EUROCASTLE INVESTMENT LIMITED AND SUBSIDIARIES

INTERIM FINANCIAL RESULTS FOR THE HALF YEAR AND QUARTER ENDED 30 JUNE 2007

Eurocastle Investment Limited owns and invests primarily in German commercial property. The Group is Euro denominated and currently listed on Euronext Amsterdam, under the symbol "ECT" and on the Frankfurt Stock Exchange, under the symbol "EUI1". Eurocastle's objective is to build long-term value for its shareholders and to pay out stable and growing dividends. Eurocastle is managed by an affiliate of Fortress Investment Group LLC. For more information regarding Eurocastle and to be added to our email distribution list, please visit www.eurocastleinv.com.

Half Year Highlights

- Dividend declared for the second quarter 2007 is €0.60 per share. This compares to the second quarter 2006 dividend of €0.40 per share and first quarter 2007 dividend of €0.45 per share.
- Completed €2.2 billion of commercial property purchases, including the acquisition of 56 German commercial property assets ("the Mars portfolio") announced in December 2006 and completed in first quarter 2007.
- Signed 365 leases for approximately 143,000 square meters, including 140 new leases for approximately 40,000 square meters.
- Completed the sale of 72 of the 78 non-core assets held for sale at 31 March 2007, at a 9% premium to the 2006 year end carrying value, resulting in a realised gain on the book cost, net of associated sale costs and taxes, of €26.5 million or €0.42 per share.
- Admitted to trading on the Frankfurt Stock Exchange on 20 June 2007.
- Increase in the fair value of investment properties of €280.4 million for the six months to 30 June 2007 of which €239.1 million was achieved in the second quarter.
- Entered into exclusive negotiations to acquire 68 retail properties for an aggregate all-in purchase price of approximately €210 million.

Key Performance Indicators

Second Quarter 2007

- Net profit after tax of €236.2 million for the second quarter 2007, increased from €13.7 million for the second quarter 2006.
- Earnings per ordinary share of €3.70 or €3.58 per diluted share, for the second quarter 2007 compared to €0.30 per ordinary share or €0.29 per diluted share, for the second quarter 2006.
- Funds From Operations ("FFO", see Key Financial Information) increased by 218% to €57.2 million for the second quarter 2007 from €18.0 million for the second quarter 2006.
- FFO of €0.90 per ordinary share (30 June 2006: €0.40 per share) or €0.87 per diluted share (30 June 2006: €0.38 per share).
- FFO return on average invested capital* was 15.6% for the second quarter 2007.
- NAV per share increased to €29.07 at the end of the second quarter 2007 from €25.58 at the end of the first quarter 2007, an increase of 13.6%

First Half 2007

- Net profit after tax of €290.5 million for the first half 2007, compared to €106.6 million for the first half 2006.
- Earnings per ordinary share of €4.56 or €4.40 per diluted share, for the first half 2007, compared to €2.56 per ordinary share or €2.46 per diluted share for the first half 2006.
- FFO increased by 167% to €85.1 million for the first half 2007 from €31.9 million for the first half 2006.
- FFO of €1.34 per ordinary share or €1.29 per diluted share for the first half 2007 compared to FFO of €0.77 per ordinary share or €0.74 per diluted share for the first half 2006.
- FFO return on average invested capital* was 11.7% for the first half 2007.
- NAV per share increased to €29.07 at the end of the second quarter 2007 from €24.73 at the end of the fourth quarter 2006, an increase of 17.8%.

* Invested capital represents capital and reserves less hedging reserves, fair value of interest rate swaps and net unrealised gains on available-for-sale securities, real estate fund units and investment properties (net of attributable deferred taxation).

Key Financial Information

Segmental Information

The Group is now reporting financial information by business segment on a quarterly basis. This is consistent with the way it manages the business and provides insight into the capital utilisation and performance of the individual business segments.

Segmental analysis prepared according to IFRS has been disclosed in Note 28. The tables below show the summarised financial data of the Group's business segments with the unallocated amounts per Note 28 allocated between the segments on the basis disclosed below each table.

Balance sheet data As at 30 June 2007 (Unaudited)	**Debt investment €'000**	**Real estate fund units €'000**	**Investment properties €'000**	**Total Eurocastle €'000**
Investments	2,101,574	153,099	5,491,999	**7,746,672**
Other assets[1]	31,581	12,819	338,468	**382,868**
Total assets	**2,133,155**	**165,918**	**5,830,467**	**8,129,540**
Interest-bearing debt financing	(1,902,933)	(96,428)	(4,012,929)	**(6,012,290)**
Other liabilities[2]	(45,362)	(2,135)	(149,518)	**(197,015)**
Total liabilities	**(1,948,295)**	**(98,563)**	**(4,162,447)**	**(6,209,305)**
Segment net assets	**184,860**	**67,355**	**1,668,020**	**1,920,235**
Tax liability	-	(682)	(64,249)	**(64,931)**
Minority interest	(2)	(4)	-	**(6)**
Net assets	**184,858**	**66,669**	**1,603,771**	**1,855,298**
Net assets per share €	**2.90**	**1.04**	**25.13**	**29.07**

1 Unallocated other assets of €12.8 million have been allocated between the segments based on each segment's share of net assets before allocation. Amounts allocated were; debt investments: €1.2million, real estate fund units: €0.4 million and investment properties: €11.2 million.

2 Unallocated other liabilities of €15.3 million have been allocated between segments based on each segment's share of net assets before allocation. Amounts allocated were; debt investments: €1.5 million, real estate fund units: €0.5 million and investment properties: €13.3 million.

Income statement data Three months ended 30 June 2007 (Unaudited)	**Debt investment €'000**	**Real estate fund units €'000**	**Investment properties €'000**	**Total Eurocastle €'000**
Operating income[1]	33,378	5,023	345,752	**384,153**
Interest expense [2]	(26,907)	(1,354)	(40,304)	**(68,565)**
Service charge and property operating expenses	-	-	(19,895)	**(19,895)**
Other operating expense (including foreign currency gains/(losses) [3]	(1,958)	(608)	(18,618)	**(21,184)**
Segment result	**4,513**	**3,061**	**266,935**	**274,509**
Taxation expense	-	(96)	(38,220)	**(38,316)**
Net profit	**4,513**	**2,965**	**228,715**	**236,193**
Increase in fair value	-	(1,265)	(249,467)	**(250,732)**
Realised gains on sale of investment properties	-	-	36,155	**36,155**
Deferred tax	-	-	35,567	**35,567**
Funds from operations	**4,513**	**1,700**	**50,970**	**57,183**
Funds from operations per share €	**0.07**	**0.03**	**0.80**	**0.90**
Adjusted funds from operations per share[4] €	**0.10**	**0.03**	**0.38**	**0.51**

1 Unallocated operating income of €0.02 million has been allocated between the segments based on each segment's share of net assets before allocation. Amounts allocated were; debt investments: €0.002 million and real estate fund units: €0.001 million and investment properties: €0.02 million.

2 The revolving credit facility expense of €3.0 million has been allocated between the segments based on each segment's share of the drawn facility at 30 June 2007. Amounts allocated were; debt investments: €0.5 million and investment properties: €2.5 million.

3 Unallocated other operating expenses of €17.1 million have been allocated between the segments based on each segment's share of net assets before allocation. Amounts allocated were; debt investments: €1.6 million, real estate fund units: €0.6 million and investment properties: €14.9 million.

4 Adjusted funds from operations per share excludes net gains realised on the disposal of investment properties (€27.0 million) and the write off of unamortised loan costs (€2.2 million) relating to the redemption of CDO I.

Conference Call

Management will conduct a conference call today, 16 August 2007, to review the Group's financial results for the quarter ended 30 June 2007. The conference call is scheduled for 3:00 P.M. London time (10:00 A.M. New York time). All interested parties are welcome to participate on the live call. You can access the conference call by dialing +1-800-811-8824 (from within the U.S.) or +1-913-981-4903 (from outside of the U.S.) ten minutes prior to the scheduled start of the call; please reference "Eurocastle Second Quarter Earnings Call".

A webcast of the conference call will be available to the public on a listen-only basis at www.eurocastleinv.com. Please allow extra time prior to the call to visit the site and download the necessary software required to listen to the internet broadcast. A replay of the webcast will be available for three months following the 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 Thursday, 23 August 2007, by dialing +1-888-203-1112 (from within the U.S.) or +1-719-457-0820 (from outside of the U.S.); please reference access code "3684763".

Dividends

Eurocastle aims to pay out substantially all of its Funds From Operations over time in the form of quarterly dividends to shareholders. The Board of Directors has declared a quarterly cash dividend of €0.60 per share for the second quarter ended 30 June 2007, a 33% increase from the first quarter 2007 dividend of €0.45 per share. The dividend is payable on 31 August 2007 to holders on record of Eurocastle's shares on 21 August 2007.

Business Review

Commercial Property Portfolio

As at 30 June 2007, Eurocastle owned a €5.5 billion portfolio of commercial property investments, comprising investment properties of €5.5 billion (including cumulative unrealised fair value gains of €323.4 million as at 30 June 2007) and investment properties held for sale of €25.1 million (including cumulative unrealised fair value gains of €0.9 million as at 30 June 2007). At the quarter end, the investment property portfolio comprised 554 properties with approximately 2.2 million square meters of lettable space. The portfolio had a total occupancy of 87.3%, and stable cash flows with weighted average remaining lease term of 6.0 years. Concentration in the five major German markets is 68%, compared to 52% at 31 December 2006. The increased concentration in the top five markets is consistent with Eurocastle's focus on high quality class A office space in those markets, and together with the shorter lease terms, means that Eurocastle is well positioned to benefit from the expected improvements in the related rental markets.

The German commercial property markets performed well in the first half 2007 with strong increases in take-up and prime rents and reductions in vacancies across most of the major office markets in Germany. The turnover in the top five office markets increased 15.5% in the first half 2007 compared to first half 2006. Prime rents also increased an average of 8.1% over the last twelve months. The increase is stronger than expected and consistent in all major markets. The vacancy rates in these markets decreased by a full percentage point year over year with Frankfurt having the biggest reduction. Vacancy rates across the 5 major markets are now below 10% for the first time since 2002. The fundamentals remain attractive as the new development pipeline continues to remain weak. Speculative office supply expected through 2009 remains historically low at less than 1% per annum of total stock.

In the first half of 2007 the Group signed 365 leases for approximately 143,000 sqm of space, including approximately 40,000 sqm of new leases. Included is 49,000 sqm of renewals with Deutsche Bank, Dresdner Bank and Eurohypo, which were scheduled to expire at the end of the year. Including the sale of non-core assets and the purchase of fully occupied retail properties during the quarter, the portfolio occupancy increased from 86.3% at the end of 2006 (on a pro-forma basis), to 87.3% at the half year end. The Group expects continued strength in the leasing markets going forward having already signed 15,000 sqm of new leases in the third quarter with a further 34,000 sqm of new leases and 21,000 sqm of renewals under negotiation.

The first half of 2007 continued the trend of strong transaction volume in German commercial real estate. The Group has continued to add to its retail portfolio, committing to buy or entering into exclusive negotiations to buy approximately €210 million at net yields of approximately 6.5%. €12.3 million of this was completed in the second quarter and the remainder is expected to complete in the third and fourth quarters. The strength in the office market has caused yields to decline during the first half of the year, but the Group expects to see a strong transaction pipeline for the remainder of 2007, which should provide opportunities to increase the property portfolio.

During the half year ended 30 June 2007, Eurocastle grew its real estate investment portfolio by €2.2 billion from €3.3 billion to €5.5 billion. At the end of February 2007, the Group completed the acquisition of two portfolios of German commercial properties, for all-in purchase prices of €2.15 billion (the "Mars portfolio") and €53 million (the "HUK portfolio") respectively.

The Mars portfolio contains 56 commercial properties and was purchased from the open-ended fund DB Grundbesitz Invest. The properties, totalling approximately 840,000 square meters of lettable space, consist primarily of high quality class A office space and approximately 88% of rent is derived from assets located in or around the five major German markets of Frankfurt, Munich, Berlin, Hamburg and Dusseldorf. At acquisition, approximately 84% of the portfolio was occupied, or subject to rental guarantees, with an average remaining lease term of approximately 5 years. The initial annual passing rent amounted to €119.6 million and includes a rental guarantee of €19.9 million per annum on approximately 91,000 square meters of currently vacant space. The rental guarantee is being paid until the space is let, subject to a maximum total payment of €40 million (including service charge income) or three years. The occupancy and lease expiry information in the tables below reflect the benefit of the guarantee. The initial NOI* yield on the portfolio is approximately 5.3%.

The HUK portfolio contains 8 commercial properties located in Western Germany. The properties, totalling approximately 30,600 square meters are mainly let to HUK-Coburg, an insurance company, on long term leases. The initial NOI yield on the portfolio is 6.4%.

The Group completed the sale of 72 of the 78 non-core assets held for sale at 31 March 2007, at a 9% premium to the 2006 year end carrying value, resulting in a net realised gain of €26.5 million or €0.42 per share. The components of the gain on sale are detailed in the table below:

Non-core asset sale analysis	**€'000**
Sale price	299,453
Less: Book cost of assets sold	(263,804)
Gross gain	**35,649**
Less: Sale costs	(4,090)
Plus: Net gains on swap closures	5,807
Less: Incentive fee	(8,456)
Less: Corporate tax on gain	(2,413)
Net gain on sale	**26,497**
Share outstanding	**63,819,631**
Gain on sale per share	**€0.42**

The Group also completed the sale of an additional non-core asset for €1.9 million, recognising a gain on sale of €0.5 million.

Commercial Property Portfolio Overview*

(in €'000, except for percentages)	30 June 2007 (Unaudited)	As at 31 December 2006
Investment properties at fair value**	5,466,900	3,308,872
Investment properties held for sale	25,099	-
Total investment in commercial property	**5,491,999**	**3,308,872**
Weighted average NOI*** yield on cost	5.47%	5.70%
Weighted average NOI*** yield on carrying value	5.16%	5.52%
Weighted average liability cost	4.58%	4.36%
Weighted average net spread	0.89%	1.34%

* Investment property portfolios defined in Note 2.

** The investment value above includes €19.8 million (31 December 2006: €25.8 million) relating to finance leases on the head leases (Note 15). This balance has not been included in the property valuations shown in the following table headed Investment Property – Valuation Data.

*** Net Operating Income (NOI) represents gross rental income less net service charge expenses and property operating expenses on an annualised basis, excluding the investment properties held for sale.

The tables below show the split of real estate property investments by use and geographical location as at 30 June 2007, excluding the non-core assets held for sale.

Rental Data (Excluding non-core assets held for sale)

By Use

			Passing rent*		
Use	**Lettable (sqm)**	**Occupancy %**	**€'million Annual**	**%**	**€ per sqm/month**
Office	1,314,571	84.6%	184.4	60.5%	13.8
Retail	395,864	94.3%	50.2	16.5%	11.2
Bank Hall	116,606	97.0%	20.5	6.7%	15.1
Other	420,985	86.4%	49.7	16.3%	11.4
Total portfolio	**2,248,026**	**87.3%**	**304.8**	**100%**	**13.0**

By Location

			Passing rent*		
Location	**Lettable (sqm)**	**Occupancy %**	**€'million Annual**	**%**	**€ per sqm/month**
Frankfurt	569,376	93.8%	109.3	35.8%	17.1
Berlin	163,878	75.7%	20.4	6.7%	13.7
Hamburg	129,400	95.9%	22.8	7.5%	15.3
Düsseldorf	108,288	91.7%	18.5	6.1%	15.5
Munich	226,745	84.4%	36.6	12.0%	16.0
Subtotal – top 5 markets	**1,197,687**	**89.6%**	**207.6**	**68.1%**	**16.1**
Remaining West	826,244	87.2%	81.5	26.7%	9.4
Remaining East	224,095	75.4%	15.7	5.2%	7.8
Total portfolio	**2,248,026**	**87.3%**	**304.8**	**100%**	**13.0**

* Passing rent is defined as the annual gross rental income at the period end, excluding the net effects of straightlining for lease incentives.

Lease Expiry Data (Excluding non-core assets held for sale)

By Use

Use	Average lease term	Passing rent on expiring leases Yr 1 €m	Yr 2-3 €m	Yr 4-6 €m	Yr 7-10 €m	Yr 10+ €m
Office	5.0	17.4	47.2	55.7	36.8	27.2
Retail	6.4	2.8	8.0	9.2	18.6	11.4
Bank Hall	6.8	0.1	5.1	3.5	7.7	4.2
Other	9.1	3.0	12.1	9.0	8.2	17.3
Total portfolio	**6.0**	**23.3**	**72.4**	**77.4**	**71.3**	**60.1**

By Location

Location	Average lease term	Passing rent on expiring leases Yr 1	Yr 2-3	Yr 4-6	Yr 7-10	Yr 10+
Frankfurt	5.9	11.2	21.5	33.7	22.2	20.7
Berlin	3.3	2.6	7.5	4.4	4.9	1.0
Hamburg	5.8	0.9	9.8	3.6	1.1	7.3
Düsseldorf	9.2	0.8	1.3	6.8	0.7	8.9
Munich	6.8	3.5	10.5	12.0	3.2	7.5
Subtotal – top 5 markets	**6.1**	**19.0**	**50.6**	**60.5**	**32.1**	**45.4**
Remaining West	6.3	3.5	17.5	15.1	31.3	13.8
Remaining East	4.1	0.8	4.3	1.8	7.9	0.9
Total portfolio	**6.0**	**23.3**	**72.4**	**77.4**	**71.3**	**60.1**

Valuation Data (Excluding non-core assets held for sale)

Markets	Properties	Lettable space	Property valuation	Property cost €m	% of Portfolio	Gross rental income	Net operating income	NOI yield on cost	NOI yield on valuation
		(sqm)	€m*			€m	€m	%	%
Top 5 markets									
Frankfurt	52	569,376	1,951	1,842	35.9%	110.0	101.5	5.5%	5.2%
Berlin	11	163,878	442	396	7.7%	20.4	19.0	4.8%	4.3%
Hamburg	16	129,400	416	399	7.8%	23.4	21.4	5.4%	5.1%
Düsseldorf	7	108,288	369	351	6.8%	18.7	17.2	4.9%	4.7%
Munich	18	226,745	712	682	13.3%	36.8	34.2	5.0%	4.8%
Subtotal – top 5 markets	**104**	**1,197,687**	**3,890**	**3,670**	**71.5%**	**209.3**	**193.3**	**5.3%**	**5.0%**
Remaining West	352	826,244	1,339	1,307	25.5%	81.9	73.6	5.6%	5.5%
Remaining East	98	224,095	218	153	3.0%	15.8	13.9	9.1%	6.4%
Total portfolio	**554**	**2,248,026**	**5,447**	**5,130**	**100%**	**307.0**	**280.8**	**5.5%**	**5.2%**

* The above valuation does not include €19.8 million relating to head leases and does not include €25.1 million relating to investment properties held for sale.

The Group financed the Mars portfolio within the first quarter, with a term loan of €1,029 million at a fixed interest rate of 4.66% and a floating loan of €550 million at a floating interest rate of Euribor 3M + 0.75%. After allowing for upfront fees and costs and an interest rate swap on €220 million of the floating rate loan, the weighted average funding cost of the total debt of €1,579 million is 4.75% as at 30 June 2007. The fixed and floating rate loans mature on 20 July 2014 and 20 July 2008, respectively. Under the terms of financing, the Group is also required to draw a capital reserve line of €60 million prior to the securitisation of the loan by the lender expected to happen within 12 months of the facility signing date, 31 January 2007. In the interim, a commitment fee of 0.75% is payable in connection with the capital reserve.

The Group financed a €48.8 million acquisition of 8 commercial assets from the HUK-Coburg insurance company. The acquisition was financed with a 7.3 year non-recourse fixed loan at a funding cost of approximately 4.51% and a go forward rate of 4.97% effective from 7 May 2007.

The Group financed a €12.3 million acquisition of 6 retail properties in the Tannenberg Portfolio. The acquisition was financed with a 7.4 year non recourse fixed loan at a funding cost of approximately 4.83% and a go forward rate of 4.73% effective from the 3 September 2007.

Eurocastle continues to finance its core real estate portfolio with fixed rate term loans, which has substantially eliminated its exposure to increased interest rates. This is consistent with the objective of locking in the spread between the yield on our investments and the cost of financing those investments.

Real Estate Fund Units

As at 30 June 2007, Eurocastle had a total interest of approximately €153.1 million (including cumulative unrealised fair value gains of €7.5 million since acquisition) (31 December 2006: €148.1 million, including €2.9 million cumulative unrealised fair value gains) 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 (approximately 6.5 years remaining), with an extension option for a further 9 years. The properties are 100% occupied.

Real Estate Fund Units Overview

(in €'000, except for percentages)	30 June 2007 (Unaudited)	As at 31 December 2006
Total investment in real estate fund units	**153,099**	**148,077**
Weighted average NOI yield on cost	10.32%	12.83%
Weighted average liability cost	5.53%	5.53%
Weighted average net spread	4.79%	7.30%

Debt Investment Portfolio

Overview of the Debt Investment Portfolio

	30 June 2007 (Unaudited)	31 December 2006
Total debt investments (excluding restricted cash) (€'000)	**1,992,464**	1,967,969
Weighted average asset margin (above Euribor)*	**1.79%**	1.88%
Weighted average liability spread*	**0.44%**	0.56%
Weighted average net spread*	**1.35%**	1.32%
Weighted average credit rating	**BBB-**	BBB-
Percentage investment grade of debt investment portfolio	**63%**	66%
Number of securities and loans	**177**	158

* Includes assets and liabilities referenced under a total return swap.

Eurocastle's €2.0 billion investment portfolio (excluding restricted cash) consists primarily of commercial real estate backed and residential real estate debt. The following describes the investment portfolio as at 30 June 2007:

***Debt Investment Portfolio Composition* (30 June 2007) (Unaudited)**

Asset class	**Nominal €'000**	**Total debt portfolio %**
Commercial real estate backed	1,539,197	77.1%
Residential real estate backed	352,933	17.7%
Other	104,250	5.2%
	1,996,380	**100%**

Commercial Real Estate Backed Debt

The Group owned €1.5 billion face amount of commercial assets (CMBS, Mezzanine Loans, B-Notes, Whole Business Securitisations, NPL Securitisations and Real Estate Loans, SME CLOs and Consumer Leases). During the quarter ended 30 June 2007, the Group purchased €114.3 million, sold no assets and had pay downs of €119.2 million for a net decrease of €4.9 million. The Group's €730 million CMBS portfolio continues to perform well as none of the underlying loans are delinquent. In addition the Group has no delinquencies in its Mezzanine Loans, B-Notes and Real Estate Loans. The Group had 3 securities or €32 million CMBS securities upgraded with no downgrades. Credit spreads widened on average by 4 basis points on the CMBS portfolio and were unchanged on the Mezzanine Loans, B-Notes and Real Estate Loans portfolios.

Asset class	**Nominal €'000**	**Total debt book %**	**Average rating***	**Average credit spread***	**Average LTV %**
CMBS	730,720	36.6%	BBB+	141	68.3%
Commercial real estate loans	525,154	26.3%	B+	295	85.0%
NPL securitisation	89,386	4.5%	AA	135	23.0%
SME CLO	82,234	4.1%	BBB-	260	N/A
Whole business securitisation	89,003	4.5%	BBB	99	60.7%
Commercial leases	22,700	1.1%	A	89	N/A
	1,539,197	**77.1%**			

***** Average rating and average credit spread are based on those of the securities held by the Group.

Country exposure / rating distribution	AAA	AA	A	BBB	BB	B	Total	% of total debt portfolio
	€'000	€'000	€'000	€'000	€'000	€'000	€'000	
UK	19,665	15,227	79,085	281,203	116,573	178,631	690,384	34.5%
Germany	-	-	4,000	49,236	44,352	166,512	264,100	13.2%
Italy	-	-	2,690	31,650	-	38,529	72,869	3.7%
France	-	-	-	20,592	15,419	-	36,011	1.8%
Netherlands	40,691	10,000	33,196	50,767	42,517	-	177,171	8.8%
Switzerland	-	-	5,000	-	22,195	13,993	41,188	2.1%
Spain	-	-	12,200	5,915	9,600	-	27,715	1.5%
Sweden	-	-	-	2,423	-	-	2,423	0.1%
Other	-	-	22,000	167,553	37,783	-	227,336	11.4%
Total	**60,356**	**25,227**	**158,171**	**609,339**	**288,439**	**397,665**	**1,539,197**	**77.1%**
% of total debt portfolio	**3.0%**	**1.3%**	**7.9%**	**30.5%**	**14.5%**	**19.9%**	**77.1%**	

Residential Real Estate Debt

The Group owned €353 million face amount of residential mortgage backed securities ("RMBS"). During the quarter, the Group purchased €20.2 million, sold no assets and had paydowns of €14.4 million for a net increase of €5.8 million. The current average rating of the RMBS portfolio was unchanged at BBB. The portfolio had no securities downgraded or upgraded. Credit spreads widened on average by 16 basis points across our whole RMBS portfolio, of which 19 basis points was solely on the UK non-conforming RMBS portfolio.

The composition of the residential mortgage backed securities portfolio as at 30 June 2007 is shown below:

RMBS type	Nominal	Total debt book	Average rating*	Average credit spread*
	€'000	%		
Conforming (prime)	167,381	8.4%	BBB-	175
Mixed (prime/near-prime)	20,531	1.0%	BBB+	164
Non conforming (sub-prime)	165,022	8.3%	BBB+	163
	352,934	**17.7%**	**BBB**	**169**

***** Average rating and average credit spread are based on those of the securities held by the Group.

Rating distribution / country exposure	A	BBB	BB	Total	% of total debt portfolio
	€'000	€'000	€'000	€'000	
United Kingdom	41,109	193,970	12,565	247,644	12.4%
Italy	-	60,750	-	60,750	3.0%
Netherlands	-	4,081	15,000	19,081	1.0%
Germany	4,008	5,000	6,200	15,208	0.8%
Spain	-	-	2,200	2,200	0.1%
Ireland	-	5,250	2,800	8,050	0.4%
Total	**45,117**	**269,051**	**38,765**	**352,933**	**17.7%**
% of total debt portfolio	**2.3%**	**13.5%**	**1.9%**	**17.7%**	

UK Non-Conforming RMBS

Within the larger residential mortgage backed securities portfolio the current average rating of the €157.0 million UK non-conforming loan backed securities sub-portfolio was unchanged at BBB+. The UK non-conforming loan backed securities sub-portfolio had no securities downgraded or upgraded. The performance of these assets has been in-line with our expectations and there has been no material deterioration in the credit fundamentals since the beginning of this year. It is a well seasoned portfolio (backed by residential mortgages with a weighted average seasoning of 2.56 years). The benefits of the seasoning effect are threefold; firstly, there is a strong payment history from the underlying borrowers, secondly the deals have benefited from strong UK house price growth (approximately 21% on average based on the Halifax House Price Index), and thirdly the portfolio has avoided some of the weaker underwriting and structuring practices prevalent in the 2006/7 vintage. The following table illustrates the exposure by vintage of mortgage loan origination in the UK non-conforming loan backed securities sub-portfolio as of 30 June 2007.

Year of mortgage origination*	**Nominal**	**Total debt book**	**Average rating****	**Average credit spread****
	€'000	**%**	**%**	
2003	33,569	1.7%	BBB+	352
2004	59,552	3.0%	A-	98
2005	53,601	2.7%	BBB	133
2006	10,250	0.5%	BBB	90
Total	**156,972**	**7.9%**	**BBB+**	**164**

* Year of mortgage origination refers to the weighted average date of origination of the underlying residential mortgage loans rather than either the issue date, or the purchase date, of the securitized debt securities held by the Group.

****** Average rating and average credit spread are based on those of the securities held by the Group.

Other Debt

As at 30 June 2007, the Group owned €104.25 million face amount of other structured finance debt (commercial & consumer loans and loans). During the quarter, the Group purchased no assets, there were €4.5 million of sales and there were no pay downs. There were no rating changes in the other structured finance debt portfolio. Credit spreads widened, on average, by 15 basis points on the other structured finance debt portfolio.

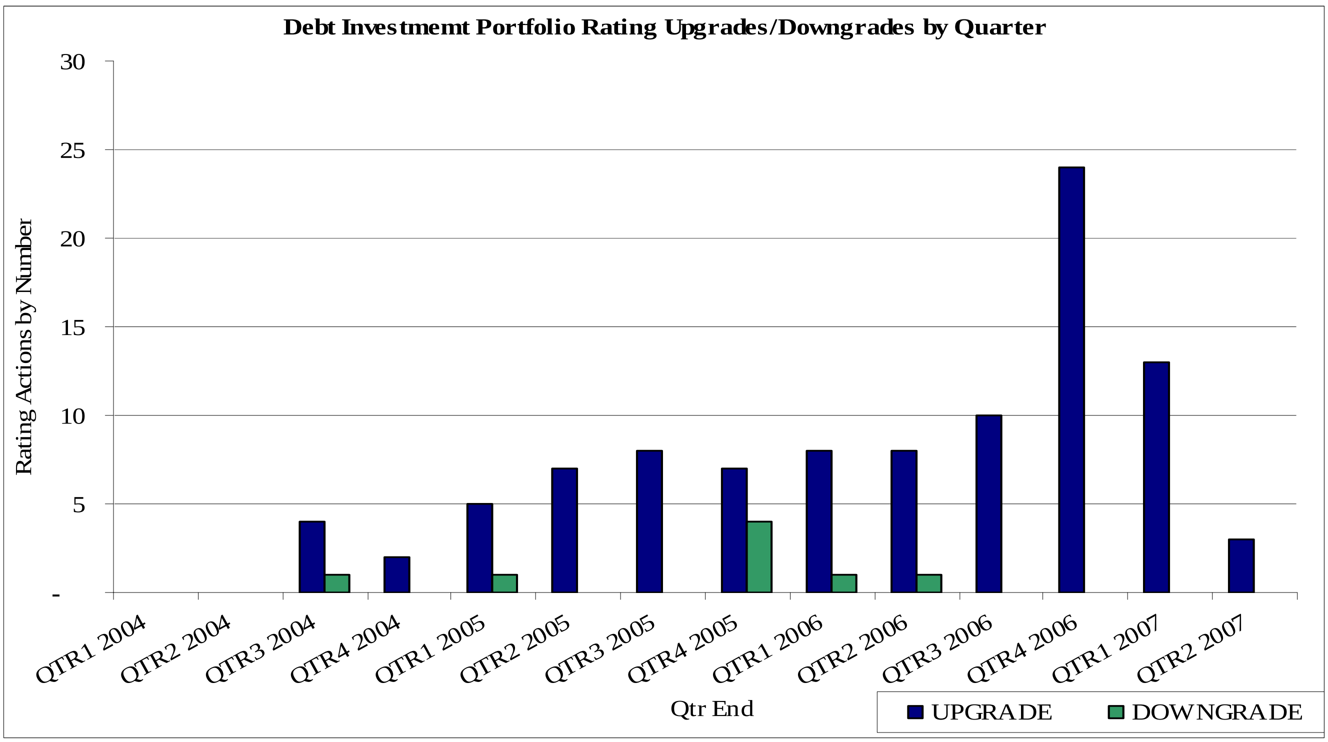
Debt Type	**Nominal**	**Total debt book**	**Average rating***	**Average credit spread***
	€'000	**%**	**%**	
Commercial Leases & Loans	59,350	3.0%	BBB	164
Consumer Leases & Loans	44,900	2.2%	A-	106
Total	**104,250**	**5.2%**		

***** Average rating and average credit spread are based on those of the securities held by the Group.

Rating distribution / country exposure	**AA**	**A**	**BBB**	**BB**	**Total**	**% of total debt portfolio**
	€'000	**€'000**	**€'000**	**€'000**	**€'000**	
France	-	-	25,000	-	25,000	1.3%
Italy	4,500	19,400	-	-	23,900	1.1%
Germany	-	-	11,550	11,800	23,350	1.1%
Sweden	-	-	3,500	-	3,500	0.2%
United Kingdom	-	-	18,000	3,000	21,000	1.1%
Portugal	-	-	-	7,500	7,500	0.4%
Total	**4,500**	**19,400**	**58,050**	**22,300**	**104,250**	**5.2%**

Credit Quality

The credit quality of the debt investment portfolio has remained strong over the last 12 months. Positive credit migration has outweighed negative movements in every quarter since the inception of the portfolio. The current lifetime rating upgrades versus downgrades ratio is 99:8 and was 3:0 for this quarter. While over time the weighted average credit rating of the Debt Investment Portfolio has declined slightly this has been as primarily a consequence of the strategic repositioning by the Group away from bond investments and towards loan investments whereas the rating profile of the Asset Backed Securities portfolio has remained stable. The graph below shows ratings action experienced in the portfolio on a quarterly basis.



Capital Markets Activity

During the quarter the Group redeemed Eurocastle CDO I PLC, and refinanced the assets partially through a €250 million upsize of Eurocastle CDO III PLC, and partially through a senior loan, prior to a new CDO which was priced, and closed after the quarter end.

Subsequent to the quarter end the Group closed its fifth collateralized debt obligation ("CDO"). The proceeds from this issuance were used to term finance an €800 million portfolio of mezzanine loans, bank loans, B-Notes, CMBS, and other commercial real estate backed assets. Net of this financing, the Group invested approximately €80 million of capital with a targeted return on equity of 14.5%. The weighted average marginal cost of debt for Duncannon CRE CDO I PLC is 87.5 basis points p.a. (including approximately 21bps relating to the amortization of up-front costs).

Following these transactions we expect approximately 89.15% of our debt investments to benefit from financing without any mark-to-market recourse, and 81.35% to benefit from financing maturing beyond the maturity date of our assets. In addition, as the assets held in each of the CDOs are ring fenced (i.e. financed with non recourse debt), the maximum exposure the Group has is the amount of equity invested in each legal entity.

Asset/Liability structure for Debt Investment Portfolio

30 June 2007(Unaudited)	**Assets**			**Cash at hand**	**Liabilities**				
Funding structure	**Nominal €'000**	**Average life**	**Average rating**	**Nominal €'000**	**Drawn amount €'000**	**Facility amount €'000**	**Average life €'000**	**Legal maturity**	**M-T-M provisions**
Eurocastle CDO II PLC	400,183	4.6	BBB	45,296	406,075	406,075	8.0	Dec 2060	No
Eurocastle CDO III PLC	687,209	4.4	BBB	63,814	704,250	704,250	8.1	Dec 2060	No
Eurocastle CDO IV PLC	86,370	6.5	BBB-	-	68,986	400,000	1.2	Aug 2008	No
Duncannon CRE CDO I PLC	647,870	4.7	BB+	-	547,095	700,000	8.0	Jun 2047	No
Eurocastle Funding Limited *	174,748	3.8	BBB-	-	149,012	149,012	0.8	Apr 2008	Yes
Eurocastle Investment Limited**	43,200	5.0	B	-	38,450	38,450	0.1	Aug 2007	Yes

* The legal maturity of Eurocastle Funding Limited's liabilities is a weighted average date.

** Consists of assets and liabilities referenced under a total return swap. The difference between the assets and financing of €4.8 million is held as a collateral deposit. (See Note 13.2)

Asset/Liability structure for Debt Investment Portfolio

Pro-forma 31 July 2007	**Assets**			**Cash at Hand**	**Liabilities**				
Funding structure	**Nominal €'000**	**Average life**	**Average rating**	**Nominal €'000**	**Drawn amount €'000**	**Facility amount €'000**	**Average life €'000**	**Legal maturity**	**M-T-M provisions**
Eurocastle CDO II PLC	395,861	4.3	BBB	56,401	406,391	406,391	7.9	Dec 2060	No
Eurocastle CDO III PLC	714,640	4.2	BBB	65,034	704,250	704,250	8.0	Dec 2060	No
Eurocastle CDO IV PLC	168,167	5.4	BBB+	-	103,843	400,000	1.1	Aug 2008	No
Duncannon CRE CDO I PLC	623,030	5.6	BB+	84,861	630,000	730,000	7.9	Jun 2047	No
Eurocastle Funding Limited* **	193,029	4.1	BB+	-	167,606	167,606	0.7	Apr 2008	Yes

* Eurocastle Funding Limited's liabilities' legal maturity is a weighted average date.

** Includes assets and liabilities referenced under a total return swap. The difference between the assets and financing of €3.3 million is held as a collateral deposit.

Market Update

Notwithstanding the strong credit profile, the Group has seen some, albeit limited, credit spread widening on the portfolio towards the end of this quarter. This resulted in a reduction of value in the debt investment portfolio of approximately €3.0 million to the end of June 2007 from the prior quarter end. Subsequent to the end of the quarter we have seen some further spread widening as a result of a severe tightening in liquidity across all credit markets and this has lead to a further decline in the value of the debt investment portfolio of approximately €18 million (or a reduction of €0.29 per share). In a rising interest rate environment it is to be expected that credit spreads widen as the market re-prices liquidity and systemic risk. Added to this effect, poor performance in the US sub-prime mortgage market has lead some market participants to retrench in structured finance and corporate credit markets regardless in many cases of any movement in credit fundamentals. However we believe that there are factors which should provide mitigation against a material negative impact to the Group as a consequence of current market volatility:

- This spread widening does not reflect any impairment to the Group's assets which substantially all continue to trade at or around our basis cost, hence there is no implication at their current trading levels that actual principal losses will be suffered;

- The Group's funding is provided predominately through the issuance of Collateral Debt Obligations ("CDO's"). These transactions match fund our assets to maturity and do not have mark-to-market triggers, margin requirements, or rating's downgrade triggers, which could cause a forced sale of the assets. As a consequence the Group remains relatively immune to fluctuations in credit spreads related to general market sentiment rather than asset specific concerns;

- Given the stable funding structure of the debt portfolio the Group would recognize some advantages in a spread widening environment. In the context of the margin achieved on its Debt Investment Portfolio to date and the prevailing market spreads for comparable assets The Group has achieved attractive pricing levels on its liabilities and has funding capacity at these levels which should enable it to benefit from an environment where forced sellers dispose of good quality collateral in the market at discounted prices. However, spreads in European mortgage backed bonds and loans have not, to date, widened to the degree necessary to support such an environment due in part to the strong underlying credit fundamentals and market participants' relatively low reliance on mark-to market recourse funding.

FUNDS FROM OPERATIONS ("FFO")

(Unaudited) (in €'000, except per share data)	Six months ended 30 June 2007	Six months ended 30 June 2006	Three months ended 30 June 2007	Three months ended 30 June 2006
Reconciliation of FFO to net profit after taxation				
Net profit after taxation	290,549	106,606	236,193	13,705
(Increase) in fair value of investment properties	(280,377)	(77,296)	(239,109)	(61)
(Increase) in fair value of interest rate swaps	(12,673)	-	(10,358)	-
(Increase)/decrease in fair value of real estate fund units	(4,611)	2,351	(1,265)	4,374
Realised gain on sale of investment properties	36,155	-	36,155	-
Deferred tax charge on investment properties	56,070	260	35,567	26
Funds from operations (FFO)	**85,113**	**31,921**	**57,183**	**18,044**
FFO per weighted average basic share	1.34	0.77	0.90	0.40
FFO per weighted average diluted share	1.29	0.74	0.87	0.38

FFO is an appropriate measure of the underlying operating performance of companies primarily involved in real estate, because it provides investors with information regarding the Group's ability to service debt and make capital expenditures. Furthermore, FFO is used to compute incentive compensation to the Manager. FFO, as defined by Eurocastle, represents net profit after taxation (computed in accordance with IFRS), excluding changes in the fair value of investment properties net of attributable deferred taxation, changes in the fair value of interest rate swaps that are taken to the income statement and mark-to-market fluctuations in real estate fund units. The Group considers gains and losses on resolution of its investments to be a normal part of its recurring operations and therefore does 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. Eurocastle's calculation of FFO may be different from the calculation used by other companies and, therefore, comparability may be limited.

INCOME STATEMENT DATA (Unaudited)

(in €'000, except per share data)	Six months ended 30 June 2007	Six months ended 30 June 2006	Three months ended 30 June 2007	Three months ended 30 June 2006
Interest income	66,495	43,347	32,896	22,928
Rental income	148,877	63,108	82,823	39,300
Service charge income	25,842	10,686	13,986	9,158
Real estate fund unit interest income	7,512	9,595	3,756	4,865
Increase in fair value of investment properties	280,377	77,296	239,109	61
Increase/(decrease) in fair value of real estate fund units	4,611	(2,351)	1,265	(4,374)
Interest expense	(129,618)	(62,801)	(68,565)	(36,258)
Other operating expenses	(29,660)	(11,923)	(21,195)	(6,643)
Service charge expense	(31,679)	(14,998)	(16,954)	(13,004)
Operating profit before taxation	349,464	107,055	274,509	13,808
Operating profit after taxation	290,549	106,606	236,193	13,705
Earnings per weighted average basic share	4.56	2.56	3.70	0.30
Earnings per weighted average diluted share	4.40	2.46	3.58	0.29

BALANCE SHEET DATA (Unaudited)

(in €'000, except per share data)	As at 30 June 2007	As at 31 December 2006
Cash and cash equivalents	258,263	122,699
Investment property held for sale	25,099	-
Asset backed securities (includes cash to be invested and securities pledged under repurchase agreements)	1,580,060	1,560,307
Real estate loans	521,514	428,370
Real estate fund units	153,099	148,077
Investment property	5,466,900	3,308,872
Total assets	8,129,540	5,662,380
Debt obligations	6,012,290	3,966,328
Shareholders' equity	1,855,298	1,570,719
Book value per ordinary share	29.07	24.73
Adjusted book value per share* (Refer Note 30)	29.45	24.73

	Six months ended 30 June 2007	Six months ended 30 June 2006	Three months ended 30 June 2007	Three months ended 30 June 2006
Weighted average ordinary shares outstanding				
Basic	63,702,689	41,656,560	63,803,222	45,624,059
Diluted	66,108,555	43,327,351	66,034,081	47,368,788
Ordinary shares outstanding	**63,819,631**	**45,681,245**	**63,819,631**	**45,681,245**

* Adjusted book value per share represents shareholders' equity plus the reduction in the deferred tax liability at 30 June 2007, based on the change in the German corporate tax rate from 26.375% to 15.525% effective 1 January 2008. (Refer Note 30)

Financial Highlights

Funds from Operations (FFO)

One of the Group's key performance measures is FFO. FFO is an appropriate measure of the underlying operating performance of companies primarily involved in real estate, because it provides investors with information regarding the Group's ability to service debt and make capital expenditures.

In the six months ended 30 June 2007, FFO increased 167% from €31.9 million for the six months to 30 June 2006, to €85.1 million for the six months to 30 June 2007. This increase in FFO was mainly due to the increase in rental income and realised gain on the sale of assets. This increase was achieved through acquisitions of commercial property portfolios, realised profit on the disposal of non-core property assets in Germany, and acquisitions of debt investments, together with improved occupancy rates within the existing properties.

Dividends

On 15 August 2007, the Board of Directors declared a dividend of €0.60 per share for the quarter ended 30 June 2007 (quarter ended 31 March 2007: €0.45 per share; quarter ended December 2006: €0.43 per share). This brings dividends declared in the period to 30 June 2007 to €1.05 per share (Six months ended 30 June 2006: €0.70 per share) representing an increase of 50%.

Profits for six months ended 30 June 2007

The table below illustrates the growth in the Group's operating profits for six months ended 30 June 2007.

	Six months ended 30 June 2007 €'000	Six months ended 30 June 2006 €'000
Operating profit before taxation	349,464	107,055
Increase on previous year	226%	693%
Operating profit %	**63.9%**	53.0%

Operating profit before taxation increased from €107.1 million to €349.4 million. The growth in profit is primarily a reflection of the continued growth of the business due, in particular, to an increase in the investment property portfolio, and debt investment portfolio. The increase in the fair value of real estate investment properties has also had a significant impact on earnings, accounting for €280 million of operating profit for the six months ended 30 June 2007 compared to €77 million in the six months ended 30 June 2006.

Operating profit margins (operating profit before tax as a percentage of total operating income) have increased from 53% to 64% in the six months ended 30 June 2007, compared to the same period last year. This increase was primarily due to revenue growth of 170% outstripping interest expenses, and other operating expenses growth of 108%.

Revenue

Group revenue for the six months ended 30 June 2007 was €546.6 million, compared to the same period in 2006 which was €201.9 million, an increase of 171% over the same period last year. The increase is largely due to an increase in fair value of investment properties of €280 million, additional rental income of €23.2 million from the German commercial real estate portfolios, and additional interest income from debt investment portfolios of €23.1 million.

Rental income has increased due to increases in the size of the commercial property portfolio, and improved occupancy levels. Interest income has increased due to the increase in the debt investment portfolio (asset backed securities and real estate related loans), as well as the increase in Euro and Sterling interest rates. Real estate fund unit income has decreased in 2007 in comparison to 2006 as Eurocastle reduced the holdings in the real estate fund units.

The Group's revenue has grown substantially in the period ended 30 June 2007 when compared to the same period last year. This growth in revenues has in turn driven growth in net income and cash available for distribution. The Group's increase in revenue and FFO has been achieved through a combination of accretive growth, organic growth and gain from the disposal of non-core property assets. Accretive growth occurs by acquiring additional investments generating income above the expected cost of capital, whereas organic growth mainly comes from leasing up vacant space within the portfolio and controlling costs.

Operating Expenses

The Group's costs have increased period on period since it commenced operations, again reflecting the underlying growth in the size of its portfolio. However, the income to cost ratio has improved from 2.13 for the six months ended 30 June 2006 to 2.77 for the six months, ended 30 June 2007. The improvement in the ratio is primarily a result of the increased proportion of the Group's portfolio that comprises direct real estate investments, which are less leveraged than the debt portfolio.

Cash Flow from Operations

The following summarises the Group's cash flows for the six months ended 30 June 2007 and 30 June 2006.

	30 June 2007 €'000	30 June 2006 €'000
Net cash inflow from operating activities	**128,569**	117,379
Net cash flows from investing activities	**(2,026,725)**	(2,151,092)
Net cash flows from financing activities	**2,033,720**	2,107,926
Net increase in cash and short term deposits	**135,564**	74,213

The cash outflow from investing activities reflects the acquisition of additional German commercial real estate portfolios, and increased debt investments. The cash flow generated from financing activities reflects the increased bank borrowings to finance the expansion of the Group's commercial property portfolio, and debt investments. The Group's cash position at 30 June 2007, included the proceeds from the disposal of non-core assets at the end of June, resulting in a positive balance of €258.3 million (30 June 2006: €87.9 million).

Total Assets

Total assets at 30 June 2007 amounted to €8.1 billion, representing a 44% increase from €5.7 billion as at 31 December 2006. This primarily reflects the acquisition of further German commercial property investments and debt investments by the Group.

Real Estate Investments

As at 30 June 2007, the Group's real estate portfolio comprised €5.6 billion of commercial property investments including the real estate fund (FIP) units compared with €3.5 billion as at 31 December 2006. This represents an increase of 63% over the six month period. Of this increase, €285.0 million represented the unrealised gain on revaluation of underlying assets. The balance of €1,907.9 million is primarily explained by additional assets acquired by the Group amounting to €2,214.0 million, and assets sold by the group amounting to €305.2 million.

As at 30 June 2007, the Group carried the real estate fund units at €153.1 million (which figure includes the costs related to investment), compared to €148.1 million at 31 December 2006.

Debt Investments Portfolio

As at 30 June 2007, the Group carried debt investments valued at €2.1 billion compared to €2.0 billion as at 31 December 2006. Of this €1.6 billion (2006: €1.6 billion) represented asset backed securities and €521.5 million represented real estate loans including real estate related B notes and mezzanine loans (2006: €428 million).

Interest income from the debt portfolio increased by 54% from €43.3 million for the six months ended 30 June 2006 to €66.5 million for the same period in 2007.

The growth in both asset values and income was achieved through additional purchases of debt investments.

CDO Bonds Payable and Repurchase Agreements

As at 30 June 2007, the Group had €1,101.7 million of CDO bonds payable (comprising of bonds issued by Eurocastle CDO II and III) representing a net decrease of 9 % on the amount of CDO bonds payable in issue as at 31 December 2006 (€1.2 billion). This was primarily due to the Eurocastle CDO I debt being redeemed on 18 June 2007, and Eurocastle CDO III issuing further notes to finance the purchase of additional asset backed securities. The CDO III upsize amounted to the issue of €250.0 million notes.

As at 30 June 2007, the Group owed €59.8 million under repurchase agreements, a decrease of 21% as compared to 31 December 2006 (€75.5 million) primarily due to the sale of debt investments previously financed under repurchase agreements.

Bank Borrowings

The Group's financial strategy is to maintain an optimal gearing ratio to ensure that shareholders benefit from maximum leveraged returns. As at 30 June 2007, the Group's bank borrowings had increased to €4.9 billion, compared to €2.7 billion as at 30 June 2006 reflecting principally the term financing of additional acquisitions of commercial property portfolios, debt investments, and real estate related loans.

Risks

Interest Rate Risk
The Group's primary interest rate exposure relates to its real estate and other asset backed securities, loans and floating rate debt obligations, as well as its interest rate swaps. Changes in the level of interest rates also can affect the Group's ability to acquire securities and loans and its ability to realise gains from the disposal of such assets.

The Group seeks to manage its interest rate exposure and consequently expects to suffer minimal changes in net income as a result of changes in interest rates. The Group generally finances its core real estate portfolios with fixed rate loans for original terms ranging from 7-13 years, or where it takes out floating rate term loans, it enters into hedging instruments (such as interest rate swaps), to lock in a fixed rate for the duration of the loan.

Foreign Currency Risk
The Group's primary foreign currency exchange rate exposure relates to its non-euro denominated portfolio of securities and loans. Changes in the exchange rates can adversely impact the fair values and earnings streams of the Group's non-euro denominated assets and liabilities. The Group has mitigated this impact through a combination of (i) non-euro denominated financing and (ii) rolling forward foreign exchange contracts to hedge its net non-euro investments.

In connection with the Group's purchase of its asset backed securities and real estate related loans, the foreign currency risk is hedged through forward foreign currency exchange contracts.

Market Risk
The Group's exposure to market risk arises mainly due to potential movements in the value of its investments.

The Group's real estate investment assets are based in Germany and Italy and are subject to general property market risks. These risks are assessed by management at the point of acquisition and are then monitored on an ongoing basis. In addition, external valuations of the Group's real estate assets are obtained during each financial year.

The Group's debt investments are predominantly floating rate, and as such are valued based on a market credit spread over Euribor and other benchmarks for euro and non-euro denominated assets respectively. Increases in the credit spreads above such benchmarks may affect the Group's net equity, net income or cash flow directly through their impact on unrealised gains or losses on available-for-sale securities, and therefore its liability to realise gains on such securities, or indirectly through their impact on its ability to borrow and access capital.

Credit Risk
The Group is subject to credit risk with respect to its investments in real estate, and other asset backed securities and loans.

The securities the Group invests in are generally junior in right of payment of interest, and principal to one or more senior classes, but benefit from the support of one or more subordinate classes of securities or other form of credit support within a securitisation transaction. While the expected yield on these securities is sensitive to the performance of the underlying assets, the more subordinated securities are designed to bear the first risk of default and loss.

The Group attempts to minimise credit risk by actively monitoring its securities portfolio and the underlying credit quality of its holdings, where appropriate, repositioning its investments to upgrade the credit quality and yield on the investments. The Group's debt portfolio is diversified by asset type, industry, location and issuer. At 30 June 2007, the Group's securities, which serve as collateral for its CDO financings and other borrowings, had an overall weighted average credit rating of approximately BBB-.

Liquidity and Capital Resources
The Group's ability to execute its business strategy, in particular to grow its investment portfolio, depends to a significant degree on its ability to obtain additional capital.

The Group's primary sources of funds consist of cash provided by operating activities, borrowings under loans and credit facilities and the issuance of debt and equity securities. The Group's loans and debt securities are generally secured directly over its assets. The Group expects that its cash on hand and cash flow provided by operations will satisfy its liquidity needs with respect to its current investment portfolio over the next twelve months. The Group expects that its long-term liquidity requirements, specifically to fund the repayment of its debt obligations, will be met through additional borrowings and the liquidation or refinancing of its assets at maturity.

A significant portion of the Group's debt investments are financed in the capital markets through the issuance of collateralised debt obligations, known as CDOs. The Group finances some of its debt investments with short term bank facilities and repurchase agreements with a number of investment banks.

Forward-Looking Statements

This release contains statements that constitute forward-looking statements. Such forward-looking statements relate to, among other things, future commitments to acquire real estate and achievement of acquisition targets, availability of attractive investment opportunities, methods of funding portfolios, timing of completion of acquisitions, the operating performance of our investments and financing needs. Forward-looking statements are generally identifiable by use of forward-looking terminology such as "may", "will", "should", "potential", "intend", "expect", "endeavour", "seek", "anticipate", "estimate", "overestimate", "underestimate", "believe", "could", "project", "predict", "continue", "plan", "forecast" or other similar words or expressions. Forward-looking statements are based on certain assumptions, discuss future expectations, describe future plans and strategies, contain projections of results of operations or of financial condition or state other forward-looking information. Our ability to predict results or the actual effect of future plans or strategies is limited. Although we believe that the expectations reflected in such forward-looking statements are based on reasonable assumptions, our actual results and performance may differ materially from those set forth in the forward-looking statements. These forward-looking statements are subject to risks, uncertainties and other factors that may cause our actual results in future periods to differ materially from forecasted results or stated expectations, including the risk that leasing markets will continue to be strong or that Eurocastle will be able to achieve its targets regarding operational growth particularly any increase in leasing of vacant space on acceptable terms or take advantage of widening credit spreads to acquire good quality collateral at discounted prices.

REPORT ON REVIEW OF INTERIM FINANCIAL INFORMATION

Introduction

We have reviewed the accompanying consolidated balance sheet of Eurocastle Investment Limited and its subsidiaries, as of 30 June 2007 and the related consolidated income statement, statement of changes in equity and statement of cash flows for the six months then ended, and summary of significant accounting policies and other explanatory notes. Management is responsible for the preparation and presentation of this interim financial information in accordance with International Financial Reporting Standards ("IFRS"). Our responsibility is to express a conclusion on this interim financial information based on our review.

Scope of Review

We conducted our review in accordance with International Standard on Review Engagements 2410, "Review of Interim Financial Information Performed by the Independent Auditor of the Entity". A review of quarter end financial information consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the accompanying interim financial information is not prepared, in all material respects, in accordance with International Financial Reporting Standards ("IFRS").

Ernst and Young LLP
London
15 August 2007

CONSOLIDATED INCOME STATEMENT

	Notes	Six months ended 30 June 2007 (Unaudited) €'000	Six months ended 30 June 2006 (Unaudited) €'000	Three months ended 30 June 2007 (Unaudited) €'000	Three months ended 30 June 2006 (Unaudited) €'000
Operating income					
Interest income	3	66,495	43,347	32,896	22,928
Rental income	4	148,877	63,108	82,823	39,300
Service charge income	5	25,842	10,686	13,986	9,158
Real estate fund unit interest income		7,512	9,595	3,756	4,865
Realised gain on disposal of asset backed securities, available-for-sale		190	289	(40)	8
Increase in fair value of investment properties	15,8	280,377	77,296	239,109	61
Increase/(decrease) in fair value of real estate fund units	14	4,611	(2,351)	1,265	(4,374)
Increase in fair value of interest rate swaps		12,673	-	10,358	-
Decrease in fair value of total return swaps		-	(103)	-	(143)
Total operating income		546,577	201,867	384,153	71,803
Operating expenses					
Interest expense	6	129,168	62,801	68,565	36,258
Losses/(gains) on foreign currency contracts/currency translation		712	967	(11)	485
Service charge expenses	5	31,679	14,998	16,954	13,004
Property operating expenses	4	5,894	4,123	2,941	1,605
Other operating expenses	7	29,660	11,923	21,195	6,643
Total operating expenses		197,113	94,812	109,644	57,995
Operating profit before taxation		**349,464**	**107,055**	**274,509**	**13,808**
Taxation expense - current	8	2,845	189	2,749	77
Taxation expense - deferred	8	56,070	260	35,567	26
Net profit after taxation		**290,549**	**106,606**	**236,193**	**13,705**
Earnings per ordinary share					
Basic	21	4.56	2.56	3.70	0.30
Diluted	21	4.40	2.46	3.58	0.29
Weighted average ordinary shares outstanding					
Basic	21	63,702,689	41,656,560	63,803,222	45,624,059
Diluted	21	66,108,555	43,327,351	66,034,081	47,368,788

See notes to the consolidated financial statements.

EUROCASTLE INVESTMENT LIMITED AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEET

	Notes	30 June 2007 (Unaudited) €'000	31 December 2006 €'000
Assets			
Cash and cash equivalents	9	258,263	122,699
Other assets	12	80,217	69,537
Investment property held for sale	15	25,099	-
Asset backed securities, available-for-sale (includes cash to be invested)	10	1,517,860	1,481,661
Asset backed securities, pledged under repurchase agreements	10	62,200	78,646
Real estate related loans	11	521,514	428,370
Real estate fund units	14	153,099	148,077
Derivative assets	13	41,905	22,690
Investment property	15	5,466,900	3,308,872
Intangible assets	16	2,483	1,828
Total assets		**8,129,540**	**5,662,380**
Equity and liabilities			
Capital and reserves			
Issued capital, no par value, unlimited number of shares authorised, 63,819,631 shares issued, and outstanding at 30 June 2007	22	1,444,978	1,439,517
Accumulated profit		341,367	88,458
Net unrealised (loss) / gain on asset backed securities, available-for-sale	10	(1,293)	1,882
Hedging reserve	23	52,926	23,542
Other reserves	22	17,320	17,320
Total shareholders' equity		**1,855,298**	**1,570,719**
Minority interest		**6**	**6**
Total equity		**1,855,304**	**1,570,725**
Liabilities			
Trade and other payables	20	176,999	93,299
CDO bonds payable	17	1,101,670	1,210,275
Bank borrowings	18	4,850,813	2,680,563
Repurchase agreements	19	59,807	75,490
Derivative liabilities		199	212
Finance lease payable	15	19,817	25,800
Current taxation payable	8	3,385	539
Deferred taxation payable	8	61,546	5,477
Total liabilities		**6,274,236**	**4,091,655**
Total equity and liabilities		**8,129,540**	**5,662,380**

See notes to the consolidated financial statements.

EUROCASTLE INVESTMENT LIMITED AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF CASH FLOWS

	Six months ended 30 June 2007 (Unaudited) €'000	Six months ended 30 June 2006 (Unaudited) €'000
Cash flows from operating activities		
Operating profit before taxation	349,464	107,055
Adjustments for:		
Unrealised loss on foreign currency contracts	712	967
Amortisation of (discounts)/premiums on securities	(506)	(291)
Amortisation of borrowing costs	4,707	1,804
Realised (gain) on disposal of asset backed securities, available-for-sale	(190)	(289)
Shares granted to directors	-	172
Amortisation of intangibles	268	61
Revaluation (gain) / loss on real estate fund units	(4,611)	2,351
Revaluation (gain) on investment properties	(280,377)	(77,296)
Revaluation (gain) on total return swap	-	(40)
Revaluation (gain) on interest rate swap	(12,673)	-
(Increase)/decrease in other assets	(12,168)	15,486
Increase in trade and other payables	83,943	67,399
Net cash flows from operating activities	**128,569**	**117,379**
Cash flows from investing activities		
Purchase of investment property	(2,214,026)	(2,107,642)
Proceeds from disposal of investment properties	305,293	-
Proceeds on sale of available-for-sales securities	257,262	-
Purchase of asset backed securities, available-for-sale	(297,634)	(114,263)
Sale of securities pledged under repurchase agreements	16,447	60,185
Purchase of real estate related loans	(155,816)	-
Sale of real estate related loans	62,672	10,840
Additions of real estate fund units	-	(34)
Purchase of intangible assets	(923)	(178)
Net cash flows used in investing activities	**(2,026,725)**	**(2,151,092)**
Cash flows from financing activities		
Proceeds of issuance of ordinary shares	5,820	535,401
Costs related to issuance of ordinary shares	(359)	(11,128)
Proceeds from issuance of bonds	241,750	-
Costs related to issuance of bonds	(1,615)	-
Repayments under repurchasing agreements	(15,683)	(56,643)
Repayments of Bonds Issued	(351,000)	-
Increase of bank borrowings	2,192,447	1,662,935
Dividends paid to shareholders	(37,640)	(22,639)
Net cash flows from financing activities	**2,033,720**	**2,107,926**
Net increase in cash and cash equivalents	**135,564**	**74,213**
Cash and cash equivalents, beginning of period	**122,699**	**13,640**
Cash and cash equivalents, end of period	**258,263**	**87,853**

EUROCASTLE INVESTMENT LIMITED AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Attributable to equity holders of the Group							
	Ordinary shares (adjusted for share consolidation) Number	**Share capital €'000**	**Other reserves €'000**	**Net unrealised gains/ (losses) €'000**	**Hedging reserves €'000**	**Accumulated profit €'000**	**Minority interest €'000**	**Total equity €'000**
At 1 January 2006	**24,209,670**	**286,801**	**1,020**	**4,703**	**(12,100)**	**18,442**	**2**	**298,868**
Net unrealised loss on available-for-sale securities	-	-	-	(4,034)	-	-	-	(4,034)
Issuance of shares	21,394,429	534,690	-	-	-	-	-	534,690
Costs related to issue of shares	-	(11,128)	-	-	-	-	-	(11,128)
Realised losses reclassified to the income statement	-	-	-	29	-	-	-	29
Issuance of ordinary shares to Directors	6,000	172	-	-	-	-	-	172
Share options excercised – June 2006	71,146	711	-	-	-	-	-	711
Net unrealised gain on hedge instruments	-	-	-	-	32,635	-	-	32,635
Cost related to issue of options on follow on share issue	-	(6,917)	6,917	-	-	-	-	-
Net gains not recognised in the income statement	-	-	6,917	(4,005)	32,635	-	-	29,170
Net profit for the six months	-	-	-	-	-	106,606	-	106,606
Total income and expense for the six months	-	-	6,917	(4,005)	32,635	106,606	-	142,153
Dividends paid	-	-	-	-	-	(22,639)	-	(22,639)
At 30 June 2006 (Unaudited)	**45,681,245**	**804,329**	**7,937**	**698**	**20,535**	**102,409**	**2**	**935,910**

EUROCASTLE INVESTMENT LIMITED AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Attributable to equity holders of the Group							
	Ordinary shares (adjusted for share consolidation) Number	**Share capital €'000**	**Other reserves €'000**	**Net unrealised gains/ (losses) €'000**	**Hedging reserves €'000**	**Accumulated profit €'000**	**Minority interest €'000**	**Total equity €'000**
At 1 July 2006	**45,681,245**	**804,329**	**7,937**	**698**	**20,535**	**102,409**	**2**	**935,910**
Net unrealised gain on available-for-sale securities	-	-	-	1,184	-	-	-	1,184
Issuance of shares	17,837,838	660,000	-	-	-	-	-	660,000
Costs related to issue of shares	-	(15,429)	-	-	-	-	-	(15,429)
Share options issued	-	-	-	-	-	-	-	-
Costs related to issue of options on follow on shares	-	(9,383)	9,383	-	-	-	-	-
Net unrealised gain on hedge instruments	-	-	-	-	2,416	-	-	2,416
Amortisation of novated swaps	-	-	-	-	591	-	-	591
Movement in minority interest	-	-	-	-	-	-	4	4
Net gains not recognised in the income statement	-	-	9,383	1,184	3,007	-	4	13,578
Net profit for the six months	-	-	-	-	-	37,213	-	37,213
Total income and expense for the six months	-	-	9,383	1,184	3,007	37,213	-	50,787
Dividends paid	-	-	-	-	-	(51,164)	-	(51,164)
At 31 December 2006	**63,519,083**	**1,439,517**	**17,320**	**1,882**	**23,542**	**88,458**	**6**	**1,570,725**

EUROCASTLE INVESTMENT LIMITED AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Attributable to equity holders of the Group							
	Ordinary shares (adjusted for share consolidation) Number	**Share capital €'000**	**Other reserves €'000**	**Net unrealised gains/ (losses) €'000**	**Hedging Reserves €'000**	**Accumulated profit €'000**	**Minority interest €'000**	**Total equity €'000**
At 1 January 2007	**63,519,083**	**1,439,517**	**17,320**	**1,882**	**23,542**	**88,458**	**6**	**1,570,725**
Net unrealised loss on available-for-sale securities	-	-	-	(3,452)	-	-	-	(3,452)
Share options exercised	300,548	5,820	-	-	-	-	-	5,820
Additional costs related to December share issue	-	(359)	-	-	-	-	-	(359)
Realised gains reclassified to the income statement	-	-	-	277	-	-	-	277
Net unrealised gain on hedge instruments	-	-	-	-	30,745	-	-	30,745
Amortisation of novated swaps	-	-	-	-	(1,361)	-	-	(1,361)
Net gains not recognised in the income statement	-	-	-	(3,175)	29,384	-	-	26,209
Net profit for the six months	-	-	-	-	-	290,549	-	290,549
Total income and expense for the six months	-	-	-	(3,175)	29,384	290,549	-	316,758
Dividends paid	-	-	-	-	-	(37,640)	-	(37,640)
At 30 June 2007 (Unaudited)	**63,819,631**	**1,444,978**	**17,320**	**(1,293)**	**52,926**	**341,367**	**6**	**1,855,304**

1. BACKGROUND

Eurocastle Investment Limited (the “Group”) was incorporated in Guernsey, Channel Islands on 8 August 2003 and commenced its operations on 21 October 2003. Eurocastle Investment Limited is a euro denominated Guernsey closed-end investment company listed on Euronext Amsterdam (formerly listed on the London Stock Exchange) and on 20 June 2007 was admitted to trading on the Amtlicher Markt (Official Market) and the Official Market sub-segment of the Frankfurt Stock Exchange. The activities of the Group include the investing in, financing and managing of European real estate assets and European real estate related debt.

The Group is externally managed by its Manager, FIG LLC (the “Manager”). The Group has entered into a management agreement (the “Management Agreement”) under which the Manager advises the Group on various aspects of its business and manages its day-to-day operations, subject to the supervision of the Group’s Board of Directors. For its services, the Manager receives an annual management fee and incentive compensation (as well as reimbursement for expenses, including expenses of certain employees providing property/asset management and finance services), as described in the Management Agreement. The Group has no ownership interest in the Manager.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Statement of Compliance

The consolidated interim financial statements of the Group have been prepared in accordance with IAS 34 (interim financial statements). The interim financial statements have been prepared under the same accounting principles and methods of computation as in the financial statements as at 31 December 2006 and for the year then ended. The consolidated financial statements are presented in euros, the functional currency of the Group, because the Group conducts its business predominantly in euros.

Basis of Preparation

The consolidated interim financial statements are prepared on a fair value basis for derivative financial instruments, investment property, financial assets and liabilities held for trading, and available-for-sale assets. Other financial assets and liabilities and non-financial assets and liabilities are stated at amortised or historical cost.

The preparation of these financial statements requires the use of estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Although these estimates are based on the Group’s management’s best knowledge of the amount, event or actions, actual results ultimately may differ from those estimates.

Where such judgements are made they are indicated within the accounting policies below.

Basis of Consolidation

The consolidated financial statements comprise the financial statements of Eurocastle Investment Limited and its subsidiaries for the six and three months ended 30 June 2007. Subsidiaries are consolidated from the date on which control is transferred to the Group and cease to be consolidated from the date on which control is transferred from the Group.

At 30 June 2007, the Group’s subsidiaries consisted of a number of subsidiaries in Ireland, Luxembourg and Germany.

Eurocastle Funding Limited (“EFL”), Eurocastle CDO I PLC (“CDO I”), Eurocastle CDO II PLC (“CDO II”), Eurocastle CDO III PLC (“CDO III”), Eurocastle CDO IV PLC (“CDO IV”), Duncannon CRE CDO I PLC (Duncannon) and FECO SUB SPV PLC (Feco) are all limited companies incorporated in Ireland. The ordinary share capital of these vehicles is held by outside parties and the Group has no voting rights. In accordance with the Standing Interpretations Committee Interpretation 12 Consolidation – Special Purpose Entities, the Group consolidates EFL, CDO I, CDO II, CDO III, CDO IV, Duncannon and Feco as it retains control over these entities and retains the residual risks of ownership of these entities.

The Group owns either directly or indirectly a 100% equity interest in a number of significant operating subsidiaries in Luxembourg, Germany and Ireland, as disclosed in Note 29, which are consolidated into these financial statements.

Eurocastle’s investment in real estate fund units are held by Finial Sàrl (“FIP”), a Luxembourg limited company, which is 100% owned by Luxgate Sàrl. The Group owns 100% of Luxgate Sàrl.

Financial Instruments

Classification

Financial assets and liabilities measured at fair value through the consolidated income statement are principally those instruments that the Group holds for the purpose of short-term profit taking. These include total return swaps, real estate fund units, interest rate swaps and forward foreign exchange contracts that are not designated as effective hedging instruments.

Available-for-sale assets and restricted short term investments are financial assets that are not classified as instruments held at fair value through the income statement, loans and advances, or held to maturity. Available-for-sale instruments include real estate loans and other asset backed securities.

Recognition

The Group recognises financial assets that are classified as held at fair value through the income statement and available-for-sale assets on the date it commits to purchase the assets (trade date). From this date, any gains and losses arising from changes in the fair value of the assets are recognised.

A financial liability is recognised on the date the Group becomes party to contractual provisions of the instrument.

Measurement

Financial instruments are measured initially at fair value plus, in the case of a financial asset or liability not measured at fair value through the income statement, transaction costs that are directly attributable to the acquisition or issue of the financial asset or financial liability.

Subsequent to initial recognition all instruments that are classified as held at fair value through the consolidated income statement and available-for-sale assets are carried at fair value.

All financial assets other than trading instruments and available-for-sale assets are measured at amortised cost less impairment losses. Amortised cost is calculated on the effective interest rate method. Premiums and discounts, including initial transaction costs, are included in the carrying amount of the related instrument and amortised based on the effective interest rate of the instrument.

Fair Value Measurement Principles

The fair value of financial instruments is based on their quoted market price at the balance sheet date without any deduction for transaction costs. If a quoted market price is not available, the fair value of the instrument is calculated using pricing models or discounted cash flow techniques, as applicable.

Where discounted cash flow techniques are used, expected future cash flows are based on our Manager's best estimates and the discount rate is a market related rate at the balance sheet date for an instrument with similar terms and conditions. Where pricing models are used, inputs are based on market related measures at the balance sheet date.

The fair value of derivatives that are not exchange traded is calculated at the amount that the Group would receive or pay to terminate the contract at the balance sheet date taking into account current market conditions and the current creditworthiness of the counterparties.

Gains and Losses on Subsequent Measurement

Gains and losses arising from a change in the fair value of instruments that are classified as held at fair value through the income statements are recognised directly in the income statement. Gains and losses arising from a change in the fair value of available-for-sale securities are recognised directly in equity until the investment is derecognised (sold, collected, or otherwise disposed of) or impaired, at which time the cumulative gain or loss previously recognised in equity is included in the income statement for the period.

Derecognition of financial assets and liabilities

Financial Assets

A financial asset is derecognised when:

- the rights to receive cash flows from the asset have expired;
- the Group retains the right to receive cash flows from the asset, but has assumed an obligation to pay them in full without material delay to a third party under a 'pass through' arrangement; or
- the Group has transferred its rights to receive cash flows from the asset and either (a) has transferred substantially all the risks and rewards of the asset, or (b) has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred the control of the asset.

Where the Group has transferred its right to receive cash flows from an asset and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognised to the extent of the Group's continuing involvement in the asset. Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group could be required to repay.

Where continuing involvement takes the form of a written and/or purchased option (including a cash settled option or similar provision) on the transferred asset, the extent of the Group's continuing involvement is the amount of the transferred asset that the Group may repurchase, except that in the case of a written put option (including a cash settled option or similar provision) on an asset measured at fair value, the extent of the Group's continuing involvement is limited to the lower of the fair value of the transferred asset and the option exercise price.

Financial Liabilities

A financial liability is derecognised when the obligation under the liability is discharged, cancelled or expires.

Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability and the difference in the respective carrying amounts is recognised in the income statement.

Impairment

The Group assesses at each balance sheet date whether there is objective evidence that a financial asset or group of financial assets is impaired. A financial asset or a group of financial assets is impaired and impairment losses are incurred if, and only if, there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a 'loss event') and that loss event (or events) has an impact on the calculated future cash flows of the financial asset or group of financial assets that can be reliably measured.

In the case of financial assets classified as available-for-sale, a significant or prolonged decline in the fair value of the security below its cost is considered in determining whether the assets are impaired. If any such evidence exists for available-for-sale financial assets, the cumulative loss, measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in the income statement, is removed from equity and recognised in the income statement.

Subsequent increases in the fair values of both debt instruments classified as available-for-sale and financial assets measured at amortised cost, which can be objectively related to an event occurring after previous impairment losses have been recognised in the income statement, are recorded in the income statement. Such reversals are then taken through the income statement only to the extent previous impairment losses have been taken through the income statement.

Hedge Accounting

Where there is a hedging relationship between a derivative instrument and a related item being hedged, the hedging instrument is measured at fair value.

Where a derivative financial instrument hedges the exposure to variability in the cash flows of recognised assets or liabilities, the effective part of any gain or loss on re-measurement of the hedging instrument is recognised directly in equity. The ineffective part of any gain or loss is recognised in the income statement.

The gains or losses that are recognised in equity are transferred to the income statement in the same period in which the hedged items affect the net profit and loss.

Changes in the fair value of derivatives that are designated and qualify as fair value hedges are recorded in the income statement, together with any changes in the fair value of the hedged asset or liability that are attributable to the hedged risk.

Repurchase Agreements

Securities and real estate loans subject to repurchase agreements are reclassified in the financial statements as pledged assets when the transferee has the right by contract or custom to sell or repledge the collateral. The counterparty liabilities have been classified as repurchase agreements.

Cash and Cash Equivalents

Cash and cash equivalents comprise cash at banks and in hand, short-term deposits and restricted cash with an original maturity of three months or less.

Restricted Cash

Restricted cash comprises margin account balances held by derivative counterparties as collateral for forward foreign exchange contracts, as well as cash held by the trustees of CDO I, II and III securitisations as a reserve for future trustee expenses. In addition, restricted cash comprises cash held as part of the minimum liquidity requirement for ECTGPROP1 (formerly known as Dresdner Grund Fonds). As such, these funds are not available for use by the Group.

Investment Properties

Investment properties comprise land and buildings. In accordance with IAS 40, property held to earn rentals and/or for capital appreciation is categorised as investment property. Investment properties are measured initially at cost, including transaction costs, and recognised when the customary conditions precedent under the relevant purchase agreement have been satisfied and the purchase price is paid to the vendor. The carrying amount includes the cost of replacing part of an existing investment property at the time that cost is incurred if the recognition criteria are met; and excludes the costs of day-to-day servicing of an investment property. Subsequent to initial recognition, investment properties are stated at fair value, which reflects market conditions at the balance sheet date. Gains or losses arising from changes in the fair values of investment properties are included in the income statement in the year in which they arise.

Investment properties are derecognised when either they have been disposed of or when the investment property is permanently withdrawn from use and no future economic benefit is expected from its disposal. Any gains or losses on the retirement or disposal of an investment property are recognised in the income statement in the year of retirement or disposal.

Properties held under operating leases are accounted for as investment property when they meet the definition of investment property. In such cases the operating leases are accounted for as if they were finance leases with an associated liability representing the present value of future minimum lease payments included in finance lease liabilities on the balance sheet.

Finance Leases

The determination of whether an arrangement is, or contains a finance lease, is based on the substance of the arrangement and requires an assessment of whether the fulfilment of the arrangement is dependent on the use of a specific asset or assets and whether the arrangement conveys a right to use the asset.

Finance leases, which transfer to the Group substantially all the risks and benefits incidental to ownership of the leased item, are capitalised at the inception of the lease at the fair value of the leased property or, if lower, at the present value of the minimum lease payments. Lease payments are apportioned between the finance charges and the reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are charged to the income statement as they arise.

Real Estate Fund Units

Real estate fund units are recorded at fair value in the consolidated balance sheet, with any change in fair value recognised in the consolidated income statement. The interest income is recognised in the income statement as it accrues, taking into account the effective yield of the real estate fund units.

Intangible Assets

Software development costs are capitalised when they meet certain criteria relating to identifiability, it is probable that future economic benefits will flow to the enterprise, and the cost can be measured reliably. These software costs are recognised in the consolidated income statement through amortisation of the capitalised software costs on a straight line basis over their expected useful life of 5 years.

Interest-Bearing Loans and Borrowings

All loans and borrowings, including the Group’s repurchase agreements, are initially recognised at fair value, being the fair value of consideration received, net of transaction costs incurred. Borrowings are subsequently stated at amortised cost; any difference between proceeds net of transaction costs and the redemption value is recognised in the income statement over the period of the borrowings using the effective interest method.

Minority Interests

Minority interests represent interests held by outside parties in the Group’s consolidated subsidiaries.

Revenue Recognition

The Group considers revenue to comprise interest income and rental income as its principal business is investing in, financing and management of European real estate and other asset backed securities and other real estate related assets.

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured.

Interest income and expenses are recognised in the income statement as they accrue, taking into account the effective yield of the asset/liability or an applicable floating rate. Interest income and expense includes the amortisation of any discount or premium or other differences between the initial carrying amount of an interest bearing instrument and its amount at maturity calculated on an effective interest rate basis.

Rental income arising from operating leases on investment properties is recognised on a straight-line basis over the lease term. Incentives given to enter into lease agreements are spread evenly over the lease term as a reduction of rental expense, even if the payments are not made on such a basis.

Service Charges

The Group acts as a principal bearing the risk of under recovering of service costs from its tenants. The service charge income earned from the tenants and the service costs incurred are shown separately in the consolidated income statement.

Service Income

Service income represents service costs recoverable from tenants and is recognised on the basis of services being provided.

Service Costs

Service costs represent service contracts entered into for the operation of the property, and are expensed on an accrual basis.

Property Expenses

Property expenses are expenses that are incurred on the property portfolio that are not able to be recovered from tenants. Property expenses are recognised on an accruals basis in the consolidated income statement.

Income Tax

The Group is a Guernsey, Channel Islands limited company and is not subject to taxation. The Group's subsidiaries, EFL, CDO I, CDO II, CDO III, CDO IV, Duncannon and Feco, are Irish registered companies and are structured to qualify as securitisation companies under section 110 of the Taxes Consolidation Act 1997. It is envisaged that these companies will generate minimal net income for Irish income tax purposes and no provision for income taxes has been made for these companies.

The Group's German subsidiary companies, Longwave and Shortwave, are subject to German income tax on income arising from their investment properties, after the deduction of allowable debt financing costs and other allowable expenses. The taxation accrual for the period ended 30 June 2007 includes a provision relating to these subsidiaries.

The Group's subsidiaries Bastion, Belfry, Truss, Bridge, Turret, Mars, HUK and Tannenberg are also subject to German income tax on rental income net of interest and other expense deductions. A small taxable income has been generated, within these entities, which has generated a small tax accrual, which includes deferred tax, for the period ended 30 June 2007.

The Group's investment in the underlying properties in relation to the Drive portfolio and the Real Estate Fund Units is by way of units in an open-ended real estate fund. No corporation tax is due on income generated or revaluation gains from its investment in these units.

Certain Luxembourg subsidiaries are subject to Luxembourg tax on a small amount of net interest which is attributable to shareholder loans and other debt instruments used within each of the structures supporting the different investment property portfolio.

Deferred Taxation

Deferred income tax is provided in full, using the liability method, on all temporary differences at the balance sheet date between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements.

Deferred income tax is recognised for all temporary differences arising between the tax base of assets and liabilities and their carrying amounts in the financial statements, with the following exceptions:

- where the temporary difference arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss;
- in respect of taxable temporary differences associated with investments in subsidiaries, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future; and
- deferred income tax assets are recognised only to the extent that it is probable that taxable profit will be available against which deductible temporary differences, carried forward tax credits or tax losses can be utilised.

The carrying amount of deferred income tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred income tax asset to be utilised.

Deferred income tax assets and liabilities are measured at the tax rates that are expected to apply to the year when the asset is realised or the liability is settled, based on tax rates and tax laws that have been enacted or substantively enacted at the balance sheet date.

Income tax relating to items recognised directly in equity is recognised in equity and not in the income statement.

Foreign Currency Translation

The functional and presentation currency of the Group and its subsidiaries is the euro. Transactions in foreign currencies are initially recorded in the functional currency rate of exchange ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rate of exchange ruling at the balance sheet date. All differences are taken to the consolidated income statement. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rate as at the date of initial transaction. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined.

Share-Based Payments

Share-based payments are accounted for based on their fair value on grant date. The fair value is calculated by reference to an option pricing model. The fair value of the share options granted in relation to capital raises has been fully recognised (vested) on the date of grant as a cost relating to the issue of shares with a corresponding increase to other reserves.

Shares granted to Directors are recognised in the income statement over the period that the services are received.

3. INTEREST INCOME

Interest income for the six and three months ended 30 June 2007 of €66.5 million and €32.9 million respectively (2006: €43.3 million and €22.9 million) is primarily interest income earned on the asset backed securities, available-for-sale and asset backed securities pledged under repurchase agreements and real estate loans.

4. RENTAL INCOME AND PROPERTY OPERATING EXPENSES

Rental income for the six and three months ended 30 June 2007 was €148.9 million and €82.8 million respectively (30 June 2006: €63.1 million and €39.3 million) represents rental income earned on investment properties.

Property operating expenses, including repairs and maintenance, arising from investment properties that generated rental income during the year for the six and three months ended 30 June 2007 were €5.9 million and €2.9 million respectively (30 June 2006: €4.1 million and €1.6 million).

5. SERVICE CHARGE INCOME AND EXPENSE

Service charge income for the six and three months ended 30 June 2007 of €25.8 million and €14.0 million respectively, (30 June 2006: €10.7 million and €9.2 million) represents the service costs recoverable from tenants.

Service charge expense for the six and three months ended 30 June 2007 of €31.7 million and €17.0 million respectively (30 June 2006: €15.0 and €13.0 million) represents the costs relating to the service contracts entered into for the operation of the properties.

6. INTEREST EXPENSE

Interest expense for the six and three months ended 30 June 2007 was €129.2 million and €68.6 million respectively (30 June 2006: €62.8 million and €36.3 million) comprises interest expense incurred on the CDO bonds payable, bank borrowings and repurchase agreements.

Interest expense for the six and three months ended 30 June 2007 included €2.2 million of upfront financing costs written off due to the closure of CDO I, €5.8 million of gains on the closure of the swap relating to the sale of non-core assets in the Drive portfolio and €2.0 million gains on the refinancing of the Wave portfolio.

7. OTHER OPERATING EXPENSES

	Six months ended 30 June 2007 (Unaudited) €'000	Six months ended 30 June 2006 (Unaudited) €'000	Three months ended 30 June 2007 (Unaudited) €'000	Three months ended 30 June 2006 (Unaudited) €'000
Professional fees	4,989	3,408	4,118	1,712
Management fees	10,862	5,419	5,468	3,035
Incentive fees	8,456	784	8,456	477
Amortisation of intangible assets	268	61	138	28
Other*	5,085	2,251	3,015	1,391
	29,660	**11,923**	**21,195**	**6,643**

* Included within other operating expenses for the period are reimbursement of property related asset management services of €3.5 million (30 June 2006: €1.8 million) to FIG LLC. (See Note 27)

8. TAXATION EXPENSE

	Six months ended 30 June 2007 (Unaudited) €'000	Six months ended 30 June 2006 (Unaudited) €'000	Three months ended 30 June 2007 (Unaudited) €'000	Three months ended 30 June 2006 (Unaudited) €'000
Current tax				
Germany	2,654	-	2,654	(21)
Luxembourg	191	189	95	98
Total current tax	**2,845**	**189**	**2,749**	**77**
Deferred tax				
Germany	56,070	260	35,567	26
Total deferred tax	**56,070**	**260**	**35,567**	**26**
Total tax expense	**58,915**	**449**	**38,316**	**103**

Reconciliation of the total tax expense

The tax expense in the consolidated income statement for the period is higher than the standard rate of corporation tax in Guernsey of 0%. The difference is reconciled below:

	Six months ended 30 June 2007 (Unaudited) €'000	Six months ended 30 June 2006 (Unaudited) €'000	Three months ended 30 June 2007 (Unaudited) €'000	Three months ended 30 June 2006 (Unaudited) €'000
Net profit before taxation	349,464	107,055	274,509	13,808
Profit on ordinary activities based on Guernsey tax of 0 % (2006: 0%)	-	-	-	-
Overseas taxation (current and deferred)	58,915	449	38,316	103
Total tax expense reported in the Income Statement	**58,915**	**449**	**38,316**	**103**

Analysis of deferred tax:

	Six months ended 30 June 2007 (Unaudited) €'000	Six months ended 30 June 2006 (Unaudited) €'000	Three months ended 30 June 2007 (Unaudited) €'000	Three months ended 30 June 2006 (Unaudited) €'000
Tax losses carried forward	(2,858)	(204)	(1,882)	(12)
Short Term Timing Differences				
Loan expense	(789)	(29)	(721)	16
Tenant improvements and leasing commissions	270	-	276	-
Other	1,180	-	919	-
Long Term Timing Differences				
Accelerated capital allowance	4,871	488	3,518	(65)
Revaluation of investment properties*	53,335	-	33,432	80
Acquisition expense	47	-	11	-
Other	14	5	14	7
Deferred tax expense	**56,070**	**260**	**35,567**	**26**

* This represents deferred tax on the difference between the fair value and the German tax book value of the investment properties, except the Drive portfolio. The Group's investment in the underlying properties in relation to the Drive portfolio is by way of units in an open ended real estate fund. No corporation tax is due on income generated or revaluation gains from its investment in the Drive portfolio. This has resulted in a higher effective tax rate in the current period compared with the six months ended 30 June 2006.`

Deferred tax on revaluation of investment properties:

Portfolio	Six months ended 30 June 2007 unrealised gain (Unaudited) €'000	Six months ended 30 June 2007 deferred tax (Unaudited) €'000	Six months ended 30 June 2006 unrealised gain/(loss) (Unaudited) €'000	Six months ended 30 June 2006 deferred tax (Unaudited) €'000
Mars	19,400	22,215	-	-
Drive	130,165	-	77,800	-
Wave	63,568	13,947	(569)	-
HUK	433	114	-	-
Bridge	45,996	11,569	-	-
Retail	20,815	5,490	65	-
	280,377	**53,335**	**77,296**	**-**

Portfolio	Three months ended 30 June 2007 unrealised gain (Unaudited) €'000	Three months ended 30 June 2007 deferred tax (Unaudited) €'000	Three months ended 30 June 2006 unrealised gain/(loss) (Unaudited) €'000	Three months ended 30 June 2006 deferred tax (Unaudited) €'000
Mars	72,939	22,216	-	-
Drive	106,943	-	(63)	-
Wave	645	(2,642)	(265)	-
HUK	768	114	-	-
Bridge	45,316	10,493	-	-
Retail	12,498	3,251	389	80
	239,109	**33,432**	**61**	**80**

Movement in taxation payable:

	As at 30 June 2007 (Unaudited) €'000	As at 31 December 2006 €'000
Opening tax payable	6,016	2,278
Tax paid	-	-
Tax expense for the period	58,915	3,738
Closing taxation payable	**64,931**	**6,016**
Split between:		
Current tax	3,385	539
Deferred tax	61,546	5,477
Closing taxation payable	**64,931**	**6,016**

The taxation expense for the period ended 30 June 2007 relates to the Group's Luxembourg and German subsidiary companies as described in Note 2. The German tax charge is based on German tax on income arising from its investment properties, after the deduction of allowable debt financing costs and other allowable expenses. The Luxembourg tax charge is based on Luxembourg tax on a small amount of net interest which is attributable to shareholder loans and other debt instruments used within each of the structures supporting the different investment property portfolios.

9. CASH AND CASH EQUIVALENTS

	As at 30 June 2007 (Unaudited) €'000	As at 31 December 2006 €'000
Cash on hand and balances with banks	213,982	77,613
Restricted cash – ECTGPROP1 liquidity requirement	44,281	45,086
Cash and cash equivalents	**258,263**	**122,699**

There is a minimum liquidity requirement of 5% of the value of ECTGPROP1 (formerly known as Dresdner Grund-Fonds), the subsidiary through which the Drive portfolio is held, in accordance with German Investment Companies Act requirements. At 30 June 2007, the liquidity requirement of 5% has been invested in high grade debt securities of short duration.

10. ASSET BACKED SECURITIES, AVAILABLE-FOR-SALE

The following is a summary of the Group's available-for-sale securities at 30 June 2007 (Unaudited):

			Gross unrealised			Weighted average			
	Current face amount €'000	Amortised cost basis €'000	Gains €'000	Losses €'000	Carrying value €'000	S&P rating*	Coupon	Margin	Maturity (years)
Portfolio I									
CMBS	-	-	-	-	-	-	-	-	-
Other ABS	-	-	-	-	-	-	-	-	-
	-	-	-	-	-	-	-	-	-
Portfolio II									
CMBS	206,771	206,684	369	(317)	206,736	BBB	5.39%	1.34%	5.19
Other ABS	177,714	178,041	125	(599)	177,567	BBB	5.37%	1.23%	3.91
	384,485	384,725	494	(916)	384,303	BBB	5.38%	1.29%	4.60
Portfolio III									
CMBS	226,116	226,222	299	(793)	225,728	BBB-	5.72%	1.68%	5.48
Other ABS	461,093	461,619	1,382	(1,327)	461,674	BBB	5.59%	1.48%	3.80
	687,209	687,841	1,681	(2,120)	687,402	BBB	5.63%	1.54%	4.36
Portfolio IV									
CMBS	32,378	32,413	6	(231)	32,188	BBB	5.06%	1.31%	9.27
Other ABS	29,416	29,427	4	(433)	28,998	A-	4.82%	0.89%	5.03
	61,794	61,840	10	(664)	61,186	BBB+	4.95%	1.11%	8.63
Portfolio V									
CMBS	233,962	234,036	547	(351)	234,232	BBB	5.40%	1.31%	4.46
Other ABS	41,593	41,618	25	(16)	41,627	BBB-	5.24%	1.14%	6.11
	275,555	275,654	572	(367)	275,859	BBB	5.37%	1.28%	4.71
Other securities									
CMBS	31,492	31,492	17	-	31,509	AA+	4.41%	0.37%	5.97
Other ABS	30,691	30,691	-	-	30,691	AAA	5.20%	0.90%	0.67
	62,183	**62,183**	**17**	**-**	**62,200**	**AAA**	**4.80%**	**0.63%**	**3.35**
Total portfolio	**1,471,226**	**1,472,243**	**2,774**	**(4,067)**	**1,470,950**	**BBB**	**5.45%**	**1.37%**	**4.62**

Restricted cash – cash to be invested	**109,110**
Total asset backed securities (including cash to be invested)	**1,580,060**

* Ratings are based on the minimum public or private rating obtained from Fitch, Moody's or S&P ratings agencies.
CMBS – Commercial Mortgage Backed Securities.
Other ABS – Other Asset Backed Securities.

The securities within Portfolio II and III are encumbered by CDO securitisations (Note 17).

The following is a summary of the Group's available-for-sale securities at 31 December 2006.

	Current face amount	Amortised cost basis	Gross unrealised Gains	Gross unrealised Losses	Carrying value	Weighted average S&P rating*	Weighted average Coupon	Weighted average Margin	Weighted average Maturity (years)
	€'000	€'000	€'000	€'000	€'000				
Portfolio I									
CMBS	140,407	140,391	687	(71)	141,007	BBB	5.19%	1.58%	3.83
Other ABS	259,885	260,404	1,329	(356)	261,377	BBB	5.46%	1.82%	4.25
	400,292	400,795	2,016	(427)	402,384	BBB	5.37%	1.74%	4.10
Portfolio II									
CMBS	222,651	222,738	364	(252)	222,850	BBB	4.98%	1.39%	5.34
Other ABS	199,197	199,581	316	(376)	199,521	BBB	4.98%	1.29%	4.32
	421,848	422,319	680	(628)	422,371	BBB	4.98%	1.34%	4.86
Portfolio III									
CMBS	244,209	244,307	564	(303)	244,568	BBB	5.58%	1.96%	5.25
Other ABS	227,747	227,883	549	(186)	228,246	BBB	5.09%	1.39%	3.86
	471,956	472,190	1,113	(489)	472,814	BBB	5.34%	1.69%	4.58
Portfolio IV									
CMBS	99,477	99,223	334	(57)	99,500	BBB	4.88%	1.63%	3.45
Other ABS	64,583	64,564	35	(715)	63,884	BBB	5.15%	1.70%	5.25
	164,060	163,787	369	(772)	163,384	BBB	4.99%	1.66%	4.16
Other securities									
CMBS	34,126	34,126	20	-	34,146	AA+	4.02%	0.37%	8.03
Other ABS	44,500	44,500	-	-	44,500	AAA	4.74%	0.90%	0.73
	78,626	**78,626**	**20**	**-**	**78,646**	**AAA**	**4.42%**	**0.67%**	**3.90**
	1,536,782	**1,537,717**	**4,198**	**(2,316)**	**1,539,599**	**BBB**	**5.16%**	**1.55%**	**4.45**

Restricted cash – cash to be invested	**20,708**
Total asset backed securities (including cash to be invested)	**1,560,307**

* Ratings are based on the minimum public or private rating obtained from Fitch, Moody's or S&P ratings agencies.
CMBS – Commercial Mortgage Backed Securities.
Other ABS – Other Asset Backed Securities.

The securities within Portfolio I, II and III are encumbered by CDO securitisations (Note 17).

Asset backed securities, available-for-sale at fair value of €62.2 million (31 December 2006: €78.7 million) have been pledged to third parties in sale and repurchase agreements. In accordance with the revisions to IAS 39 Financial Instruments: Recognition and Measurement, effective 1 January 2005, these securities have been reclassified as pledged securities as follows:

	As at 30 June 2007 (Unaudited) €'000	As at 31 December 2006 €'000
Asset backed securities, available-for-sale (includes cash to be invested)	1,517,860	1,481,661
Asset backed securities pledged under repurchase agreements	62,200	78,646
Total asset backed securities	**1,580,060**	**1,560,307**

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

	As at 30 June 2007 (Unaudited) €'000	As at 31 December 2006 €'000
Unrealised gains on available-for-sale securities	2,774	4,198
Unrealised losses on available-for-sale securities	(4,067)	(2,316)
	(1,293)	**1,882**

11. REAL ESTATE RELATED LOANS

The following is a summary of the Group's real estate loans as at 30 June 2007 (Unaudited).

			Gross unrealised				Weighted average		
	Current face amount €'000	Amortised cost basis €'000	Gains €'000	Losses €'000	Carrying value €'000	S&P rating	Coupon	Margin	Maturity (years)
Real estate loans	525,154	521,514	-	-	521,514	B	6.82%	2.97%	4.48

* 78% of the Real Estate loan portfolio has ratings based on the minimum public or private ratings obtained from Fitch, Moody's or Standard & Poor's (S&P) ratings. 22% of the Real Estate loans have been assigned an internal credit rating in anticipation of a formal rating, which is currently being sought from S&P, Fitch and Moody's.

As at 31 December 2006:

			Gross unrealised				Weighted average		
	Current face amount €'000	Amortised cost basis €'000	Gains €'000	Losses €'000	Carrying value €'000	S&P rating	Coupon	Margin	Maturity (years)
Real estate loans	430,988	428,370	-	-	428,370	B+**	6.38%	2.88%	4.78

** 57% of the Real Estate loan portfolio has ratings based on the minimum public or private ratings obtained from Fitch Moody's or Standard and Poors (S&P) ratings. 43% of the Real Estate loans have been assigned an internal credit rating in anticipation of a formal rating, which is currently being sought from S&P, Fitch and Moody's.

12. OTHER ASSETS

	As at 30 June 2007 (Unaudited) €'000	As at 31 December 2006 €'000
Unsettled security transactions	833	-
Interest receivable	19,811	16,872
Rent receivable	12,384	5,551
Prepaid expenses	334	736
Service charge receivable	7,419	2,632
Deposit fee	-	14,360
Fund income receivable	7,512	7,900
Other accounts receivable*	31,924	21,486
	80,217	**69,537**

* Other accounts receivable includes €10m (31 December 2006: nil) of funds due from the counterparty as a result of the breakage of an interest rate swap as part of the Wentworth Sale and €4.0 million (31 December 2006: €2.7 million) of capitalised leasing commissions and tenant improvements.

13. DERIVATIVE ASSETS

	As at 30 June 2007 (Unaudited) €'000	As at 31 December 2006 €'000
Foreign exchange forward contracts	86	238
Total return swaps	154	288
Interest rate swaps	41,665	22,164
Total derivative assets	**41,905**	**22,690**

13.1 Derivative Assets
Derivative assets represent the fair value of interest rate swaps, total return swaps and foreign exchange forward contracts.

13.2. Total Return Swaps
Included in the Derivative Assets are two total return swaps, the fair value of which as at 30 June 2007 is €153,892 (31 December 2006: €288,313) and the collateral deposit posted is €4.75 million which is held as restricted cash (31 December 2006: €4.75m). These total return swaps have been recorded as derivative assets and are treated as trading assets that are not designated as effective hedging instruments for accounting purposes and any gain or loss arising from the change in fair value of the asset is recognised through profit and loss.

Total Return Swap 1
In March 2007, the Group entered into a total return swap with a major investment bank, whereby it receives a sum of all interest (at EURIBOR + 2.50%) and any positive changes in value from a referenced term loan with an initial notional amount of €32.50 million and pays interest (at EURIBOR + 0.45%) on the notional amount plus any negative change in value amounts from such loan. Under the contract, the parent is required to post an initial collateral deposit equivalent to 10% of the notional amount and additional margin may be payable in the event of a decline in the value of the referenced term loan.

Total Return Swap 2
In November 2006, the Group entered into a total return swap with a major investment bank, whereby it receives the sum of all interest (at EURIBOR + 2.50%) and any positive changes in value from a referenced term loan with an initial notional amount of €10.70 million, and pays interest (at EURIBOR + 0.75%) on the notional amount plus any negative change in value amounts from such loan. Under the contract, the parent is required to post an initial collateral deposit equivalent to 14% of the notional amount and additional margin may be payable in the event of a decline in the value of the referenced term loan.

Total Return Swap 3

In December 2005, a subsidiary entered into a total return swap with a major investment bank, whereby it receives the sum of all interest (at EURIBOR + 4.00%) and any positive change in value from a referenced term loan with an initial notional amount of €25.85 million, and pays interest (at EURIBOR + 0.40%) on the notional amount plus any negative change in value amounts from such loan. In May 2006, the subsidiary increased its holding in the existing total return swap by €6.6 million. Under the contract, the parent is required to post an initial collateral deposit equivalent to 10% of the notional amount and additional margin may be payable in the event of a decline in the value of the referenced term loan. In March 2007, the subsidiary sold 100% of its interest in this total return swap.

14. REAL ESTATE FUND UNITS

Between July and October 2005, the Group purchased a €181 million interest in 1,500 Class A real estate fund units backed by a portfolio of 394 properties in Italy. The original term of the Lease Agreement is 9 years, automatically renewable for a further 9 years, unless terminated by the Agenzia del Demanio (a public entity established by the Italian Ministry of Finance), with 12 months prior notice. The properties have a total occupancy of 100%. On 12 September 2006, 300 real estate fund units were sold.

	As at 30 June 2007 (Unaudited) €'000	As at 31 December 2006 €'000
At 1 January	148,077	189,591
Additional capital expenditure	411	2
Sale of units	-	(36,299)
Increase/(decrease) in fair value	4,611	(5,217)
Closing balance	**153,099**	**148,077**

15. INVESTMENT PROPERTY

Total investment property consists of:

	As at 30 June 2007 (Unaudited) €'000	As at 31 December 2006 €'000
Investment property held for sale	25,099	-
Investment property	5,466,900	3,308,872
Closing balance	**5,491,999**	**3,308,872**

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

	Freehold land and buildings €'000	Leasehold property €'000	30 June 2007 Total (Unaudited) €'000	31 December 2006 Total €'000
Opening balance	3,182,130	126,742	3,308,872	463,540
Additions	2,197,999	16,027	2,214,026	2,744,365
Disposals	(291,144)	(14,149)	(305,293)	-
(Decrease)/Increase in minimum payments under head lease	-	(5,983)	(5,983)	22,848
Increase in fair value	247,912	32,465	280,377	78,119
Total	**5,336,897**	**155,102**	**5,491,999**	**3,308,872**

The value of investment properties incorporates 29 properties that are held by the Group under finance or operating leases. An associated liability is recognised at an amount equal to the fair value of the leased property, or if lower, the present value of the minimum lease payments, determined at the inception of the lease.

Investment properties are stated at fair value, which has been determined based on valuations performed by industry specialists in valuing these types of properties. The main factors the valuers consider when determining a fair valuation are the following: passing rent, void periods and relettability and marketability of properties. The fair value represents the amount at which the asset could be exchanged between a knowledgeable, willing buyer and a knowledgeable, willing seller in an arm's-length transaction at the date of valuation, in accordance with international valuation standards.

Lease arrangements over the land on which the 29 investment properties are built have unexpired terms ranging from 9 years to 86 years.

A reconciliation of investment property valuations to the balance sheet carrying value of property is shown below:

	As at 30 June 2007 (Unaudited) €'000	As at 31 December 2006 €'000
Investment property at market value	5,472,182	3,283,072
Minimum payments under head leases separately included in trade and other payables on the balance sheet.	19,817	25,800
Balance sheet carrying value of investment property	**5,491,999**	**3,308,872**

Schedule of Minimum Lease Payments under Finance Leases

	Total value 30 June 2007 (Unaudited) €'000	Present value 30 June 2007 (Unaudited) €'000	Total value 31 December 2006 €'000	Present value 31 December 2006 €'000
Under 1 year	1,120	1,014	1,375	1,281
From 2 to 5 years	4,685	3,672	5,736	4,650
More than 5 years	86,218	15,131	99,423	19,869
Total	**92,023**	**19,817**	**106,534**	**25,800**

Additional Information

The tables below provide additional information for various portfolios within the group at 30 June 2007:

Portfolio	Property cost* €'000	Property valuation €'000	Term financing €'000	Term financing to property cost %	Term financing to property valuation %
Drive	1,789,570	1,980,917	1,352,948	75.60%	68.30%
Mars	2,145,976	2,165,598	1,554,690	72.45%	71.79%
Bridge	500,075	540,300	367,003	73.39%	67.93%
Wave	238,392	307,942	203,400	85.32%	66.05%
HUK	53,067	53,500	39,293	74.04%	73.44%
Retail	420,752	443,742	320,250	76.11%	72.17%
Total	**5,147,832**	**5,491,999**	**3,837,584**	**74.55%**	**69.88%**

* Property cost is the purchase price plus capitalised costs.

The tables below provide additional information for various portfolios within the group at 31 December 2006:

Portfolio	Property cost €'000	Property valuation €'000	Term financing €'000	Term financing to property cost %	Term financing to property valuation %
Drive	1,972,206	2,069,744	1,511,443	76.64%	73.03%
Bridge	501,886	496,120	373,856	74.49%	75.36%
Wave	320,181	332,186	240,397	75.08%	72.37%
Retail	408,769	410,822	311,944	76.31%	75.93%
Total	**3,203,042**	**3,308,872**	**2,437,640**	**76.10%**	**73.67%**

Investment Properties Held for Sale

On 29 June 2007, 72 of the 78 investment properties held for sale were sold at their carrying value stated in the 31 March 2007 financial statements. The 6 remaining properties are classified as investment properties held for sale in the balance sheet, at a value of €25.1 million. These properties have been included in the above property analysis in this note.

16. INTANGIBLE ASSETS

	As at 30 June 2007 (Unaudited) €'000	As at 31 December 2006 €'000
Cost		
Balance at 1 January	1,981	551
Additions	923	1,430
Balance at 30 June 2007	**2,904**	**1,981**
Amortisation		
Balance at 1 January	(153)	(9)
Charge for the period	(268)	(144)
Balance at 30 June 2007	**(421)**	**(153)**
Carrying amount		
At 1 January	**1,828**	**542**
At 30 June	**2,483**	**1,828**

Intangible assets represent capitalised computer software costs.

17. CDO BONDS PAYABLE

As at 30 June 2007 (Unaudited):

	Class	Rating	Current face amount €'000	Carrying amount €'000	Weighted average cost of financing	Weighted average margin	Weighted average maturity (in years)
CDO I	-	-	-	-	-	-	-
CDO II	A, B and C notes	AAA/AA/A	406,075	402,970	4.60%	0.44%	8.0
CDO III	A, B, C and D notes	AAA/AA/A/ BBB	704,250	698,700	4.61%	0.46%	8.1
Total			**1,110,325**	**1,101,670**	**4.60%**	**0.45%**	**8.0**

On 21 May 2007, Eurocastle Investment Limited delivered a redemption notice along with the subordinated notes of CDO I Plc to the trustee requesting the optional redemption of CDO I Plc's investment. On the same day, the redemption notice was accepted, agreed, and signed by the trustee.

On 20 June 2007, CDO I Plc sold all of its remaining assets to other companies within the group, and repaid all outstanding notes. Unamortised financing costs relating to the issue of the Class A and B notes of €2.15 million were written off during the period and is recognised within interest expense.

On 1 June 2007, holders of 100% of the Class A CDO III Bonds (the "controlling class") agreed to an "upsizing" of CDO III Plc which involved the issue of a further €250 million CDO bonds and subordinated notes in total across the various classes.

As at 31 December 2006:

	Class	Rating	Current face amount €'000	Carrying amount €'000	Weighted average cost of financing	Weighted average margin	Weighted average maturity (in years)
CDO I	A and B notes	AAA/AA	351,000	348,676	4.29%	0.59%	5.4
CDO II	A, B and C notes	AAA/AA/A	406,278	402,879	4.33%	0.47%	8.5
CDO III	A, B and C notes	AAA/AA/A	462,500	458,720	4.17%	0.47%	8.5
Total			**1,219,778**	**1,210,275**	**4.26%**	**0.51%**	**7.5**

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

18. BANK BORROWINGS

The bank borrowings comprise:

		As at 30 June 2007 (Unaudited) €'000	As at 31 December 2006 €'000
Term finance	(Note 18.1)	4,550,002	2,534,024
Revolving credit facility	(Note 18.2)	211,606	-
Other bank financing – under 1 year	(Note 18.3)	59,726	79,488
Other bank financing – over 1 year	(Note 18.3)	29,479	67,051
		4,850,813	**2,680,563**

18.1 Term Financing

		Current face amount €'000		Carrying amount €'000			
Portfolios	**Month Raised**	**As at 30 June 2007 (Unaudited)**	**As at 31 December 2006**	**As at 30 June 2007 (Unaudited)**	**As at 31 December 2006**	**Hedged weighted average funding cost**	**Maturity**
Debt investments							
CDO IV	Jul 2005	68,986	-	68,895	-	4.76%	Aug 2008
Duncannon	Feb 2007	547,095	-	547,095	-	4.68%	Jun 2047
		616,081	**-**	**615,990**	**-**	**4.69%**	
Investment property							
Wave	Apr 2007	205,400	242,803	203,400	240,397	4.94%	Apr 2013
Belfry	Aug 2005	56,240	56,240	55,472	55,433	4.85%	Oct 2015
Bastion	Sep 2005	26,500	26,500	25,325	25,211	4.44%	Sep 2012
Truss	Dec 2005	85,280	85,280	84,573	84,537	4.93%	Feb 2016
Turret	May 2006	147,556	147,556	145,959	146,763	4.93%	May 2016
Drive	Feb 2006	1,364,092	1,525,000	1,352,948	1,511,443	4.21%	Jan 2013
Bridge	Oct 2006	372,090	372,090	367,003	373,856	4.74%	Jan 2014
Mars - fixed	Jan 2007	1,029,465	-	1,010,771	-	4.71%	July 2014
Mars - fixed	Jan 2007	220,000	-	220,000	-	4.82%	July 2008
Mars - floating	Jan 2007	329,911	-	323,919	-	4.81%	July 2008
HUK	Feb 2007	39,896	-	39,293	-	4.97%	May 2014
Tannenberg	May 2007	9,087	-	8,921	-	4.73%*	Oct 2014
		3,885,517	**2,455,469**	**3,837,584**	**2,437,640**	**4.58%**	
Real estate fund units							
FIP units	Jul 2005	97,500	97,500	96,428	96,384	5.53%	Jul 2018
Total		**4,599,098**	**2,552,969**	**4,550,002**	**2,534,024**		

* This is the rate of the loan that is effective as from 20 October 2007 until maturity after the novation and effect of interest rate swaps. The effective interest rate that applied during the second quarter was 4.83%.

Real Estate Debt

On 14 July 2005, the Group through Eurocastle CDO IV PLC entered into a €400 million 3 year extendable warehouse facility with a major UK bank. This facility was previously used to refinance a significant part of the portfolio previously financed under short-term repurchase agreements, and is currently being used to build and finance a portfolio of asset backed securities and real estate related loans. The lender uses a rating agency CDO model to determine the level of equity contribution the Group is required to make to support the portfolio from time to time. The facility is secured over, inter alia, the collateral making up the portfolio. The margin payable to the lender depends on the deemed rating levels of the portfolio as determined by the rating agency model.

As at 30 June 2007, there was €68.9 million drawn on the warehousing facility (31 December 2006: nil).

The Group, through two major US banks, entered into a €700 million 1 year extendable warehouse facility, under which the first drawdown was made in February 2007. The facility ("Duncannon") is currently being used to build and finance a portfolio of primarily commercial mortgage backed securities and real estate related loans. The facility is secured over, inter alia, the collateral making up the portfolio. The lenders will finance up to 85% of the cost of the portfolio at a margin of 0.65% over Libor.

As at 30 June 2007, €547.1 million was drawn on the facility.

Investment Properties

In order to finance the investment property portfolios, the Group entered into non-recourse loan facilities as described in the table above. These facilities are secured in the customary manner for German real estate lending; granting security over, inter alia, the real estate purchased as well as rent receivables and bank accounts of the borrower. Interest in respect of these facilities is payable quarterly.

In April 2007, the group refinanced the Wave portfolio with a €210.0 million facility, of which €205.4 million had been drawn at 30 June 2007. The facility is for 7 years from the date of signature, and after allowing for an interest rate swap on €210 million, the weighted average funding cost was 4.94%.

The Drive Portfolio is financed with a 7 year (at signing) €1,525.0 million facility consisting of a senior and junior loan of €840 million and €685 million respectively. €50 million of the junior loan bears interest at Euribor + 1.13% to match a liquidity reserve maintained by ECTGPROP1, whereas the remaining portion bears a fixed rate. The senior loan has a weighted average funding cost of 3.83% and the junior loan has a weighted average funding cost of 4.64%.

The Bridge Portfolio is financed with a 7 year (at signing) €372.1 million term loan at an effective interest cost of 4.74%.

The Belfry Portfolio is financed with a 10 year (at signing) non-recourse €56.2 million term loan at an effective interest rate cost of 4.85%.

The Bastion Portfolio is financed with a 7 year (at signing) non-recourse €26.5 million term loan at an effective interest rate cost of 4.44%.

The Truss Portfolio is financed with a 10 year (at signing) non-recourse €85.3 million term loan which bears a fixed interest rate of 4.93%.

The Turret Portfolio is financed with a 10 year (at signing) non-recourse €147.6 million term at an effective interest rate cost of 4.93%.

The Mars Portfolio is financed with a non-recourse €1,579 million term loan at an effective interest rate cost of 4.75%. The loan comprises a 7.4 year (at signing) fixed rate loan of €1,029 million and a 1.4 year (at signing) floating rate loan of €550 million. The floating rate loan has been partially hedged with an interest rate swap on €220 million. In addition to this, the Group is required to draw a capital reserve line of €60 million prior to securitisation of the loan by the lender, expected to happen within 12 months of the facility signing date. In the interim, a commitment fee of 0.75% is payable in connection with the capital reserve.

The HUK Portfolio is financed with a 7.3 year (at signing) non-recourse €39.9 million term loan at an effective interest rate cost of 4.97% (go forward rate).

The Tannenberg Portfolio is financed with a 7.4 year (at signing) non-recourse €126.2 million term loan at an effective interest rate cost of 4.73% (go forward rate).

Real Estate Fund Units

On 22 July 2005, the Group entered into a non-recourse 13 year loan facility to finance its acquisition of 1,450 Class A Units in Fondo Immobili Pubblici. The facility is secured over, inter alia, the 1,450 Class A Units, an assignment of receivables under the units, a pledge over bank accounts and over shares in the borrower. The interest rate on the loan is Euribor + 1.95%, payable semi-annually. On 21 October 2005, the Group acquired a further 50 Class A Units through the same facility. On 20 September 2006, the Group sold 300 Class A Units (20% of the total holdings), resulting in a pro-rated repayment of the finance facility.

18.2 Revolving Credit Facility

In December 2004, the Group entered into a revolving €35.0 million credit facility with Deutsche Bank as a means of securing access to temporary working capital. The facility is secured by receivables flowing from the Group, with security assignments of the Group's rights under its management agreement with Fortress Investment Group LLC. The facility contains a number of financial covenants including a maximum leverage ratio and a minimum interest cover ratio. The interest rate on drawn amounts is Euribor + 1.5% p.a., while on undrawn amounts it is 0.4% p.a. The facility was increased to €50 million on 26 May 2005. On 15 May 2006, the facility was further increased to €150 million. In October 2006 the facility was increased to €300 million until maturity in October 2007.

As at 30 June 2007 the amount drawn on this facility was €211.6 million (31 December 2006: nil).

18.3 Other Bank Financing

In May 2006, in order to finance the participation in certain B note loans, the Group entered into a 3 year revolving credit facility with Deutsche Bank. The facility contains a number of financial covenants. Its mark to market exposure is determined by the Investment Manger, based on market quotations. Interest rates on drawn amounts depend upon the loan to value and collateral quality of the underlying lender with draw-downs currently bearing rates between 0.75% to 1.75% above Libor and Euribor. The security facility is backed by a security assignment over the financed asset. As at 30 June 2007, this facility was drawn in an amount of €29.5 million (31 December 2006: €67.1 million).

In August 2006, in order to finance the sub-participation in a real estate loan secured on properties leased to a leading German retailer, the Group entered into an €80 million, 364 day credit facility with Lehman Brothers. The facility contains a number of financial covenants including a requirement to deliver cash collateral to the lender equal to the excess of any mark to market decline over €200,000. Interest rates on the drawn amounts are 1.50% above Euribor. The security facility is backed by a security assignment over the financed asset and was drawn in an amount of €59.7 million at 30 June 2007 (31 December 2006: €79.5 million).

19. REPURCHASE AGREEMENTS

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

As at 30 June 2007, the Group’s carrying amount and weighted average financing cost of these repurchase agreements was approximately €59.8 million (31 December 2006: €75.5 million) and 4.27% (31 December 2006: 3.84%) respectively.

20. TRADE AND OTHER PAYABLES

	As at 30 June 2007 (Unaudited) €'000	As at 31 December 2006 €'000
Security deposit	6,294	5,421
Unsettled security purchases	38,512	-
Interest payable	46,221	22,869
Due to Manager (note 27)	12,547	7,508
Accrued expenses & other payables*	73,425	57,501
	176,999	**93,299**

* Accrued expenses and other payables includes the purchase price retention on the Mars portfolio of €12.3 million (31 December 2006: nil), €20.3 million (31 December 2006: €14.1 million) of VAT liabilities and €7.8 million (31 December 2006: €14.7 million) relating to committed capital expenditure within the Drive portfolio.

21. EARNINGS PER SHARE

Basic earnings per share is calculated by dividing net profit after taxation by the weighted average number of shares of ordinary stock outstanding during the period.

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

The Group's potential ordinary shares during the period were the share options issued under its share option plan. There have been no other transactions involving ordinary shares or potential ordinary shares since the reporting date and before the completion of the financial statements.

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

	As at 30 June 2007 (Unaudited)	As at 31 December 2006
Weighted average number of ordinary shares, outstanding, basic	63,702,689	44,956,083
Dilutive effect of ordinary share options	2,405,866	1,804,543
Weighted average number of ordinary shares outstanding, diluted	**66,108,555**	**46,760,626**

22. SHARE CAPITAL AND RESERVES

As at 31 December 2006, there were 63,519,083 shares issued and outstanding.

On 19 January 2007, 20,000 options with a strike price of €10.00 per share were exercised.

On 7 March 2007, 237,445 options with an average strike price of €21.26 were exercised.

On 12 April 2007, 15,000 options with a strike price of €10.00 were exercised.

On 7 May 2007, 10,573 options with an average strike price of €11.89 were exercised.

On 21 May 2007, 8,639 options with an average strike price of €16.46 were exercised

On 29 May 2007, 8,891 options with an average strike price of €17.37 were exercised.

As at 30 June 2007, there were 63,819,631 shares issued and outstanding.

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

Profit due to minority interest is lower than the rounding threshold and has been eliminated during the consolidation process of the financial statements.

Other Reserves

Other reserves represent the fair value of share options at the grant date, granted to the Manager in December 2003, June 2004, June 2005, February 2006 and December 2006.

23. HEDGE ACCOUNTING

The Group's policy is to hedge its exposure to interest rates and foreign currencies on a case-by-case basis. Hedge accounting is applied to cash flow and fair value hedges of interest rate risk exposures. Interest rate swaps under which the Group pays a fixed rate and receives a floating rate have been used to hedge the interest rate risk on floating rate long-term bank borrowings. Interest rate swaps where the Group pays a fixed rate and receives a floating rate have been used to hedge the fair value of the available-for-sale assets in Feco Sub SPV Plc.

At 30 June 2007, cumulative unrealised gains on hedge instruments were €52.9 million (31 December 2006: €23.5 million). The unrealised gains comprise the value of the novated swaps of €27.2 million (31 December 2006: €3.2 million) and the fair value of the interest rate swaps of €25.7 million (31 December 2006: €20.3 million).

The gain or loss on measurement of the fair value of the interest rate swaps has been recognised in the statement of changes in equity to the extent that the swaps are effective, while gains and losses related to fair value hedges has been recognised in the income statement.

The details of interest rate swaps entered into by the Group in respect of certain term financing agreements are as follows:

Cash Flow Hedges

30 June 2007 (Unaudited)	Wave €'000	FIP €'000	Turret* €'000	HUK** €'000	Mars*** €'000	E Portfolio €'000	Wentworth €'000	Unallocated Hedge**** €'000
Nominal amount	210,000	97,500	-	-	220,000	120,616	4,695	265,000
Pay rate	4.03%	3.45%	-	-	4.00%	4.20%	4.10%	4.13%
Receive rate	3 Month Euribor	6 Month Euribor	-	-	3 Month Euribor	3 Month Euribor	3 Month Euribor	3 Month Euribor
Remaining life	6.80	10.28	-	-	7.06	7.31	5.56	10.18
Fair value of swaps assets	8,197	4,763	-	-	8,618	4,240	(139)	12,248

* As at 12 January 2007, an interest rate swap agreement relating to the Turret portfolio was novated to Morgan Stanley Bank International Limited in conjunction with the loan agreement. The positive fair value of €0.9 million as at the date of novating the swap has been recorded within the hedging reserve and will be recycled through the income statement.

** As at 7 May 2007, an interest rate swap agreement relating to the HUK portfolio was novated to Morgan Stanley Bank International Limited in conjunction with the loan agreement. The positive fair value of €0.9 million as at the date of novating the swap has been recorded within the hedging reserve and will be recycled through the income statement.

*** As at 31 January 2007, an interest rate swap agreement relating to the Mars portfolio was novated to Deutsche Bank AG in conjunction with the loan agreement. The positive fair value of €18.0 million as at the date of novating the swap has been recorded within the hedging reserve and will be recycled through the income statement.

**** The unallocated hedge represents interest rate swaps undertaken to hedge the interest rate risk on forecasted transactions. The fair value of €12.2 million (December 2006: €0.5 million) on the revaluation of the €265 million (December 2006: €83 million) interest rate swap has been recorded within the income statement.

31 December 2006	Wave €'000	FIP €'000	Turret €'000	HUK €'000	Mars €'000	Unallocated Hedge* €'000
Nominal amount	210,000	97,500	58,108	39,586	1,000,000	83,324
Pay rate	3.47%	3.45%	3.96%	4.12%	3.87%	4.13%
Receive rate	3 Month Euribor	6 Month Euribor	3 Month Euribor	3 Month Euribor	Month Euribor	3 Month Euribor
Remaining life	6.3	11.0	9.4	6.9	7.4	7.1
Fair value of swaps assets	6,411	2,812	489	(212)	10,816	(479)

* The unallocated hedge represents interest rate swaps undertaken to hedge the interest rate risk on forecasted transactions. The fair value of €1.9 million (31 December 2006: €0.5 million) on the revaluation of the €265 million (31 December 2006: €83 million) interest rate swap has been recorded within the income statement.

Fair Value Hedges

30 June 2007 (Unaudited)	Feco EURO B Notes €'000	Feco CHF B Notes CHF'000	Feco* CHF B Notes €'000	Feco GBP Notes £'000	Feco** GBP Notes €'000
Nominal amount	11,947	3,725	2,252	26,704	39,613
Pay rate	2.87%	2.00%	-	4.61%	-
Receive rate	3 Month Euribor	3 Month CHF	-	3 Month Libor	-
Remaining life	3.1	3.3	-	4.1	-
Fair value of swap assets	613	149	90	1,463	2,170

* The amount stated is a euro notional, mark-to-market equivalent of CHF swaps.
** The amount stated is a euro notional, mark-to-market equivalent of GBP swaps.

31 December 2006	Feco EURO B Notes €000	Feco CHF B Notes CHF000	Feco* CHF B Notes €000	Feco GBP Notes £000	Feco** GBP Notes €000
Nominal amount	11,947	3,725	2,315	36,694	54,459
Pay rate	2.87%	2.00%	-	4.61%	-
Receive rate	3 Months Euribor	3 Months CHF Libor	-	3 Months Libor	-
Remaining life	3.6	3.8	-	4.4	-
Fair value of swap assets	455	78	48	1,049	1,557

* The amount stated is a euro notional, mark-to-market equivalent of CHF swaps.
** The amount stated is a euro notional, mark-to-market equivalent of GBP swaps.

24. FINANCIAL INSTRUMENTS

Risk Management

This section provides details of the Group's exposure to risk and describes the methods used by management to control risk. The most important types of financial risk to which the Group is exposed are market risk, credit, liquidity, interest rate and foreign currency risk.

Market Risk

The Group's exposure to market risk is comprised mainly of movements in the value of its debt securities, property investments and real estate fund units.

The Group's securities are predominantly floating rate and as such are valued based on a market credit spread over Euribor and Libor and CHF benchmarks for euro, sterling and Swiss denominated assets respectively. Increases in the credit spreads above such benchmarks may affect the Group's net equity, net income or cash flow directly through their impact on unrealised gains or losses on available-for-sale securities, and therefore its ability to realise gains on such securities, or indirectly through its impact on its ability to borrow and access capital.

Under the terms of the securities contract, the Group was exposed to market risk on the underlying securities as, should the intended securitisation of such assets not be consummated, the Group would be required to either purchase the securities or pay the loss realised on the disposal up to the amount of any deposits made by the Group under the contract, less any interest earned on the deposits.

The Group's investment property assets are based in Germany and Italy and are subject to general property market risks. These risks are assessed by management at the point of acquisition as well as on an ongoing basis. In addition, external valuations of the property assets are obtained during each financial year.

Credit Risk

The Group is subject to credit risk with respect to its investments in real estate and other asset backed securities and loans.

The securities the Group invests in are generally junior in right of payment of interest and principal to one or more senior classes, but benefit from the support of one or more subordinate classes of securities or other form of credit support within a securitisation transaction. While the expected yield on these securities is sensitive to the performance of the underlying assets, the more subordinated securities are designed to bear the first risk of default and loss.

The Group further minimises credit risk by actively monitoring its securities portfolios and the underlying credit quality of its holdings and, where appropriate, repositioning its investments to upgrade the credit quality and yield on the investments.

The Group's securities portfolio is diversified by asset type, industry, location and issuer. This diversification minimises the risk of capital loss. At 30 June 2007, the Group's securities, which serve as collateral for its CDO financings and other borrowings, had an overall weighted average credit rating of approximately BBB-.

The Group's available-for-sale asset backed securities and real estate loans portfolio was split between countries within Europe as follows:

	30 June 2007 (Unaudited)			31 December 2006		
	Number of securities/ loans	Face value €'000	Location split	Number of securities/ loans	Face value €'000	Location split
United Kingdom	79	959,030	48.0%	72	962,894	48.9%
Italy	17	261,820	13.1%	14	250,846	12.7%
Germany	33	398,874	20.0%	31	396,076	20.1%
Pan-European	11	131,121	6.6%	7	99,391	5.1%
France	11	97,869	4.9%	11	94,839	4.8%
Other	26	147,666	7.4%	23	163,724	8.4%
	177	**1,996,380**	**100%**	**158**	**1,967,770**	**100%**

The Group's hedging transactions using derivative instruments also involve certain additional risks such as counterparty credit risk, the enforceability of hedging contracts and the risk that unanticipated and significant changes in interest rates will cause a significant loss of basis in the contract. The counterparties to the Group's derivative arrangements are major financial institutions with investment grade credit ratings with which the Group and its affiliates may also have other financial relationships. As a result, it is not anticipated that any of these counterparties will fail to meet their obligations.

The Group's German real estate portfolio holds the following type of real estate: office, retail, banking halls and other. As at 30 June 2007, the group derived its rental income from the following sources: Dresdner Bank, 29%, Deutsche Bank 7%, Starman Holdings, 3%, Deutsche Bahn AG 3%, Edeka 3%, and Other 55%. As at 30 June 2006, the group derived its rental income from the following sources: Dresdner Bank 56%, Deutsche Bank 11%, Eurohypo 1%, Edeka 1%, Rewe 1% and Other 30%.

The Group's Italian real estate assets comprise an investment in a real estate investment fund that owns a portfolio of 394 properties in Italy that are let to Italian government agencies.

Liquidity Risk

The Group's ability to execute its business strategy, particularly the growth of its investment portfolio, depends to a significant degree on the Group's ability to obtain additional capital.

The Group's primary source of funds for liquidity consist of net cash provided by operating activities, borrowings under loans and the issuance of debt and equity securities. The Group's loans and debt securities are generally secured directly over its assets. The Group expects that its cash on hand and cash flow provided by operations will satisfy its liquidity needs with respect to its current investment portfolio over the next twelve months. The Group expects to meet its long-term liquidity requirements, specifically the repayment of its debt obligations, through additional borrowings and the liquidation, refinancing or repayment of its assets at maturity.

A significant portion of the Group's investments are financed with collateralised debt obligations, known as CDOs. If spreads for CDO liabilities widen or if demand for such liabilities ceases to exist, then the ability to execute future CDO financings will be restricted. Proceeds from the sale of real estate and other asset backed securities that serve as collateral for the Group's CDO financings, including gains thereon, are required to be retained in the CDO structure until the related bonds are retired and are therefore not available to fund current cash needs.

The Group's real estate securities are financed long-term and their credit status is continuously monitored; therefore, these investments are expected to generate a generally stable current return, subject to interest rate fluctuations. The Group's operating real estate is also financed long-term and primarily leased to credit tenants with long-term leases and is therefore also expected to generate generally stable current cash flows.

As described in Note 18, the Group has access to temporary working capital through a revolving €300 million credit facility.

Interest Rate Risk

The Group's primary interest rate exposures relate to its real estate and other asset backed securities, loans and floating rate debt obligations, as well as its interest rate and total return swaps. Changes in the level of interest rates also can affect the Group's ability to acquire securities and loans and its ability to realise gains from the settlement of such assets.

The Group's general financing strategy focuses on the use of match-funded structures, meaning that it seeks to match the maturities of its debt obligations with the maturities of its investments to minimise the risk that the Group will have to refinance its liabilities prior to the maturities of its assets, reducing the impact of changing interest rates on its earnings. In addition, the Group match funds interest rates on its investments with like-kind debt directly or through the use of interest rate swaps. However, based on a variety of factors, the Manager finances certain assets on a short term basis, including the use of repurchase agreements.

The interest rate profile of the Group at 30 June 2007 and 31 December 2006 was as follows:

30 June 2007 (Unaudited)

Type	Total per consolidated balance sheet €'000	Non-interest bearing assets €'000	Within 1 year Fixed %	Within 1 year Variable %	1 to 5 years Fixed %	1 to 5 years Variable %	Over 5 years Fixed %	Over 5 years Variable %
Assets								
Cash and cash equivalents	258,263	-	-	258,263	-	-	-	-
Other assets	80,217	60,406	282	19,529	-	-	-	-
Investment property held for sale	25,099	25,099	-	-	-	-	-	-
Asset backed securities, available for sale (includes cash to be invested)	1,517,860	-	10,310	234,440	13,853	647,964	-	611,293
Asset backed securities, pledged under repurchase agreements	62,200	-	-	30,691	-	-	-	31,509
Real estate related loans	521,514	-	-	-	-	373,405	-	148,109
Real estate fund units	153,099	-	153,099	-	-	-	-	-
Derivative assets	41,905	-	-	-	-	-	41,905	-
Investment property	5,466,900	5,466,900	-	-	-	-	-	-
Intangible assets	2,483	2,483	-	-	-	-	-	-
Total assets	**8,129,540**	**5,554,888**	**163,691**	**542,923**	**13,853**	**1,021,369**	**41,905**	**790,911**
Liabilities								
CDO bonds payable	1,101,670	-	-	-	-	-	12,144	1,089,526
Bank loans	4,850,813	-	-	59,726	-	29,479	4,398,395	363,213
Repurchase agreements	59,807	-	-	59,807	-	-	-	-
Taxation payable	64,931	64,931	-	-	-	-	-	-
Trade and other payables	176,999	130,778	22	46,199	-	-	-	-
Derivative liabilities*	199	199	-	-	-	-	-	-
Finance lease payable	19,817	-	1,014	-	3,672	-	15,131	-
Total liabilities	**6,274,236**	**195,908**	**1,036**	**165,732**	**3,672**	**29,479**	**4,425,670**	**1,452,739**

* Net interest rate swap payable related to the cash flow hedges as described in Note 23.

31 December 2006

Type	Total per consolidated balance sheet €'000	Non-interest bearing assets €'000	Within 1 year Fixed %	Within 1 year Variable %	1 to 5 years Fixed %	1 to 5 years Variable %	Over 5 years Fixed %	Over 5 years Variable %
Assets								
Cash and cash equivalents	122,699	-	-	122,699	-	-	-	-
Asset backed securities, available for sale (includes cash to be invested)	1,481,661	-	22,892	103,727	18,942	808,867	-	527,233
Asset backed securities, pledged under repurchase agreements	78,646	-	-	44,500	-	-	-	34,146
Real estate related loans	428,370	-	-	-	53,851	208,182	12,887	153,450
Real estate fund units	148,077	-	148,077	-	-	-	-	-
Investment property	3,308,872	3,308,872	-	-	-	-	-	-
Intangible assets	1,828	1,828	-	-	-	-	-	-
Other assets	69,537	37,961	422	31,154	-	-	-	-
Derivative assets	22,690	-	-	-	-	-	22,690	-
Total assets	**5,662,380**	**3,348,661**	**171,391**	**302,080**	**72,793**	**1,017,049**	**35,577**	**714,829**
Liabilities								
CDO bonds payable	1,210,275	-	-	-	-	-	12,244	1,198,031
Bank loans	2,680,563	-	-	79,488	-	67,051	2,451,221	82,803
Repurchase agreements	75,490	-	-	75,490	-	-	-	-
Taxation payable	6,016	6,016	-		-	-	-	-
Trade and other payables	93,299	70,406	-	22,869	-	-	24	-
Derivative liabilities*	212	-	-	-	-	-	212	-
Finance lease payable	25,800	-	1,281	-	4,650	-	19,869	-
Total liabilities	**4,091,655**	**76,422**	**1,281**	**177,847**	**4,650**	**67,051**	**2,483,570**	**1,280,834**

* Net interest rate swap payable related to the cash flow hedges as described in Note 23.

Foreign Currency Risk

The Group's primary foreign currency exchange rate exposures relate to its sterling and Swiss franc denominated portfolio of securities and loans. Changes in the currency rates can adversely impact the fair values and earnings streams of the Group's non-euro denominated assets and liabilities. The Group has mitigated this impact through a combination of (i) sterling denominated financing and (ii) rolling forward foreign exchange contacts to hedge its net sterling equity investment.

In connection with the Group's purchase of its available-for-sale real estate and other asset backed securities and real estate loans, the foreign currency risk is covered through forward foreign currency exchange contracts.

Fair values of financial assets and financial liabilities

Set out below is a comparison by category of carrying amounts and fair values of all of the Group's financial instruments that are carried in the financial statements.

	As at 30 June 2007 (Unaudited) Carrying value €'000	As at 31 December 2006 Carrying value €'000	As at 30 June 2007 (Unaudited) Fair value €'000	As at 31 December 2006 Fair value €'000
Financial assets				
Cash and cash equivalents	258,263	122,699	258,263	122,699
Asset backed securities, available-for-sale (includes cash to be invested)	1,517,860	1,481,661	1,517,860	1,481,661
Asset backed securities, pledged under repurchase agreements	62,200	78,646	62,200	78,646
Real estate related loans	521,514	428,370	521,514	428,370
Real estate fund units	153,099	148,077	153,099	148,077
Derivative assets	41,905	22,690	41,905	22,690
Financial liabilities				
CDO bonds payable	1,101,670	1,210,275	1,101,670	1,210,275
Bank loans	4,850,813	2,680,563	4,729,681	2,674,931
Repurchase agreements	59,807	75,490	59,807	75,490
Derivative liabilities	199	212	199	212
Finance lease payable	19,817	25,800	19,817	25,800

25. SHARE OPTION PLAN

In December 2003, the Group (with the approval of the Board of Directors and pursuant to the confidential information memorandum dated August 2003) adopted a nonqualified share option plan (the "Group Option Plan") for officers, Directors, employees, consultants and advisors, including the Manager. In December 2003, for the purpose of compensating the Manager for its successful efforts in raising capital for the Group, the Manager was granted options representing the right to acquire 1,185,767 ordinary shares at an exercise price of €10 per share (number of shares and exercise price adjusted for share consolidation). The fair value of the options at the date of grant was €0.2 million and was calculated by reference to an option pricing model.

In June 2004, following the IPO, the Manager was granted an additional 660,000 options at an exercise price of €12 per share. The fair value of the additional options at the date of grant was €0.2 million and was also calculated by reference to an option pricing model. In June 2005, following the secondary public offering, the Manager was granted an additional 574,000 options at an exercise price of €17.25 per share. The fair value of the additional options at the date of grant was €0.6 million. The Manager's options represent an amount equal to 10% of the ordinary shares issued by the Group. The options granted to the Manager were fully vested on the date of grant and expire ten years from the date of issuance.

In February 2006, following the third public offering, the Manager was granted 1,282,300 options at €30.00 per share and, pursuant to December 2005 Board action, an additional 857,142 options at an exercise price of €18.00 per share. The fair value of the additional options at the date of grant was €2.1 million and €4.8 million respectively. The Manager's options represent an amount equal to 10% of the ordinary shares issued by the Group in respect of the public and private offerings that preceded the Drive acquisition. The options granted to the Manager were fully vested on the date of grant and expire ten years from the date of issuance.

In December 2006, following the fourth public offering, the Manager was granted an additional 1,783,748 options at €37.00 per share. The fair value of the additional options at the date of grant was €9.4 million. The Manager's options represent an amount equal to 10% of the ordinary shares issued by the Group. The options granted to the Manager were fully vested on the date of grant and expire ten years from the date of issuance.

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

Share options exercised up to 30 June 2007 are as follows:

On 19 January 2007, 20,000 share options were exercised at a strike price of €10.00 per share.

On 7 March 2007, 39,600 share options were exercised at a strike price of €12.00 per share.

On 7 March 2007, 60,173 share options were exercised at a strike price of €17.25 per share.

On 7 March 2007, 59,998 share options were exercised at a strike price of €18.00 per share.

On 7 March 2007, 59.836 share options were exercised at a strike price of €30.00 per share.

On 7 March 2007, 17,838 share options were exercised at a strike price of €37.00 per share.

On 12 April 2007, 15,000 share options were exercised at a strike price of €10.00 per share.

On 7 May 2007, 10,000 share options were exercised at a strike price of €12.00 per share

On 7 May 2007, 573 share options were exercised at a strike price of €10.00 per share

On 21 May 2007, 6,500 share options were exercised at a strike price of €12.00 per share.

On 21 May 2007, 2,139 share options were exercised at a strike price of €30.00 per share.

On 29 May 2007, 7,462 share options were exercised at a strike price of €17.25 per share.

On 29 May 2007, 1,429 share options were exercised at a strike price of €18.00 per share.

As at 30 June 2007, there were 63,819,631 shares issued and outstanding.

26. DIVIDENDS PAID & DECLARED

	Six months ended 30 June 2007 (Unaudited) €'000	Six months ended 30 June 2006 (Unaudited) €'000
Paid during the period :	37,640	22,639
Equity dividends on ordinary shares:		
Fourth quarter dividend for 2006: €0.14 (2005: €0.37)	8,929	8,958
First quarter dividend for 2007: €0.45 (2006: €0.30)	28,711	13,681
	37,640	**23,639**
Second quarter dividend for 2007: €0.60 (2006: €0.40)	38,292	18,272

27. MANAGEMENT AGREEMENT & RELATED PARTY TRANSACTIONS

The Group entered into the Management Agreement with the Manager in August 2003, which provides for an initial term of ten years with automatic three year extensions, subject to certain termination rights. The Management Agreement may be terminated by the Group by payment of a termination fee, as defined in the Management Agreement, equal to the amount of management fees earned by the Manager during the twelve consecutive calendar months immediately preceding the termination, upon the vote of a majority of the holders of the outstanding ordinary shares. Pursuant to the Management Agreement, the Manager, under the supervision of the Group's Board of Directors, will formulate investment strategies, arrange for the acquisition of assets, arrange for financing, monitor the performance of the Group's assets and provide certain advisory, administrative and managerial services in connection with the operations of the Group. For performing these services, the Group will pay the Manager an annual fee (payable monthly in arrears) of 1.5% of the gross equity of the Group, as described in the Management Agreement.

The Management Agreement provides that the Group will reimburse the Manager for various expenses incurred by the Manager or its officers, employees and agents on the Group's behalf, including the cost of legal, accounting, tax, auditing, finance, administrative, asset management, property management and other similar services rendered for the Group by providers retained by the Manager or, if provided by the Manager's or its affiliates' employees, in amounts which are no greater than those that would be payable to external professionals or consultants engaged to perform such services pursuant to agreements negotiated on an arms-length basis. Such expenses have been included in the consolidated income statement.

To provide an incentive for the Manager to enhance the value of the Group's ordinary stock, the Manager is entitled to receive incentive compensation on a cumulative, but not compounding, basis in an amount equal to the product of (A) 25% of the euro amount by which (1) funds from operations ("FFO") of the Group before the incentive compensation per ordinary share, exceeds (2) an amount equal to (a) the weighted average of the price per ordinary share in any offerings by the Group (adjusted for any prior capital dividends or distributions) multiplied by (b) a simple interest rate of eight percent (8%) per annum multiplied by (B) the weighted average number of ordinary shares outstanding during such period.

FFO is used to compute the Company's incentive compensation to the Manager. FFO, for these purposes, represents net income (computed in accordance with International Financial Reporting Standards), excluding changes in fair value of investment properties net of attributable deferred taxation, changes in fair value of interest rate swaps that are taken to the income statement and mark-to-market fluctuations in real estate fund units.

At 30 June 2007, management fees, incentive fees and expense reimbursements of approximately €12.5 million (Note 20) (31 December 2006: €7.5 million) were due to the Manager. For the six months ended 30 June 2007 management fees of €10.9 million (30 June 2006: €5.4 million), incentive fees of €8.5 million (30 June 2006: €0.8 million), and expense reimbursements of €3.5 million (30 June 2006: €1.8 million) were charged to the income statement.

Total annual remuneration for Eurocastle directors is €0.2 million payable quarterly in equal instalments. Wesley R. Edens and Randal A. Nardone do not receive any remuneration from the Group.

28. SEGMENTAL REPORTING

The Group operates in one geographical segment, being Europe. The Group has conducted business through three primary segments: debt investments, real estate fund units and investment properties.

Summary financial data of the Group's business segments is provided below:

Six months ended 30 June 2007 (Unaudited)	**Debt investment €'000**	**Real estate fund units €'000**	**Investment properties €'000**	**Unallocated €'000**	**Total Eurocastle €'000**
Operating income	64,833	12,130	469,420	194	546,577
Interest expense	(47,160)	(2,682)	(79,326)	-	(129,168)
Other operating expenses	(612)	(17)	(42,181)	(25,135)	(67,945)
Segment result	**17,061**	**9,431**	**347,913**	**(24,941)**	**349,464**
Taxation expense	-	(191)	(58,724)	-	(58,915)
Net profit	**17,061**	**9,240**	**289,189**	**(24,941)**	**290,549**
(Increase) in fair values	-	(4,611)	(293,050)	-	(297,661)
Realised gains on sale of investment properties	-	-	36,155	-	36,155
Deferred tax	-	-	56,070	-	56,070
Funds from operations	**17,061**	**4,629**	**88,364**	**(24,941)**	**85,113**

Three months ended 30 June 2007 (Unaudited)	**Debt investment €'000**	**Real estate fund units €'000**	**Investment properties €'000**	**Unallocated €'000**	**Total Eurocastle €'000**
Operating income	33,376	5,022	345,731	24	384,153
Interest expense	(26,907)	(1,354)	(40,304)	-	(68,565)
Other operating expenses	(314)	(9)	(23,675)	(17,081)	(41,079)
Segment result	**6,155**	**3,659**	**281,752**	**(17,057)**	**274,509**
Taxation expense	-	(96)	(38,220)	-	(38,316)
Net profit	**6,155**	**3,563**	**243,532**	**(17,057)**	**236,193**
(Increase) in fair values	-	(1,265)	(249,467)	-	(250,732)
Realised gains on sale of investment properties	-	-	36,155	-	36,155
Deferred tax	-	-	35,567	-	35,567
Funds from operations	**6,155**	**2,298**	**65,787**	**(17,057)**	**57,183**

Six months ended 30 June 2006 (Unaudited)	Debt investment €'000	Real estate fund units €'000	Investment properties €'000	Unallocated €'000	Total Eurocastle €'000
Operating income	43,114	7,246	151,476	31	201,867
Interest expense	(28,344)	(3,390)	(30,619)	(448)	(62,801)
Other operating expenses	(1,154)	(36)	(20,760)	(10,061)	(32,011)
Segment result	**13,616**	**3,820**	**100,097**	**(10,478)**	**107,055**
Taxation expense	-	(39)	(410)	-	(449)
Net profit	**13,616**	**3,781**	**99,687**	**(10,478)**	**106,606**
Decrease/(Increase) in fair values	-	2,351	(77,296)	-	(74,945)
Deferred tax	-	-	260	-	260
Funds from operations	**13,616**	**6,132**	**22,651**	**(10,478)**	**31,921**

Three months ended 30 June 2006 (Unaudited)	Debt investment €'000	Real estate fund units €'000	Investment properties €'000	Unallocated €'000	Total Eurocastle €'000
Operating income	22,779	491	48,519	14	71,803
Interest expense	(15,359)	(1,747)	(18,852)	(300)	(36,258)
Other operating expenses	(844)	(15)	(15,395)	(5,483)	(21,737)
Segment result	**6,576**	**(1,271)**	**14,272**	**(5,769)**	**13,808**
Taxation expense	-	(19)	(84)	-	(103)
Net profit	**6,576**	**(1,290)**	**14,188**	**(5,769)**	**13,705**
Decrease/(Increase) in fair values	-	4,374	(61)	-	4,313
Deferred tax	-	-	26	-	26
Funds from operations	**6,576**	**3,084**	**14,153**	**(5,769)**	**18,044**

As at 30 June 2007 (Unaudited)	Debt investment €'000	Real estate fund units €'000	Investment properties €'000	Unallocated €'000	Total Eurocastle €'000
Total assets	2,131,926	165,470	5,819,379	12,765	8,129,540
Total liabilities	(1,946,824)	(98,027)	(4,149,173)	(15,281)	(6,209,305)
Segment net assets	**185,102**	**67,443**	**1,670,206**	**(2,516)**	**1,920,235**
Tax Liability	-	(682)	(64,249)	-	(64,931)
Minority interest	(2)	(4)	-	-	(6)
Net assets	**185,100**	**66,757**	**1,605,957**	**(2,516)**	**1,855,298**

As at 31 December 2006	Debt investment €'000	Real estate fund units €'000	Investment properties €'000	Unallocated €'000	Total Eurocastle €'000
Total assets	2,011,490	158,784	3,461,857	30,249	5,662,380
Total liabilities	(1,436,424)	(98,027)	(2,540,696)	(10,492)	(4,085,639)
Segment net assets	**575,066**	**60,757**	**921,161**	**19,757**	**1,576,741**
Tax Liability	-	(540)	(5,476)	-	(6,016)
Minority interest	(2)	(4)	-	-	(6)
Net assets	**575,064**	**60,213**	**915,685**	**19,757**	**1,570,719**

29. INVESTMENT IN SUBSIDIARIES

The legal entity group structure of Eurocastle is designed to support the Group's businesses within an efficient legal, tax, regulatory and funding framework.

The significant operating subsidiaries, in which the Group owns directly or indirectly a 100% equity interest, which are listed by jurisdiction below:

Luxembourg:

Luxgate s.a.r.l.
Drive s.a.r.l.
Eurobarbican s.a.r.l.
Bastion Participation s.a.r.l.
Belfry Participation s.a.r.l.
Truss Participation s.a.r.l.
Finial s.a.r.l.
Turret Participation s.a.r.l.
Undercroft s.a.r.l.
Marathon s.a.r.l. (formerly Turret LP s.a.r.l3)
Mars Holdco 1 s.a.r.l.
Tannenberg s.a.r.l.
Superstella s.a.r.l.
ECT Luxembourg s.a.r.l.

Germany:

ECTGPROP1 (formerly known as Dresdner Grund Fonds)
Shortwave Acquisition GmbH
Longwave Acquisition GmbH
Bastion GmbH & Co.KG
Belfry GmbH & Co.KG
Truss GmbH & Co.KG
Turret GmbH & Co.KG
Bridge GmbH & Co.KG

Additionally, the Group has investments in Eurocastle Funding Limited, Eurocastle CDO I PLC, Eurocastle CDO II PLC, Eurocastle CDO III PLC and Eurocastle CDO IV PLC, Duncannon CRE CDO I PLC and FECO SUB SPV PLC that it consolidates in accordance with SIC 12.

30. SUBSEQUENT EVENTS

Subsequent to the quarter end, Eurocastle successfully refinanced a pool of European loans and securities held by its consolidated subsidiary Duncannon CRE CDO I PLC ("Duncannon") through an issue of €800 million of collateralised bonds and revolving facility obligations, €730 million of which has been rated by Standard and Poor's and Fitch. Duncannon will maintain a pool of pan-European credit sensitive debt investments in accordance with the terms of its collateralised security offer documents and will be actively managed by the Manager.

On 6 July 2007, a change in the German corporate tax rate was approved by the Bundesrat, reducing the corporate tax rate from 26.375% to 15.825%. The effect of this reduction would be to reduce the deferred tax liability of the group by €24.3 million, from €61.5 million to €37.3 million, and increase the Net asset value per share of the group by €0.38, from €29.07 per share to €29.45 per share as at 30 June 2007.

Committed to purchase a portfolio of 18 properties from Edeka for a gross purchase price of €68 million. The average remaining lease term of the portfolio is 13.9 years. The portfolio has an initial net yield of 6.1%.

31. COMMITMENTS

As at 30 June 2007, the Group had no commitments that were not disclosed in these financial statements.