund. During the year ended 31 March 2009, these initial dealing charges amounted to £Nil (31 March 2008: £152,728). For the purpose of establishing the Net Asset Value per participating Redeemable Preference Share of the Fund for issues and redemptions of shares, these establishment costs are amortised on a straight line basis over 5 years. For the purpose of the Fund's financial statements these establishment costs have been written off as incurred to the Income Statement in accordance to IFRS.

**Performance Fees**

Pursuant to the provisions of the Management Agreement, the Investment Manager is entitled to receive a performance fee during the year ended 31 March 2009 at 20% of the amount by which the Net Asset Value of the Fund exceeds the greater of (i) the highest Net Asset Value per share by reference to which a performance fee has previously been paid or (ii) £1.00, provided, however that the performance fee may only be charged to the extent it does not reduce the rate of return achieved by such Fund for such year below the cumulative hurdle rate. The cumulative hurdle rate is the three month LIBOR of the currency of the share class plus 4% set on the final business day of the previous performance period. In the year to 31 March 2009 performance fees totalling £50,807 (31 March 2008: £252,517) were due to Arch Financial Products LLP. As at 31 March 2009 the performance fee payable was £Nil (31 March 2008: £183,313).

**Administration Fees**

Neal Meader and Peter Radford are directors of Bordeaux Services (Guernsey) Limited, the Administrator.

In the year to 31 March 2009 administration fees totalling £16,247 (31 March 2008: £6,852) were due to Bordeaux Services (Guernsey) Limited. As at 31 March 2009 the administration fee payable was £4,305 (31 March 2008: £4,013).

**4. MATERIAL AGREEMENTS**

The Fund is responsible for the continuing fees of the Administrator and the Custodian in accordance with the Investment Management Agreements dated 23 May 2007 and the Administration and Custodian Agreement dated 24 May 2007.

**Administration Fees**

The Administrator is paid a fee from the Fund under the terms of the Administration Agreement, calculated by reference to the Net Asset Value of the Fund, payable monthly in arrears according to the following schedule:

**ARCH SUSTAINABLE FINANCE IC LIMITED**  
**NOTES TO THE FINANCIAL STATEMENTS (continued)**  
**FOR THE YEAR ENDED 31 MARCH 2009**

**4. MATERIAL AGREEMENTS (continued)**

**Administration Fees (continued)**

<u>Net Asset Value Range</u>	<u>Relevant % of NAV</u>
£0 million < £50 million	0.16%
£50 million < £100 million	0.13%
>£100 million	0.11%

The Administrator's fee will be subject to an annual minimum of £40,000 for the ICC and its Cells, which minimum fee shall be *pro rated* by reference to the Fund's Net Asset Value.

**Custodian Fees**

Pursuant to the provisions of the Custodian Agreement, MeesPierson (C.I.) Limited is entitled to receive 0.075% per annum of the Net Asset Value of the Fund, subject to a minimum annual fee of £6,000. As at 31 March 2009 the custodian fee was £13,891 (31 March 2008: £7,151) with a custodian fee payable of £3,559 (31 March 2008: £4,576).

**5. DIRECTORS' FEES**

The Fund's directors comprise the key management personnel.

Robert Addison, Neal Meader and Peter Radford are each entitled to receive an annual Director's fee of £5,000 for the ICC and its Cells which shall be pro rated by reference to the Fund's Net asset Value, which is reviewable on an annual basis. Robert Addison has agreed to waive his fee. As at 31 March 2009 Directors' fees were £295 (31 March 2008: £230) with a Director's fees payable of £80 (31 March 2008: £230).

The Directors will also be entitled to be reimbursed for reasonable travel and accommodation expenses incurred by them in connection with their attendance at meetings in relation to Arch Guernsey ICC Limited ("the ICC") and the Fund.

**6. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS**

	<u>2009</u>	<u>2008</u>
	£	£
<b>Investment</b>		
Cost at start of year/period	<b>11,822,932</b>	-
Purchases	<b>12,695,500</b>	18,246,215
Sales	<b>(10,986,958)</b>	(5,668,819)
Realised gains on sales	<b>2,360,951</b>	(754,464)
Cost at end of year/period	<b>15,892,425</b>	11,822,932
Unrealised (loss)/gain on revaluation of investment	<b>(1,295,487)</b>	2,287,565
Fair value of investments at end of year/period	<b>14,596,938</b>	14,110,497

**7. OTHER RECEIVABLES AND PREPAYMENTS**

	<u>2009</u>	<u>2008</u>
	£	£
Investment interest	<b>15,623</b>	-
Other receivables	<b>2,864</b>	78,947
	<b>18,487</b>	78,947

The Directors consider that the carrying amount of other receivables approximates to fair value.

**ARCH SUSTAINABLE FINANCE IC LIMITED**  
**NOTES TO THE FINANCIAL STATEMENTS (continued)**  
**FOR THE YEAR ENDED 31 MARCH 2009**

**8. OTHER PAYABLES**

	<u>2009</u>	<u>2008</u>
	£	£
Management fee	44,504	74,295
Administration fee	4,305	4,013
Custodian fee	3,559	4,576
Audit fee	6,800	1,116
Directors' fees	80	230
Performance fee	-	183,313
Other payables	3,093	3,093
	<u>62,341</u>	<u>270,636</u>

The Directors consider that the carrying amount of other payables approximates to fair value.

**9. FINANCIAL RISK MANAGEMENT**

The Fund is exposed to a number of financial risks including market price risk, interest rate risk, credit risk, liquidity risk and currency exchange risk arising from the financial instruments it holds. Risk management procedures are in place to minimise the Fund's exposure to these financial risks.

**Market Price Risk**

Market price risk results mainly from the uncertainty about future prices of financial instruments held. It represents the potential loss the Fund may suffer through holding market positions in the face of price movements and changes in exchange rates. All securities investments present a risk of loss of capital. The Investment Manager moderates this risk through a careful selection of securities and other financial instrument. The maximum risk resulting from financial instruments is determined by the fair value of the financial instruments.

At 31 March 2009, if market prices had moved by 5% with all other variables remaining constant, the change in net assets attributable to holders of redeemable shares for the year would amount to approximately +/- £729,847 (31 March 2008: £ +/- £705,525).

**Foreign Currency Risk**

Foreign currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates. Currency risk arises when future commercial transactions and recognised assets and liabilities are denominated in currency that is not the Fund's functional currency.

The Fund monitors its exposure to foreign exchange rates and adopts hedging strategies as required to minimise these exposures.

**Currency Exposure**

As at 31 March 2009 a proportion of the net financial assets (defined in note 2) of the Fund are denominated in currencies other than Sterling as follows:

	<u>2009</u>	<u>2008</u>
	£	£
Sterling	7,937,065	15,243,482
US Dollars	9,092,898	(395,490)
Euro	(305,200)	(38,512)
<b>Net financial assets attributable to holders of Participating Redeemable Preference Shares</b>	<u>16,724,763</u>	<u>14,809,480</u>

**ARCH SUSTAINABLE FINANCE IC LIMITED**  
**NOTES TO THE FINANCIAL STATEMENTS (continued)**  
**FOR THE YEAR ENDED 31 MARCH 2009**

**9. FINANCIAL RISK MANAGEMENT (continued)**

**Currency Exposure (continued)**

The above table shows the value of financial assets that are denominated in foreign currency after hedging. The Fund uses forward foreign exchange contracts as hedging strategy to mitigate its exposure to fluctuations in the foreign exchange rate. Details of currency hedging strategies are stated in note 11.

At 31 March 2009, if the exchange rates of Euro and US Dollar had strengthened or weakened by 5% against Sterling, with all other variables remaining constant, the increase/(decrease) in net assets attributable to holders of redeemable shares for the year would amount to approximately £462,510 / (£418,462) (31 March 2008: £20,667 / (£22,842)).

**Credit Risk**

Credit risk is the risk that an issuer or counterparty will be unable or unwilling to meet a commitment that it has entered into with the Fund. The investments of the Fund are determined by the Investment Manager in accordance with the criteria set out in the Fund's scheme particulars. Impairment provisions are provided for losses that have been incurred by the Balance Sheet date, if any. The Fund's maximum credit exposure is limited to the carrying amount of financial assets recognised at the Balance Sheet date which amounted to £17,046,899 (31 March 2008: £15,224,181).

All transactions in securities are settled upon delivery using approved brokers. The risk of default is considered minimal as the trade will fail if either party fails to meet their obligation.

**Interest Rate Risk**

The Fund is exposed to risks associated with the effects of fluctuations in the prevailing levels of market interest rates on its financial instruments and cash flow. Bonds, cash and cash equivalents are the only interest bearing financial instruments.

The investment manager actively manages the Fund's exposure to interest rate risk, paying heed to prevailing interest rates and economic conditions, market expectations and their own views as to likely moves in interest rates.

	<b>31 March 2009</b>			
	<b>Fixed Interest</b>	<b>Variable interest</b>	<b>Non interest bearing</b>	<b>Total</b>
	<b>£</b>	<b>£</b>	<b>£</b>	<b>£</b>
<b>Assets</b>				
Financial assets at fair value through profit or loss	1,189,045	-	13,407,893	14,596,938
Other receivables and prepayments		-	18,487	18,487
Cash and cash equivalents		2,431,474	-	2,431,474
<b>Total Assets</b>	<b>1,189,045</b>	<b>2,431,474</b>	<b>13,426,380</b>	<b>17,046,899</b>
<b>Liabilities</b>				
Amount due out on open forward foreign exchange		-	27,228	27,228
Amount due to brokers		-	363,101	363,101
Other payables		-	62,341	62,341
<b>Total Liabilities</b>	<b>-</b>	<b>-</b>	<b>452,670</b>	<b>452,670</b>
<b>Total interest sensitivity gap</b>	<b>1,189,045</b>	<b>2,431,474</b>	<b>12,973,710</b>	<b>16,594,229</b>

**ARCH SUSTAINABLE FINANCE IC LIMITED**  
**NOTES TO THE FINANCIAL STATEMENTS (continued)**  
**FOR THE YEAR ENDED 31 MARCH 2009**

**9. FINANCIAL RISK MANAGEMENT (continued)**

**Interest Rate Risk (continued)**

	31 March 2008			Total £
	Fixed interest £	Variable interest £	Non interest bearing £	
<b>Assets</b>				
Financial assets at fair value through profit or loss	1,590,902	-	12,519,595	14,110,497
Other receivables and prepayments	-	-	78,947	78,947
Cash and cash equivalents	-	1,034,737	-	1,034,737
<b>Total Assets</b>	<b>1,590,902</b>	<b>1,034,737</b>	<b>12,598,542</b>	<b>15,224,181</b>
<b>Liabilities</b>				
Net amount due out on open forward exchange contracts	-	-	144,063	144,063
Other payables	-	-	270,636	270,636
<b>Total Liabilities</b>	<b>-</b>	<b>-</b>	<b>414,699</b>	<b>414,699</b>
<b>Total interest sensitivity gap</b>	<b>1,590,902</b>	<b>1,034,737</b>	<b>12,183,843</b>	<b>14,809,482</b>

At 31 March 2009, if interest rates had moved by 50 basis points with all other variables remaining constant, the change in net assets attributable to holders of redeemable shares for the year would amount to approximately +/-£12,157, arising substantially from the cash and cash equivalents (31 March 2008: +/-£6,697).

**Liquidity Risk**

Liquidity risk is the risk that the Fund will encounter difficulties in realising assets or otherwise raising funds to meet financial commitments. The Fund is closed ended and therefore is not exposed to the risk of investors redeeming out. The principal liquidity risk is contained in unmatched liabilities. In the opinion of the Directors the current liquidity risk at the 31 March 2009 is low as cash and cash equivalents exceeds unmatched liabilities >5.4:1 (31 March 2008: > 2.5:1).

**10. SHARE CAPITAL**

	2009 £	2008 £
<b>Authorised Share Capital</b>		
2 Management Shares of £1 each	2	2
Unlimited unclassified Shares of no par value that may be issued as Participating Redeemable Preference Shares	-	-
	<b>2</b>	<b>2</b>
	<b>Number of Shares</b>	<b>Share Capital</b>
<b>Issued Share Capital</b>	<b>No.</b>	<b>£</b>
Management Shares at 31 March 2008 and 2009	<b>2</b>	<b>2</b>

**ARCH SUSTAINABLE FINANCE IC LIMITED**  
**NOTES TO THE FINANCIAL STATEMENTS (continued)**  
**FOR THE YEAR ENDED 31 MARCH 2009**

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**10. SHARE CAPITAL (continued)**

The principal rights attaching to the shares are as follows:

(i) Management Shares:

The Management Shares exist to comply with Guernsey Law which requires that the Participating Redeemable Preference Shares have preference over another class of capital in order to be redeemable. The Management Shares can only be issued at par and are owned by the Investment Manager.

The Management Shares confer upon the holders thereof the right in a winding-up on repayment of capital to the repayment of the amount paid up on the Management Shares but confer no further or other right to participate in the profits or assets of the Fund. Accordingly, Management Shares will not entitle the holders thereof to receive any dividends nor do they carry any voting rights whilst Participating Redeemable Preference Shares are in issue.

(ii) Participating Redeemable Preference Shares:

In a winding-up the holders of Participating Redeemable Preference Shares have the right to receive surplus assets available for distribution after repayment of the nominal amounts paid up on the Management Shares.

The Participating Redeemable Preference Shares confer the right to dividends. At General Meetings, on a poll, every holder is entitled to one vote in respect of each Participating Redeemable Preference Share held.

<b>Year ended 31 March 2009</b>	<b>Brought forward</b>	<b>Issued</b>	<b>Redeemed</b>	<b>Carried forward</b>
<b>Number of Participating Redeemable Preference Shares</b>	<b>No.</b>	<b>No.</b>	<b>No.</b>	<b>No.</b>
£ Class	<b>13,676,376</b>	<b>4,354,642</b>	-	<b>18,031,018</b>
Total Participating Redeemable Preference Shares	<b>13,676,376</b>	<b>4,354,642</b>	-	<b>18,031,018</b>

**ARCH SUSTAINABLE FINANCE IC LIMITED**  
**NOTES TO THE FINANCIAL STATEMENTS (continued)**  
**FOR THE YEAR ENDED 31 MARCH 2009**

**10. SHARE CAPITAL (continued)**

<b>Year ended 31 March 2009</b>	<b>Brought forward</b>	<b>Issued / Increase</b>	<b>Redeemed / Decrease</b>	<b>Carried forward</b>
	<b>£</b>	<b>£</b>	<b>£</b>	<b>£</b>
<b>Value of Participating Redeemable Preference Shares</b>				
Share Premium - £ Class	13,676,376	5,000,000	-	18,676,376
Decrease in net assets - £ Class	1,133,104	-	(3,215,253)	(2,082,149)
<b>Total</b>	<b>14,809,480</b>	<b>5,000,000</b>	<b>(3,215,253)</b>	<b>16,594,227</b>
<b>Period ended 31 March 2008</b>	<b>Brought forward</b>	<b>Issued</b>	<b>Redeemed</b>	<b>Carried forward</b>
<b>Number of Participating Redeemable Preference Shares</b>	<b>No.</b>	<b>No.</b>	<b>No.</b>	<b>No.</b>
£ Class	-	13,676,376	-	13,676,376
<b>Total Participating Redeemable Preference Shares</b>	<b>-</b>	<b>13,676,376</b>	<b>-</b>	<b>13,676,376</b>
<b>Period ended 31 March 2008</b>	<b>Brought forward</b>	<b>Issued / Increase</b>	<b>Redeemed / Decrease</b>	<b>Carried forward</b>
<b>Value of Participating Redeemable Preference Shares</b>	<b>£</b>	<b>£</b>	<b>£</b>	<b>£</b>
Share Premium - £ Class	-	13,676,376	-	13,676,376
Increase in net assets - £ Class	-	1,133,104	-	1,133,104
<b>Total</b>	<b>-</b>	<b>14,809,480</b>	<b>-</b>	<b>14,809,480</b>

**11. FORWARD CURRENCY CONTRACTS**

As at 31 March 2009 outstanding forward currency contracts were held as set out below:

<b>Purchase Currency</b>	<b>Contractual Amount</b>	<b>Sale Currency</b>	<b>Contractual Amount</b>	<b>Maturity Date</b>	<b>Unrealised Loss</b>
					<b>£</b>
GBP	892,089	USD	990,000	15 April 2009	(23,694)
GBP	144,471	EUR	160,000	15 April 2009	(3,534)
					<b>(27,228)</b>

The above forward currency contracts are for the purposes of currency hedging.

As at 31 March 2008 outstanding forward currency contracts were held as set out below:

<b>Purchase Currency</b>	<b>Contractual Amount</b>	<b>Sale Currency</b>	<b>Contractual Amount</b>	<b>Maturity Date</b>	<b>Unrealised Loss</b>
					<b>£</b>
GBP	6,319,881	USD	12,780,000	16 June 2008	(122,463)
GBP	683,239	EUR	760,000	16 June 2008	(21,600)
					<b>(144,063)</b>

The above forward currency contracts are for the purposes of currency hedging.

**ARCH SUSTAINABLE FINANCE IC LIMITED**  
**NOTES TO THE FINANCIAL STATEMENTS (continued)**  
**FOR THE YEAR ENDED 31 MARCH 2009**

**12. NET ASSET VALUE PER PARTICIPATING REDEEMABLE PREFERENCE SHARE**

The net asset value per Participating Redeemable Preference Share Class (“NAV per Share”) is calculated based on the net assets attributable to holders of each Participating Redeemable Preference Share Class (“NAV”) at the Balance Sheet date divided by the year end numbers of shares in issue in that Participating Redeemable Preference Share Class.

For the purposes of calculating the NAV, preliminary expenses are being written off over a five year period, commencing on the launch of the Fund. However, in compliance with IFRS preliminary expenses have been expensed in the Income Statement as incurred. Furthermore the forward foreign exchange contracts were valued for valuation purposes using the forward close out rate. The table below shows the NAV per Share, by Share Class, and reconciles the difference between the financial statements NAV per Share Class compared to the dealing NAV per Share Class:

	<u>2009</u>	<u>2008</u>
	£	£
NAV	<b>16,594,227</b>	14,809,480
No. of shares in issue	<b>18,031,018</b>	13,676,376
Financial Statements NAV per	<b>0.9203</b>	1.0829
<b>Adjustment for:</b>		
Write off of formation expenses, initial charge and revaluation of forward exchange contracts	<b>387,386</b>	206,766
<b>Dealing NAV per Share</b>	<b><u>0.9418</u></b>	<u>1.0980</u>

**13. CAPITAL RISK MANAGEMENT**

The Fund's capital management objectives are to ensure that the Fund is able to continue as a going concern, and to maximise the income and return on capital to holders of Participating Redeemable Preference Shares. The Fund is not subject to any externally imposed capital requirements.

In line with the scheme particulars, initial subscription to the Fund is closed but the Directors may offer through placing further subscription as may be required. The holders of Participating Redeemable Preference Shares could exit the Fund on a matched basis through a market maker appointed by the Directors, this ensures that the Directors are in control of capital flows within the Fund. The table below shows the capital structure as at 31 March 2009.

	<u>Opening</u>	<u>Issued</u>	<u>Increase / Decrease</u>	<u>Carried forward</u>
Participating preference share	<b>13,676,376</b>	<b>5,000,000</b>	-	<b>18,676,376</b>
Management shares	2	-	-	2
Movement in net assets	<b>1,133,104</b>	-	<b>(3,215,253)</b>	<b>(2,082,149)</b>
<b>31 March 2009</b>	<b><u>14,809,482</u></b>	<b><u>5,000,000</u></b>	<b><u>(3,215,253)</u></b>	<b><u>16,594,229</u></b>

**ARCH SUSTAINABLE FINANCE IC LIMITED**  
**NOTES TO THE FINANCIAL STATEMENTS (continued)**  
**FOR THE YEAR ENDED 31 MARCH 2009**

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**13. CAPITAL RISK MANAGEMENT (continued)**

The capital structure shows that the investment objectives of the Fund is being met entirely by equity, as the Fund is not leveraged, the Directors and investment managers are of the opinion that the existing capital structure will enable the Fund to enhance returns to holders of participating redeemable preference shares by taking advantage of new opportunities from a position of strength as the global economies emerge from recession.

**14. COMMITMENTS**

The Fund has a commitment in Climate Change Capital with a potential outstanding commitment at 31 March 2009 of €2,144,865.

**15. POST BALANCE SHEET EVENTS**

Arch Financial Products LLP has resigned as Investment Manager with effect from 1 December 2009. The Board have appointed Spearpoint Limited as the new Investment Manager to the Fund with effect from 1 December 2009.

**ARCH SUSTAINABLE FINANCE IC LIMITED**  
**PORTFOLIO STATEMENT**  
**FOR THE YEAR ENDED 31 MARCH 2009**

Description	31 March 2009	
	Fair Value	% of Asset Value
	£	
Arch Private Finance	1,754,092	12.02
Arch AT St Mary Linked 6.558% Loan Note	748,086	5.12
Acheron Portfolios Corp Ltd Class A	1,712,866	11.73
Arch Fine Wine	880,422	6.03
Arch AT Asset Marinter I & II Linked 20% Loan Note	440,959	3.02
Arch Cru Private Finance	445,673	3.05
Arch Finance Opportunities	264,479	1.81
Climate Change Capital Private Equity LP	314,519	2.15
Noble Group Holdings Limited shares	116,578	0.80
Arch Structured Finance	172,925	1.18
Securis I Fund Class B USD Restricted	2,006,350	13.75
Latin America Bioenergy (Offshore) Fund	1,500,617	10.28
Caritas Royalties II (Bermuda) - Regular S01/11/06	2,469,686	16.92
Natsource Aeolus Offshore Fund II Ltd - Class A	1,248,180	8.55
Oceanic Hedge Fund Class B	367,064	2.51
Natsource Aeolus Offshore Fund Ltd Series 2007-05M	107,240	0.73
Natsource Aeolus Offshore Fund II Ltd - SP1	36,898	0.25
Natsource Aeolus Offshore Fund II Ltd - SP2	10,304	0.07
<b>Total Portfolio</b>	<b>14,596,938</b>	<b>100.00</b>

Description	31 March 2008	
	Fair Value	% of Asset Value
	£	
Natural Resource Related Investments	3,709,609	26.29
Insurance Related Investments	2,419,973	17.15
Collective Investment Schemes (Debt-based)	3,296,129	23.36
Unlisted Equities (Other)	948,271	6.72
Listed Equities	181,000	1.28
Asset Swap	1,964,613	13.92
	12,519,595	88.72
Collateralised Loan Notes		
21/08/12 (20% + warrants)	527,908	3.75
24/08/08 (10% + warrants)	1,062,994	7.53
	1,590,902	11.28
<b>Total Portfolio</b>	<b>14,110,497</b>	<b>100.00</b>