EUROCASTLE INVESTMENT LIMITED AND SUBSIDIARIES

INTERIM FINANCIAL RESULTS FOR THE HALF YEAR AND QUARTER ENDED 30 JUNE 2008

Eurocastle Investment Limited ("the Company") owns and invests primarily in German commercial property. The Company and its subsidiaries ("the Group") has Euro denominated shares in issue currently listed on Euronext Amsterdam, under the symbol "ECT" and on the Frankfurt Stock Exchange, under the symbol "EUI1". 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.

Highlights

Financial

- **FFO*** was €32.5 million or €0.51 per share for the quarter ended 30 June 2008 and €55.1 million or €0.86 per share for the half year ended 30 June 2008, compared with €57.2 million or €0.90 per share and €85.1 million or €1.34 per share for the quarter and half year ended 30 June 2007 respectively.

- **FFO* return on average invested capital** was 8.9 % for the quarter ended 30 June 2008 and 7.5% for the half year ended 30 June 2008, compared to 15.6% and 11.7% for the quarter and half year ended 30 June 2007 respectively.

- **NAV** per share of €18.42 as at 30 June 2008 comprising of (€0.63) for the debt investment business and €19.05 for the commercial property portfolio (31 December 2007: €23.05 comprising €2.11 for the debt investment business and €20.94 for the commercial property portfolio).

- **Adjusted NAV*** * reflects the mark-to-market of all our financial assets and liabilities within the debt investment portfolio and amounted to €23.09 per share for the group as a whole and to €4.04 per share for the debt investment business (31 December 2007: €23.47 per share for the group as a whole and €2.54 per share for the debt investment business).

- **Net loss after tax** was €31.6 million for the quarter ended 30 June 2008 and €115.7 million for the half year ended 30 June 2008, compared with a profit of €236.2 million and €290.5 million for the quarter and half year ended 30 June 2007 respectively. The losses primarily relate to non-cash valuation adjustments to our portfolio.

Dividends and buy-backs

- Given the large gap between the current share price and adjusted NAV, the board has decided that accelerating our share buy-back program at this time is in the best long term interest of our shareholders. Therefore, a semi-annual distribution to shareholders of €0.60 per share (€38.4 million) is available to be made in the following manner; €0.30 per share (€19.2 million) will be paid as a direct dividend distribution and €0.30 per share (€19.2million) will be used by the company to launch a cash tender offer for up to 3.2 million shares at a fixed price of €6.00 per share. The cash dividend will be paid August 29, 2008 to all holders of Eurocastle shares, on record, on 19 August 2008, and the cash tender offer will commence upon publication of a shareholder circular, which is expected to be by August 22, 2008.****

Business review

Eurocastle's focus in the first half of the year has been in three major areas: first, reducing short-term funding risks, second, harvesting fully valued assets, and third, continuing to lease-up the property portfolio. In all three areas, it has been a successful year thus far. Since the beginning of 2008 we have financed or refinanced over €730 million of debt. Additionally we have sold, or entered into binding agreements to sell approximately €400 million of commercial real estate and increased physical occupancy on a like-for-like*** basis from 83.4% to 84.0% during the quarter. We look forward to continued progress on all of these fronts for the remainder of the year.

* For an explanation of FFO, see Note 32.
** For a reconciliation of NAV to adjusted NAV, see the section headed "Net asset value" on page 8.
*** Like-for-like occupancy reflects only those properties owned at the end of each reporting period.
**** Refer to page 18 for more details.

Conference Call

Management will conduct a conference call today, 14 August 2008, to review the Group's financial results for the six months and quarter ended 30 June 2008. The conference call is scheduled for 1:00 P.M. London time (08:00 A.M. New York time). All interested parties are welcome to participate on the live call. You can access the conference call by dialling +1-877-717-3044 (from within the U.S.) or +1-706-679-1521 (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, 21 August 2008 by dialling +1-800-642-1687 (from within the U.S.) or +1-706-645-9291 (from outside of the U.S.); please reference access code "58788798."

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 asset disposals, 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.

Key Financial Information

Income Statement Data

(in €'000, except per share data)	Six months ended 30 June 2008 (Unaudited)	Six months ended 30 June 2007 (Unaudited)	Quarter ended 30 June 2008 (Unaudited)	Quarter ended 30 June 2007 (Unaudited)
Interest income	76,473	66,495	38,427	32,896
Rental income	149,422	148,877	74,426	82,823
Real estate fund unit interest income	-	7,512	-	3,756
(Decrease) / increase in fair value of investment properties	(164,281)	280,377	(64,445)	239,109
Increase in fair value of real estate fund units	-	4,611	-	1,265
Interest expense	(142,255)	(129,168)	(66,834)	(68,565)
Property operating expenses	(12,125)	(11,731)	(6,591)	(5,909)
Other operating expenses	(23,833)	(29,660)	(15,116)	(21,195)
Net (loss) / profit before taxation	(118,407)	349,464	(32,958)	274,509
Net (loss) / profit after taxation	(115,706)	290,549	(31,574)	236,193
Funds from operations ("FFO")	55,111	85,113	32,464	57,183
(Loss) / earnings per weighted average basic share	(1.81)	4.56	(0.49)	3.70
(Loss) / earnings per weighted average diluted share	(1.81)	4.40	(0.49)	3.58
FFO per weighted average basic share	0.86	1.34	0.51	0.90
FFO per weighted average diluted share	0.86	1.29	0.51	0.87
Weighted average ordinary shares outstanding				
Basic	63,927,634	63,702,689	63,927,634	63,803,222
Diluted	64,052,378	66,108,555	63,927,634	66,034,081
Ordinary shares outstanding	**63,927,634**	**63,819,631**	**63,927,634**	**63,819,631**

Summarised Balance Sheet

(in €'000, except per share data)	30 June 2008 (Unaudited)	31 December 2007	30 June 2007 (Unaudited)
Cash and cash equivalents	172,941	146,707	258,263
Investment property (including properties held for sale)	4,739,166	5,171,086	5,491,999
Debt investments	1,837,098	2,059,753	2,101,574
Real estate fund units	-	-	153,099
Other assets	156,130	130,649	124,605
Total assets	**6,905,335**	**7,508,195**	**8,129,540**
Interest bearing debt financing	(5,590,506)	(5,859,058)	(6,012,290)
Other liabilities	(137,263)	(175,443)	(261,946)
Total liabilities	**(5,727,769)**	**(6,034,501)**	**(6,274,236)**
Net assets	**1,177,566**	**1,473,694**	**1,855,304**
Net assets per share	**18.42**	**23.05**	**29.07**

Adjusted NAV per share at 30 June 2008 was €23.09. Refer to page 8 for a reconciliation of adjusted NAV.

FFO Reconciliation

(in €'000, except per share data)	Six months ended 30 June 2008 (Unaudited)	Six months ended 30 June 2007 (Unaudited)	Quarter ended 30 June 2008 (Unaudited)	Quarter ended 30 June 2007 (Unaudited)
Reconciliation of FFO to net profit after taxation				
Net (loss) / profit after taxation	(115,706)	290,549	(31,574)	236,193
Decrease / (increase) in fair value of investment properties	164,281	(280,377)	64,445	(239,109)
Decrease / (increase) in fair value of interest rate swaps	1,216	(12,673)	(8,842)	(10,358)
Unrealised movements on currency swaps (net of translation (gains) / losses on related assets)	(230)	-	1,214	-
(Increase) /decrease in fair value of real estate fund units	-	(4,611)	-	(1,265)
Realised gain on sale of investment properties	8,960	36,155	8,960	36,155
Deferred tax (benefit) / charge on investment properties	(3,410)	56,070	(1,739)	35,567
Funds from operations (FFO)	**55,111**	**85,113**	**32,464**	**57,183**

Investment Portfolios

Investment property portfolio (on a like for like basis)

Markets	Property valuation* 30 June 2008	Property valuation* 31 March 2008	Occupancy 30 June 2008	Occupancy 31 March 2008	Annualised Net operating income** 30 June 2008	Annualised Net operating income** 31 March 2008***	NOI yield on valuation 30 June 2008	NOI yield on valuation 31 March 2008
	€m	€m	%	%	€m	€m	%	%
Top 5 markets								
Frankfurt	1,670	1,683	83.1%	82.3%	78.6	76.6	4.70%	4.55%
Munich	599	612	74.7%	74.6%	24.3	25.6	4.07%	4.18%
Hamburg	305	304	89.5%	86.2%	15.7	14.9	5.14%	4.90%
Berlin	280	283	82.2%	83.3%	13.3	13.5	4.76%	4.77%
Düsseldorf	345	353	93.4%	92.9%	17.4	15.4	5.05%	4.38%
Subtotal – top 5 markets	**3,199**	**3,235**	**83.1%**	**82.3%**	**149.3**	**146.1**	**4.67%**	**4.52%**
Remaining West	1,305	1,316	87.0%	86.4%	74.3	73.6	5.69%	5.59%
Remaining East	227	230	77.2%	76.7%	15.0	14.9	6.63%	6.50%
Total portfolio	**4,731**	**4,781**	**84.0%**	**83.4%**	**238.6**	**234.6**	**5.04%**	**4.91%**

* The above valuation does not include €24.0 million (31 March 08: €26.2 million) relating to head leases.

** Net operating income excludes amortisation of tenant incentives and leasing commissions and the fund costs related to the Drive portfolio included within property operating expenses in the consolidated income statement. See Note 4 for details.

*** Net operating income excludes the impact of rental guarantee income for the period ended 31 March 2008.

Portfolio composition

Asset	No. of properties	Occupied space (sqm)	Occupancy %	Passing rent €m	Annualised NOI €m	Property valuation €m	Average lease term	NOI yield on valuation %
Stable	525	1,234,511	92.7%	172.4	160.8	2,738	7.8	5.87%
Value Add	63	613,729	70.6%	94.2	77.8	1,993	3.4	3.90%
Grand Total	**588**	**1,848,240**	**84.0%**	**266.6**	**238.6**	**4,731**	**6.2**	**5.04%**

* Stable assets are those assets with long term leases and high occupancy.

** Value add assets are those assets with upside valuation potential through active asset management (lease-up and repositioning).

Debt investment portfolio

Asset class	Nominal €'000	Total debt book %	Average rating*	Average credit spread* Bps	Number of issues/assets
Commercial real estate backed	1,656,101	80.1%	BBB-	536	100
Residential real estate backed	331,714	16.0%	BBB	1,091	57
Other	79,722	3.9%	BBB+	723	35
	2,067,537	**100%**	**BBB-**	**632**	**192**

* Average ratings are calculated by reference to the lowest rating currently assigned to each loan or security by any of Moody Investor Services, Standard and Poor, and Derivative Fitch and an arithmetic mean weighted by the current face amount of each loan or security. The average credit spread represents the average implied discount margin (above Euribor) at the current carrying value, weighted by the current nominal par amount outstanding.

Financial Review

During the three months ended 30 June 2008, the Group experienced further reductions in the fair value of its investment properties causing a loss before tax for the period.

Funds from operations (FFO)

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

The table below shows 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 the table. The segmental analysis prepared according to IFRS has been disclosed in Note 28.

Income statement data Quarter ended 30 June 2008 (Unaudited)	**Debt investments €'000**	**Investment properties €'000**	**Total Eurocastle €'000**
Revenue	37,207	91,141	**128,348**
Other operating losses[1]	(269)	(55,603)	**(55,872)**
Interest expense [2]	(28,508)	(38,326)	**(66,834)**
Service charge and property operating expenses	-	(22,086)	**(22,086)**
Other operating expenses (including foreign currency gains/(losses) [3]	(2,994)	(13,520)	**(16,514)**
Operating profit/(loss) before taxation	**5,436**	**(38,394)**	**(32,958)**
Taxation credit/(expense)	-	1,384	**1,384**
Net profit/(loss)	**5,436**	**(37,010)**	**(31,574)**
Decrease / (increase) in fair values	1,214	55,603	**56,817**
Realised gains on sale	-	8,960	**8,960**
Deferred tax	-	(1,739)	**(1,739)**
Funds from operations	**6,650**	**25,814**	**32,464**
Funds from operations per ordinary share[4] €	**0.10**	**0.41**	**0.51**
Funds from operations (excluding gains)	**6,919**	**15,277**	**22,196**
Funds from operations (excluding gains) per ordinary share[4] €	**0.11**	**0.24**	**0.35**

1 Unallocated revenue of €0.03 million has been allocated between the segments based on each segment's share of invested equity. Amounts allocated were; debt investments: €0.01 million and investment properties: €0.02 million.

2 The revolving credit facility expense of €3.3 million has been allocated between the segments based on each segment's share of invested equity. Amounts allocated were; debt investments: €0.6 million and investment properties: €2.7 million.

3 Unallocated other operating expenses of €6.7 million have been allocated between the segments based on each segment's share of invested equity. Amounts allocated were; debt investments: €1.2 million and investment properties: €5.5 million.

4 Earnings per share and FFO per share are calculated on the weighted average number of shares at 30 June 2008.

Quarter ended (Unaudited)	**30 June 2008 €'000**	**31 March 2008 €'000**	**30 June 2007 €'000**
Funds from operations	32,464	22,647	57,183
FFO per ordinary share	0.51	0.35	0.90

FFO for the second quarter 2008 was €32.5 million, decreasing from €57.2 million (43.2%) for the second quarter 2007 and increasing from €22.6 million (43.6%) for the first quarter 2008. The FFO for the second quarter 2008 was higher than the first quarter 2008, benefiting from net gains on sales of investment properties of €10.5 million. The decrease in FFO against the second quarter 2007 reflects gains on sale of investment properties of €8.9 million in the second quarter 2008, compared to €36.2 million in the second quarter 2007.

Operating Income

The Group's operating income consists of rental and service charge income from German commercial property, interest income from debt investments, income from real estate fund units, gains/losses on sale of available-for-sale assets and fair value movements on investment properties, real estate fund units and interest rate swaps.

Operating income, excluding fair value movements is shown in the table below:

Operating income (excluding fair value movements)

Quarter ended (Unaudited)	30 June 2008 €'000	31 March 2008 €'000	30 June 2007 €'000
Interest income	38,427	38,046	32,896
Rental income	74,426	74,996	82,823
Service charge income	15,495	15,285	13,986
Real estate fund unit income	-	-	3,756
Total	**128,348**	**128,327**	**133,461**

The increase in interest income compared with the three months ended 30 June 2007 and 31 March 2008, was principally due to an increase in the debt investment portfolio (asset backed securities and real estate related loans) and higher relative interest rates.

The decrease in rental income as compared with the three months ended 30 June 2007 reflects the sale of real estate assets since the end of the second quarter of 2007. Rental income for the second quarter 2008 was lower than the previous quarter as a consequence of lower rental guarantee income (€1.2 million) during the quarter, and the sale of a property at the beginning of the quarter (€0.5 million). This was partially offset by lease up activity during the period which generated revenue of €1.1 million. The Mars rental guarantee income for the second quarter of 2008 was €5.7 million.

Service charge income represents the service costs that have been charged to the tenants and includes common area maintenance, insurance, utilities costs and property taxes.

Real estate fund unit income decreased from €3.8 million for the three months ended 30 June 2007 to nil due to the sale of the real estate fund units in October 2007.

Fair value movements

Quarter ended (Unaudited)	30 June 2008 €'000	31 March 2008 €'000	30 June 2007 €'000
(Decrease) / increase in fair value of investment properties	(64,445)	(99,836)	239,109
Increase in fair value of real estate fund units	-	-	1,265
(Loss) on disposal of asset backed securities, available-for-sale	(269)	-	(40)
Increase / (decrease) in fair value of interest rate swaps	8,842	(10,058)	10,358
Total	**(55,872)**	**(109,894)**	**250,692**

The Group's investment properties are revalued on a quarterly basis by external valuers. The main factors the valuers consider when determining a fair valuation are the following: passing rent, void periods, relettability and marketability of properties.

Operating Expenses

The Group's operating expenses consist of interest expenses, service charge expenses, property operating expenses and other operating expenses as shown in the table below:

Quarter ended (Unaudited)	30 June 2008 €'000	31 March 2008 €'000	30 June 2007 €'000
Interest expense	66,834	75,421	68,565
(Gains) / losses on foreign currency contracts, translation and swaps	1,398	(1,075)	(11)
Service charge expenses	15,495	15,285	13,986
Property operating expenses	6,591	5,534	5,909
Other operating expenses	15,116	8,717	21,195
Total operating expenses	**105,434**	**103,882**	**109,644**
Operating income (excluding fair value movements)	**128,348**	**128,327**	**133,461**

A significant proportion of the Group's operating expenses represent interest expense (63.4% for the second quarter of 2008, against 62.5% for the second quarter of 2007 and 72.6% for the first quarter of 2008). Interest expense of the Group for the second quarter of 2008 amounted to €66.8 million compared with €68.6 million for the second quarter of 2007 and €75.4 million for the first quarter of 2008. The decrease from the second quarter of 2007 and the first quarter of 2008 was primarily due to the repayment of debt resulting from commercial property sales and €8.6 million of gains recognised on the closure of interest rate swaps.

The Group's property operating expenses include common area maintenance, insurance, utilities costs and property taxes that cannot be recovered from tenants or that relate to vacant space. The increase in the second quarter 2008 was due in part to increased tenant incentives and related leasing costs.

The Group's other operating expenses have significantly increased from the previous quarter, mostly due to €6.1 million of sale costs incurred through the sale of commercial property in the second quarter 2008. The decrease compared to the quarter ended 30 June 2007 is due to the costs related to the sale of investment properties and the related incentive fees of €12.1 million incurred on those sales in that quarter. No incentive fees have been recognised during the six months ended 30 June 2008.

Corporation Tax

The Group's corporation tax on operating profit is shown in the table below:

Quarter ended (Unaudited)	30 June 2008 €'000	31 March 2008 €'000	30 June 2007 €'000
Current tax charge	355	354	2,749
Deferred tax (credit) / charge	(1,739)	(1,671)	35,567
Total tax (credit) / expense	**(1,384)**	**(1,317)**	**38,316**

The deferred tax represents temporary timing differences between the fair value and the German tax book value of all investment properties, except those within the Drive portfolio (which are exempt from corporation tax on all income generated and revaluation gains).

The Group has structured its investments in a tax efficient manner but changes in tax legislation in relevant jurisdictions (including Guernsey, Luxembourg, Ireland and Germany) could affect the Group's effective rate of taxation.

Balance Sheet Review

The segmental analysis prepared according to IFRS has been disclosed in Note 28. The table below shows 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 the table.

Balance sheet data

As at 30 June 2008 (Unaudited)	**Debt investments €'000**	**Investment properties €'000**	**Total Eurocastle €'000**
Investments	1,837,098	4,739,166	**6,576,264**
Other assets[1]	97,269	231,802	**329,071**
Total assets	**1,934,367**	**4,970,968**	**6,905,335**
Interest-bearing debt financing	(1,967,112)	(3,623,394)	**(5,590,506)**
Other liabilities[2]	(7,397)	(105,706)	**(113,103)**
Total liabilities	**(1,974,509)**	**(3,729,100)**	**(5,703,609)**
Segment net assets / (liabilities)	**(40,142)**	**1,241,868**	**1,201,726**
Tax liability	-	(24,160)	**(24,160)**
Minority interest	(2)	(4)	**(6)**
Net assets / (liabilities)	**(40,144)**	**1,217,704**	**1,177,560**
Net assets / (liabilities) per share €	**(0.63)**	**19.05**	**18.42**

1 Unallocated other assets of €42.2 million have been allocated between the segments based on each segment's share of invested equity. Amounts allocated were; debt investments: €7.4 million and investment properties: €34.8 million.

2 Unallocated other liabilities of €5.3 million have been allocated between debt investment and investment property segments based on each segment's share of invested equity. Amounts allocated were: debt investments: €0.9 million and investment properties: €4.4 million.

Adjusted Net Asset Value

The debt investment securities portfolio is predominantly financed to maturity with long-term collateralised debt obligations ("CDOs") that are not callable as a result of changes in value and are non-recourse to the Group. While the assets in the CDOs are consolidated in the financial statements for IFRS purposes, the Group's exposure to losses is limited to its initial investment in each CDO. The 30 June 2008 IFRS net asset value reflects approximately €149.4 million of unrealised losses in assets within the Group's CDOs that exceeds its investment in the CDOs and, therefore, could not be realised in cash terms by the Group.

The Group believes that a better measure of shareholder value is the adjusted net asset value which marks-to-market all of our financial assets and liabilities within the debt investment portfolio. At 30 June 2008, we estimate the Group's adjusted book value per share is estimated to be €23.09 (31 December 2007: €23.47).

Adjusted net asset value As at 30 June 2008 (Unaudited)	**Debt investments €'000**	**Investment properties €'000**	**Total Eurocastle €'000**
Reported net asset value	**(40,144)**	**1,217,704**	**1,177,560**
Estimated mark to market of real estate related loans	(46,232)	-	**(46,232)**
Estimated mark to market of financial liabilities within the debt investment portfolio	344,543	-	**344,543**
Adjusted net asset value	**258,167**	**1,217,704**	**1,475,871**
Adjusted net asset value per share €	**4.04**	**19.05**	**23.09**

Total Assets

Total assets as at 30 June 2008 amounted to €6.9 billion, representing a 5.5% decrease from €7.3 billion as at 31 March 2008 and an 8.0% decrease from €7.5 billion as at 31 December 2007. This primarily reflects the reduction in value of the commercial property portfolio of €64.4 million and €164.3 million respectively and debt investments of €27.1 million and €167.2 million respectively, and the sale of 3 assets within the commercial property portfolio valued at €281 million, partly offset by the increase in cash balances of €12.5 million and €26.2 million respectively.

Real Estate Investments

As at 30 June 2008, the Group's real estate portfolio comprised €4,731 million of commercial property investments compared with €4,781 million as at 31 March 2008 and €4,879 million as at 31 December 2007, on a like-for-like basis. This represents a decrease of 1.0% in the fair value of investment properties on the 31 March 2008 values and a decrease of 3.0% on the 31 December 2007 values.

Debt Investments

As at 30 June 2008, the Group carried debt investments valued at €1.8 billion compared with €1.9 billion as at 31 March 2008 and €2.1 billion as at 31 December 2007. Of this, €1.3 billion represented asset backed securities as at 30 June 2008 (31 March 2008: €1.4 billion, 31 December 2007: €1.5 billion).

Asset backed securities are stated at market value. During the quarter and six months, there was a reduction in fair value of €27.1 million and €167.2 million respectively, which was primarily due to further spread widening in the asset backed securities markets generally and the real estate backed debt markets in particular; however, none of the asset backed securities were considered impaired as at 30 June 2008.

As at 30 June 2008, the Group carried real estate related loans of €544.7 million (31 March 2008: €547.5 million. 31 December 2007: €570.9 million) representing a decrease of 0.5% and 4.6% respectively. Real estate related loans include real estate related B notes and Mezzanine loans.

Financing Activities

Real Estate Portfolio Financing

The Group 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 its investments and the cost of financing those investments.

On 28 May 2008, the Group closed the refinancing of approximately €330 million (representing all of the outstanding short term tranche due July 2008) of the original €1.6 billion credit facility put in place in respect of the Mars portfolio. The new facility is non-recourse to Eurocastle and matures in June 2009. The original Mars facility remains in place with approximately €1 billion outstanding due July 2014.

On 25 June 2008, the Group successfully refinanced three of the properties within the Mars floating portfolio, through a European bank, for an amount of €79.0 million. The new facility is non-recourse to Eurocastle and matures in June 2013. The refinancing of these three properties reduced the short term financing tranche of the Mars portfolio from €330 million to €244 million.

Debt Investment Portfolio Financing

The Group has no mark-to-market or full recourse exposure on its debt portfolio, with all financing facilities maturing in more than one year, and only a recourse facility limited to €30 million.

At 30 June 2008, approximately 87.3% of the debt investment portfolio benefits from financing maturing beyond the maturity date of its assets.

Corporate Loan Facility

On 9 May 2008, the Group successfully converted its €300 million revolving credit facility into a term loan facility of €175 million and extended the maturity from October 2008 to 31 March 2009. The loan will amortize down to €125 million by 31 October 2008. The interest margin on this loan remained unchanged at 2 % over three month Euribor.

Business Review

Commercial Property Portfolio

As at 30 June 2008, Eurocastle owned a €4.7 billion portfolio of commercial property investments. At quarter end, the investment property portfolio comprised 588 properties with approximately 2.2 million square meters (sqm) of lettable space. The portfolio had a total occupancy of 84.0%, and a weighted average remaining lease term of 6.2 years. The Group derives 62% of its rental income from the five major German markets. At the end of the second quarter, the Group's investment property portfolio was valued at €4.7 billion, equivalent to an average NOI yield of 5.04%, compared to 4.91% at the end of March 2008, on a like for like basis, adjusted for assets sold and the expiry of €28.3 million of annualised rental guarantee on vacant space in the Mars portfolio.

We view our commercial property portfolio as having two categories of assets as shown in the table below. Approximately 60% or €2.7 billion, are long-term leased and retail assets with average terms of 7.8 years, approximately 93% occupancy and stable cash flows. These assets give us good, stable returns, with a modest amount of near-term growth. The other 40%, or approximately €2 billion, is the active asset management component of the portfolio. The average lease term is 3.4 years and occupancy is approximately 71%. These are the value-add assets which require leasing or repositioning and are where the majority of our asset management activity is focused and will have the greatest potential upside. This part of the portfolio is valued at an NOI yield of 3.90%. We will continue to lease up these assets, improve occupancy and look to sell those which have limited further upside, are non-core asset classes or are in peripheral markets.

Portfolio composition

Asset	No. of properties	Occupied space (sqm)	Occupancy %	Passing rent €m	Annualised NOI €m	Property valuation €m	Average lease term	NOI yield on valuation %
Stable	525	1,234,511	92.7%	172.4	160.8	2,738	7.8	5.87%
Value Add	63	613,729	70.6%	94.2	77.8	1,993	3.4	3.90%
Grand Total	**588**	**1,848,240**	**84.0%**	**266.6**	**238.6**	**4,731**	**6.2**	**5.04%**

* Stable assets are those assets with long term leases and high occupancy.
** Value add assets are those assets with upside valuation potential through active asset management (lease-up and repositioning).

During the first half of 2008, the Group has signed 296 commercial leases for approximately 131,000 sqm, of which new leases accounted for approximately 52,000 sqm. Included is over 38,000 sqm of renewals of leases with a major bank which were due to expire at the end of 2008. The level of physical portfolio occupancy, on a like for like basis, increased by 0.6% as compared to the previous quarter and amounted to 84.0% at 30 June 2008. The Group expects leasing markets to remain active. It has already signed approximately 14,000 sqm of new leases and 30,000 sqm of renewals in the third quarter of 2008 and has a further 13,500 sqm of new leases and 21,000 sqm of renewals currently under negotiation.

As part of our ongoing sales programme, the Group has completed the sale of 3 properties for total sales proceeds of €275.7 million, realising gains on book cost of €10.5 million, net of all transaction costs. Subsequent to quarter end, the Group has sold a further two properties for total sale proceeds of €30.6 million, and has entered into binding agreements to sell 3 properties for an estimated total proceeds of €90.0 million.

With respect to transaction volume and leasing activities the commercial property markets in Germany have performed well in the first half of 2008. On the back of a new 15-year low unemployment rate, the top five markets (Berlin, Düsseldorf, Frankfurt, Hamburg and Munich) continued their good start to the year with regards to office take-up figures.

The turnover increased by 9.2%, totalling approx 1,400,000 sqm, compared to the first half of 2007. The positive leasing development and the limited supply resulted in a decreased vacancy rate of 9.2% compared to 10.6% in the second quarter 2007. Just under 30% of the vacancy is considered to be of high-quality standard classified as class "A" space. Compared to the second quarter 2007, prime rents in the top 5 cities increased by 5.1% and average market rents rose by 2.0%.

The positive rental market is supported by the development pipeline which continues to be weak. Speculative office supply through 2010 is expected to remain at historically low levels of less than 1.0% per annum of total stock.

The transaction volume of the first half of 2008 was €11.8 billion and was 43% of the comparable value of the record breaking year 2007. However, this dip is put into context when compared to a 5-year half year average of €14 billion.

The following tables show the split of real estate property investments by use and geographical location as at 30 June 2008.

As at 30 June 2008, the Group had signed 57 new leases for approximately €2.7 million of rental income per annum on approximately 20,500 square meters of vacant space, which will become effective during 2008 or later. These leases have not been included in the following tables.

Rental Data

By Use

Use	Lettable (sqm)	Occupancy %	Passing rent* €'million Annual	Passing rent* %	Passing rent* € per sqm/month
Office	1,223,213	78.7%	149.2	56.0%	12.9
Retail	473,699	96.3%	58.6	22.0%	10.7
Bank Hall	108,554	97.7%	18.0	6.8%	14.2
Other	394,437	82.0%	40.8	15.2%	10.5
Total portfolio	**2,199,903**	**84.0%**	**266.6**	**100%**	**12.0**

By Location

Location	Lettable (sqm)	Occupancy %	Passing rent* €'million Annual	Passing rent* %	Passing rent* € per sqm/month
Frankfurt	549,013	83.1%	86.4	32.3%	15.8
Munich	215,704	74.7%	28.5	10.7%	14.7
Hamburg	118,102	89.5%	16.7	6.3%	13.2
Berlin	102,166	82.2%	14.6	5.5%	14.5
Düsseldorf	107,912	93.4%	18.1	6.8%	14.9
Subtotal – top 5 markets	**1,092,897**	**83.1%**	**164.3**	**61.6%**	**15.1**
Remaining West	871,606	87.0%	85.1	31.9%	9.4
Remaining East	235,400	77.2%	17.2	6.5%	7.9
Total portfolio	**2,199,903**	**84.0%**	**266.6**	**100%**	**12.0**

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

Lease Expiry Data

By Use

Use	Average lease term	Passing rent*						
		2008**	2009	2010	2011	2012	2013-2017	2018+
	Years	€m	€m	€m	€m	€m	€m	€m
Office	5.0	4.8	16.7	10.8	35.0	17.1	50.3	14.4
Retail	8.0	0.6	2.3	1.8	3.5	4.3	25.4	20.7
Bank Hall	5.5	-	0.3	2.7	0.9	2.4	10.7	1.2
Other	8.6	1.1	6.0	1.9	5.3	4.1	10.0	12.3
Total portfolio	**6.2**	**6.5**	**25.3**	**17.2**	**44.7**	**27.9**	**96.4**	**48.6**

By Location

Location	Average lease term	Passing rent*						
		2008	2009	2010	2011	2012	2013-2017	2018+
	Years	€m	€m	€m	€m	€m	€m	€m
Frankfurt	5.7	1.0	6.0	5.6	24.0	8.9	32.8	8.0
Munich	6.9	2.3	3.6	1.5	8.4	3.2	3.7	5.7
Hamburg	5.2	0.7	4.6	1.5	1.9	1.8	2.0	4.3
Berlin	4.5	1.0	1.7	1.1	2.3	1.2	6.4	1.0
Düsseldorf	8.6	0.1	1.2	0.6	1.9	4.4	0.8	9.1
Subtotal – top 5 markets	**6.1**	**5.1**	**17.1**	**10.3**	**38.5**	**19.5**	**45.7**	**28.1**
Remaining West	6.7	1.2	6.9	6.2	4.8	7.5	39.5	19.0
Remaining East	5.8	0.2	1.3	0.7	1.4	0.9	11.2	1.5
Total portfolio	**6.2**	**6.5**	**25.3**	**17.2**	**44.7**	**27.9**	**96.4**	**48.6**

* Passing rent is defined as the annual gross rental at the period end, excluding the net effects of straight lining for lease incentives.
** Remaining expiries in 2008.

Valuation Data

Markets	Properties	Occupancy	Lettable space	Property valuation	Property cost	% of Portfolio	Net operating income	NOI yield on cost	NOI yield on valuation
		%	(sqm)	€m*	€m**	€m	€m***	%	%
Top 5 markets									
Frankfurt	52	83.1%	549,013	1,670	1,729	35.4%	78.6	4.55%	4.70%
Munich	17	74.7%	215,704	599	650	13.4%	24.3	3.75%	4.07%
Hamburg	15	89.5%	118,102	305	324	6.7%	15.7	4.84%	5.14%
Berlin	11	82.2%	102,166	280	271	5.6%	13.3	4.92%	4.76%
Düsseldorf	7	93.4%	107,912	345	356	7.3%	17.4	4.88%	5.05%
Subtotal – top 5 markets	**102**	**83.1%**	**1,092,897**	**3,199**	**3,330**	**68.4%**	**149.3**	**4.49%**	**4.67%**
Remaining West	381	87.0%	871,605	1,305	1,318	27.1%	74.3	5.64%	5.69%
Remaining East	105	77.2%	235,401	227	219	4.5%	15.0	6.86%	6.63%
Total portfolio	**588**	**84.0%**	**2,199,903**	**4,731**	**4,867**	**100%**	**238.6**	**4.90%**	**5.04%**

* The above valuation does not include €24.0 million relating to head leases.
** Includes leasing commissions and tenant incentives disclosed separately in other assets.
*** Net operating income excludes the amortisation of tenant incentives and leasing commissions and the fund costs related to the Drive portfolio included within property operating expenses in the consolidated income statement. See Note 4 for details.

Like for like* occupancy analysis

By Use

Use	30 June 2008 Occupancy (sqm)	Occupancy %	Passing rent** €m	31 March 2008 Occupancy (sqm)	Occupancy %	Passing rent** €m
Office	962,359	78.7%	149.2	945,670	77.3%	147.4
Retail	456,356	96.3%	58.6	458,942	97.0%	58.6
Bank Hall	106,085	97.7%	18.0	106,085	97.1%	18.0
Other	323,440	82.0%	40.8	323,245	81.9%	40.7
Total portfolio	**1,848,240**	**84.0%**	**266.6**	**1,833,942**	**83.4%**	**264.7**

By Location

Location	30 June 2008 Occupancy (sqm)	Occupancy %	Passing rent** €m	31 March 2008 Occupancy (sqm)	Occupancy %	Passing rent** €m
Frankfurt	456,302	83.1%	86.4	451,899	82.3%	85.8
Munich	161,236	74.7%	28.5	160,846	74.6%	28.6
Hamburg	105,693	89.5%	16.7	101,849	86.2%	15.9
Berlin	84,006	82.2%	14.6	85,139	83.3%	15.0
Düsseldorf	100,809	93.4%	18.1	100,257	92.9%	17.9
Subtotal – top 5 markets	**908,046**	**83.1%**	**164.3**	**899,990**	**82.3%**	**163.2**
Remaining West	758,390	87.0%	85.1	753,399	86.4%	84.4
Remaining East	181,804	77.2%	17.2	180,553	76.7%	17.1
Total portfolio	**1,848,240**	**84.0%**	**266.6**	**1,833,942**	**83.4%**	**264.7**

* Like for like represents common properties that are held at the end of both reporting periods.

** Passing rent excludes the impact of the rental guarantee.

Top 5 Tenants

Tenant name	Business sector	Passing rent €'000	% of total portfolio	Square meters
Dresdner Bank	Banking	68,830	25.8%	421,078
Deutsche Bank	Banking	16,197	6.1%	128,556
Edeka	Retail	12,832	4.8%	121,990
Starman Hotels	Hotel	9,229	3.5%	40,988
Deutsche Bahn	Railway	8,500	3.2%	50,441
Total portfolio		**115,588**	**43.4%**	**763,053**

Debt Investment Portfolio

Overview of the Debt Investment Portfolio

	30 June 2008 (Unaudited)	31 December 2007
Carrying value of total debt investments (excluding restricted cash) (€'000)	1,757,373	2,052,913
Implied discount margin (above Euribor) at carrying value	5.68%	3.35%
Amortised cost of total debt investments (excluding restricted cash) (€'000)	2,053,805	2,182,133
Weighted average asset margin (above Euribor)	1.76%	1.79%
Weighted average liability spread	0.58%	0.57%
Weighted average net spread	1.18%	1.22%
Weighted average credit rating	BBB-	BBB-
Percentage investment grade of debt investment portfolio	64%	65%
Number of securities and loans	192	201

Eurocastle's €1.8 billion investment portfolio (excluding restricted cash) consists primarily of commercial real estate backed and residential real estate backed debt. The following describes the investment portfolio as at 30 June 2008:

Asset/liability structure for debt investment portfolio

30 June 2008 (Unaudited)	Assets			Cash in 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	364,143	3.9	BBB	20,895	346,182	346,182	7.0	Dec 2060	No
Eurocastle CDO III PLC	711,538	4.3	BBB	26,577	704,250	704,250	7.0	Dec 2060	No
Eurocastle CDO IV PLC	131,284	3.8	A	-	100,998	100,998	1.4	Dec 2009	No
Duncannon CRE CDO I PLC	730,168	4.3	BB	32,253	697,833	697,833	6.4	Jun 2047	No
Eurocastle Funding Limited (unlevered)	8,336	3.4	CCC	-	-	-	-	-	No
Eurocastle Funding Limited (financed)	122,068	3.6	BB+	-	101,309	101,309	1.3	Sep 2009	No
Total	**2,067,537**	**4.1**	**BBB-**	**79,725**	**1,950,572**	**1,950,572**	**6.2**	-	-

Debt Investment Portfolio Composition (30 June 2008)
(Unaudited)

Asset class	Nominal €'000	Total debt portfolio %
Commercial real estate backed	1,656,101	80.1%
Residential real estate backed	331,714	16.0%
Other	79,722	3.9%
	2,067,537	**100%**

Commercial Real Estate Backed Debt

The Group owned €1.66 billion face amount of commercial assets (Commercial mortgage backed securities ("CMBS"), Mezzanine Loans, B-Notes, Whole Business Securitisations ("WBS"), NPL Securitisations and Real Estate Loans and SME CLOs). During the quarter ended 30 June 2008, the Group made no purchases, sold €4.6 million of assets and had paydowns of €67.3 million for a net decrease of €71.9 million. The Group's €883.1 million CMBS portfolio continues to perform with only 0.48% underlying delinquent loans. In addition, the Group has no delinquencies in its Mezzanine Loans, B-Notes and Real Estate Loans. The Group had 8 securities upgraded, all CMBS securities, or €53.2 million and 1 WBS downgrade totalling €7.7 million. Credit spreads widened on average by 28 basis points, from 31 March 2008, on the CMBS portfolio and a weighted average of 35 basis points on the Mezzanine Loans, B-Notes and Real Estate Loans portfolios.

Asset class	Nominal	Total debt book	Average rating*	Average credit spread*	Average LTV
	€'000	%		Bps	%
CMBS	883,120	42.7%	BBB+	640	63.53%
Commercial real estate loans	547,936	26.5%	B	293	79.59%
NPL securitisation	51,338	2.5%	A+	381	13.88%
SME CLO	97,910	4.7%	BB+	916	N/A
Whole business securitisation	75,797	3.7%	BBB	682	56.03%
	1,656,101	**80.1%**	**BBB-**	**536**	

* Average Ratings are calculated by reference to the lowest rating currently assigned to each loan or security by any of Moody Investor Services, Standard and Poor, and Derivative Fitch and an arithmetic mean weighted by the current face amount of each loan or security. The average credit spread represents the average implied discount margin (above Euribor) at the current carrying value, weighted by the current nominal par amount outstanding.

Rating distribution / country exposure	AAA	AA	A	BBB	BB	B	CCC	Total	% of total debt portfolio
	€'000	€'000	€'000	€'000	€'000	€'000	€'000	€'000	
UK	12,998	33,703	75,514	278,208	46,342	179,165	18,969	**644,899**	**31.2%**
Germany	19,146	19,724	8,690	135,345	38,011	173,861	-	**394,777**	**19.1%**
Italy	13,009	1,829	36,500	57,461	28,957	47,600	-	**185,356**	**9.0%**
France	-	-	2,224	22,771	-	71,039	-	**96,034**	**4.6%**
Netherlands	-	-	-	19,813	18,512	-	-	**38,325**	**1.9%**
Switzerland	-	-	-	-	17,658	24,170	-	**41,828**	**2.0%**
Spain	-	-	12,200	5,198	9,600	-	-	**26,998**	**1.3%**
Other	24,883	49,036	46,164	100,806	6,995	-	-	**227,884**	**11.0%**
Total	**70,036**	**104,292**	**181,292**	**619,602**	**166,075**	**495,835**	**18,969**	**1,656,101**	**80.1%**
% of total debt portfolio	**3.4%**	**5.0%**	**8.8%**	**30.0%**	**8.0%**	**24.0%**	**0.9%**	**80.1%**	

Residential Real Estate Debt

The Group owned €331.7 million face amount of residential mortgage backed securities ("RMBS"). During the quarter, the Group made no purchases or sales and had paydowns of €11.5 million. The current average rating of the RMBS portfolio was unchanged at BBB. The Group had 6 securities or €15.0 million RMBS securities upgraded and 2 downgrades totalling €5.6 million. During the quarter credit spreads widened on average by 343 basis points across our whole RMBS portfolio, of which 552 basis points was solely on the UK non-conforming RMBS portfolio.

The composition of the residential mortgage backed securities portfolio as at 30 June 2008 is shown below:

RMBS type	Nominal	Total debt book	Average rating*	Average credit spread*
	€'000	%		Bps
Prime	151,889	7.3%	BBB	725
Mixed	70,878	3.4%	BBB-	1,374
Non conforming	108,947	5.3%	BBB	1,417
Total	**331,714**	**16.0%**	**BBB**	**1,091**

* Average Ratings are calculated by reference to the lowest rating currently assigned to each loan or security by any of Moody Investor Services, Standard and Poor, and Derivative Fitch and an arithmetic mean weighted by the current face amount of each loan or security. The average credit spread represents the average implied discount margin (above Euribor) at the current carrying value, weighted by the current nominal par amount outstanding.

Rating distribution / country exposure	A	BBB	BB	Total	% of total debt portfolio
	€'000	€'000	€'000	€'000	
United Kingdom	33,399	149,628	28,100	**211,127**	**10.3%**
Italy	-	30,750	-	**30,750**	**1.5%**
Netherlands	6,375	8,500	15,000	**29,875**	**1.4%**
Germany	3,789	5,000	6,200	**14,989**	**0.7%**
Spain	-	10,524	2,200	**12,724**	**0.6%**
Belgium	-	23,449	2,800	**26,249**	**1.3%**
Ireland	-	5,000	-	**5,000**	**0.2%**
Greece	-	1,000	-	**1,000**	**0.0%**
Total	**43,563**	**233,851**	**54,300**	**331,714**	**16.0%**
% of total debt portfolio	**2.0%**	**11.4%**	**2.6%**	**16.0%**	

UK Non-Conforming RMBS

Within the larger residential mortgage backed securities portfolio the current average rating of the €96.9 million UK non-conforming loan backed securities sub-portfolio is BBB. The performance of these assets has been in-line with the Group's expectations and there has been no material deterioration in the credit fundamentals since the beginning of 2008. It is a well seasoned portfolio (backed by residential mortgages with a weighted average seasoning of 3.52 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, 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 2008.

Year of mortgage origination*	Nominal	Total debt book	Average rating**	Average credit spread**
	€'000	%	%	Bps
2004	22,070	1.1%	BBB	1,185
2005	62,594	3.0%	BBB	1,457
2006	12,233	0.6%	BBB-	1,349
Total	**96,897**	**4.7%**	**BBB**	**1,381**

* 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 ratings are calculated by reference to the lowest rating currently assigned to each loan or security by any of Moody Investor Services, Standard and Poor, and Derivative Fitch and an arithmetic mean weighted by the current face amount of each loan or security. The average credit spread represents the average implied discount margin (above Euribor) at the current carrying value, weighted by the current nominal par amount outstanding.

Other Debt

As at 30 June 2008, the Group owned €79.7 million face amount of other structured finance debt (commercial & consumer loans). During the quarter, the Group made no purchases or sales and had paydowns of €2.1 million. There were no rating changes in the other structured finance debt portfolio. Credit spreads widened, on average, by 60 basis points on the other structured finance debt portfolio.

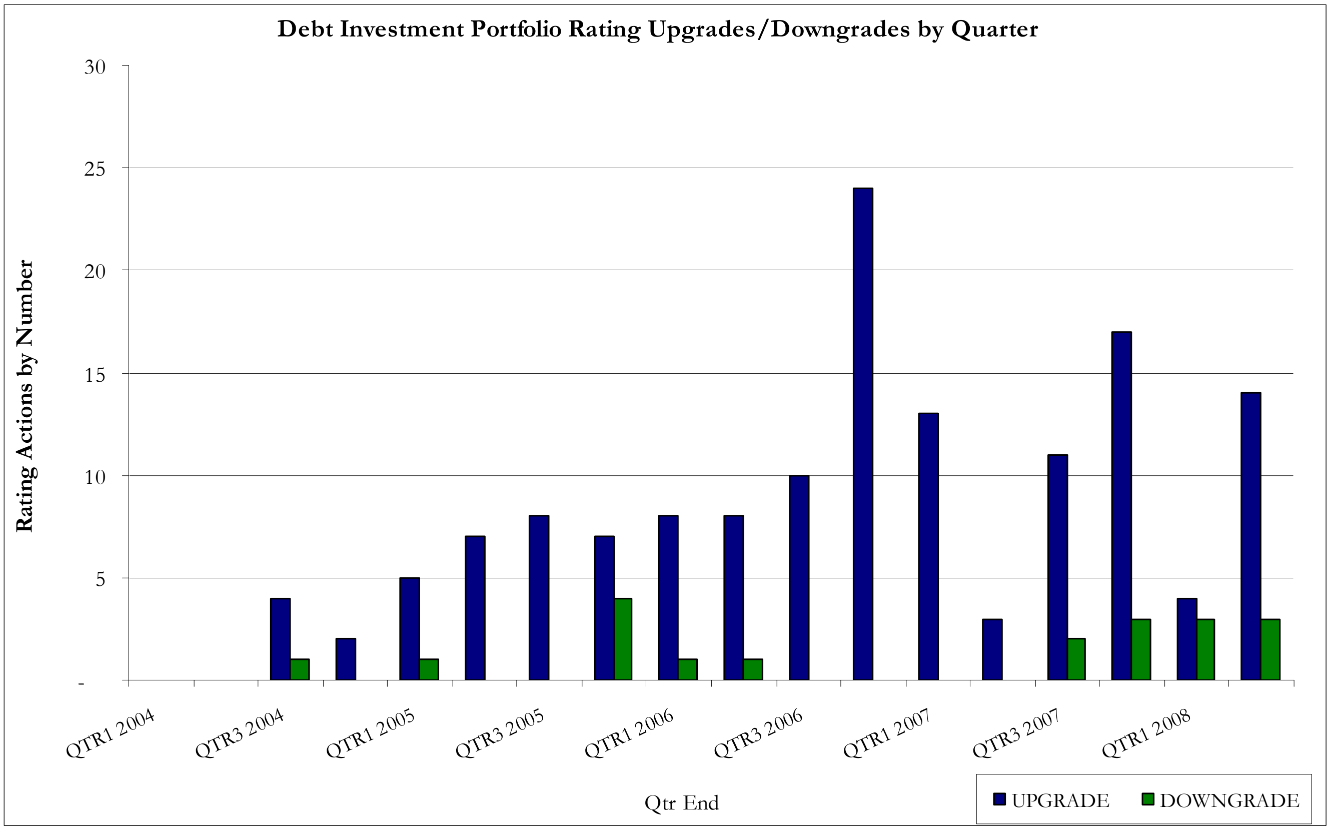
Debt Type	Nominal	Total debt book	Average rating*	Average credit spread*
	€'000	%	%	Bps
Commercial leases & loans	33,072	1.6%	BBB+	728
Consumer leases & loans	46,650	2.3%	BBB+	720
Total	**79,722**	**3.9%**	BBB+	723

* Average Ratings are calculated by reference to the lowest rating currently assigned to each loan or security by any of Moody Investor Services, Standard and Poor, and Derivative Fitch and an arithmetic mean weighted by the current face amount of each loan or security. The average credit spread represents the average implied discount margin (above Euribor) at the current carrying value, weighted by the current nominal par amount outstanding.

Rating distribution / country exposure	AAA	AA	A	BBB	BB	Total	% of total debt portfolio
	€'000	€'000	€'000	€'000	€'000	€'000	
Italy	8,682	4,500	19,400	11,940	7,700	**52,222**	**2.6%**
Germany	-	-	-	4,750	-	**4,750**	**0.2%**
Sweden	-	-	-	3,500	-	**3,500**	**0.2%**
United Kingdom	-	-	-	10,000	-	**10,000**	**0.5%**
Portugal	-	-	-	2,250	7,000	**9,250**	**0.4%**
Total	**8,682**	**4,500**	**19,400**	**32,440**	**14,700**	**79,722**	**3.9%**
% of total debt portfolio	**0.4%**	**0.2%**	**0.9%**	**1.7%**	**0.7%**	**3.9%**	

Credit Quality

The credit quality of the debt investment portfolio has remained stable over the quarter. 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 145:19 and was 14:3 for this quarter. While over time the weighted average credit rating of the debt investment portfolio has declined slightly, primarily as a consequence of the strategic repositioning by the Group away from bond investments and towards loan investments, 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.



Proposed share buy-back through a tender offer

At the Annual General Meeting, on 4 June 2008, the Company received Shareholder approval to allow it to repurchase outstanding shares. Pursuant to this authority, Eurocastle's board has approved the return up to €19.2 million of cash to shareholders through cash tender offer for up to 3.2 million shares at a fixed price of €6.00. The tender offer is expected to be launched by 22 August 2008 and to be settled in late September. On the launch date, a further announcement will be made and a shareholder circular and tender forms will be circulated to shareholders. Detailed information on Eurocastle's tender offer will be laid out in the shareholder circular which is also expected to be posted on Eurocastle's website at www.eurocastleinv.com.

Glossary of Terms

Average invested capital

The sum of the average share capital outstanding and undistributed FFO for the period.

Adjusted NAV

The Net asset value of the Group adjusted for the market value of all financial assets and liabilities within the debt investment portfolio.

Fair value

The estimated amount for which a property should exchange on the date of valuation between a willing buyer and a willing seller in an arm's length transaction after proper marketing wherein the parties had each acted knowledgably, prudently, and without compulsion.

Fund from operations (FFO)

A measure of the underlying operating performance of the Company, calculated as net profit after taxation, 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, unrealised movements on currency swaps (net of translation gains/losses of related assets) and mark-to-market fluctuations in real estate fund units.

Gross rental income

Contractual rental income from let properties, after taking into account the net effects of straightlining for lease incentives and indexation.

Head leases

The lease whereby the owner of the property pays ground rent to the lessor.

Lettable space

Any part of a property that can be leased to a tenant.

Leasing commissions

Any consideration or expense leading to a reduction in income in order to secure a lease which is amortised over the term of the lease.

Like-for-like

Comparable information relating to elements which existed for the whole of the current and prior period.

Net operating income

Gross rental income less net service charge expenses and property operating expenses.

Passing rent

The annual gross rental income as per a certain date, excluding the net effects of straightlining for lease incentives and indexation.

Property operating expenses

The expenses directly relating to a property for the account of the landlord including service charges not recoverable because of vacancy.

Service charge expenses

The amounts paid and/or accrued by the landlord relating to lettable space for which it has been agreed with tenants to recover these amounts.

Service charge income

The amounts received and/or accrued by the landlord in respect of service charge expenses.

Tenant incentives

The refurbishment expenses to (re)let vacant space, to relet space becoming vacant at the expiry date of a lease or to renew a lease which is amortised over the term of the lease.

Vacant space

Unrented lettable space.

REPORT ON REVIEW OF FINANCIAL INFORMATION

Introduction

We have been engaged by the company to review the consolidated interim financial statements in the interim financial report of Eurocastle Investment Limited and its subsidiaries for the six months ended 30 June 2008 which comprises the consolidated balance sheet, consolidated income statement, consolidated statement of changes in equity and consolidated cash flow statement for the six month period then ended and a summary of significant accounting policies and other explanatory notes 1 to 32. We have read the other information contained in the interim financial report and considered whether it contains any apparent misstatements or material inconsistencies with the information in the financial statements.
This report is made solely to the company in accordance with guidance contained in ISRE 2410 (UK and Ireland) "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the Auditing Practices Board. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company, for our work, for this report, or for the conclusions we have formed.

Directors' Responsibilities

The interim financial report is the responsibility of, and has been approved by, the directors. The directors are responsible for preparing the interim financial report in accordance with the International Accounting Standard 34, "Interim Financial Reporting".
As disclosed in note 2, the annual financial statements of the company are prepared in accordance with International Financial Reporting Standards. The interim financial statements included in this interim financial report has been prepared in accordance with the International Accounting Standard 34, "Interim Financial Reporting".

Our Responsibility

Our responsibility is to express to the Company a conclusion on the interim financial statements in the interim financial report based on our review.

Scope of Review

We conducted our review in accordance with International Standard on Review Engagements (UK and Ireland) 2410, "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the Auditing Practices Board for use in the United Kingdom. A review of interim 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 (UK and Ireland) 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 interim financial statements in the interim financial report for the six months ended 30 June 2008 is not prepared, in all material respects, in accordance with the International Accounting Standard 34, "Interim Financial Reporting".

Ernst and Young LLP
London
13 August 2008

CONSOLIDATED INCOME STATEMENT

	Notes	Six months ended 30 June 2008 (Unaudited) €'000	Six months ended 30 June 2007 (Unaudited) €'000	Quarter ended 30 June 2008 (Unaudited) €'000	Quarter ended 30 June 2007 (Unaudited) €'000
Operating income					
Interest income	3	76,473	66,495	38,427	32,896
Rental income	4	149,422	148,877	74,426	82,823
Service charge income	5	30,780	25,842	15,495	13,986
Real estate fund unit interest income	3	-	7,512	-	3,756
Gain / (loss) on disposal of asset backed securities, available-for-sale		(269)	190	(269)	(40)
(Decrease) / increase in fair value of investment properties	8,15	(164,281)	280,377	(64,445)	239,109
Increase in fair value of real estate fund units		-	4,611	-	1,265
(Decrease) / increase in fair value of interest rate swaps		(1,216)	12,673	8,842	10,358
Total operating (loss)/income		**90,909**	**546,577**	**72,476**	**384,153**
Operating expenses					
Interest expense	6	142,255	129,168	66,834	68,565
Losses / (gains) on foreign currency contracts, translation and swaps	9	323	712	1,398	(11)
Service charge expenses	5	30,780	25,842	15,495	13,986
Property operating expenses	4	12,125	11,731	6,591	5,909
Other operating expenses	7	23,833	29,660	15,116	21,195
Total operating expenses		**209,316**	**197,113**	**105,434**	**109,644**
Operating (loss) / profit before taxation		**(118,407)**	**349,464**	**(32,958)**	**274,509**
Taxation charge - current	8	709	2,845	355	2,749
Taxation (credit) / charge - deferred	8	(3,410)	56,070	(1,739)	35,567
Net (loss) / profit after taxation		**(115,706)**	**290,549**	**(31,574)**	**236,193**
(Losses) / earnings per ordinary share					
Basic	21	(1.81)	4.56	(0.49)	3.70
Diluted	21	(1.81)	4.40	(0.49)	3.58
Weighted average ordinary shares outstanding					
Basic	21	63,927,634	63,702,689	63,927,634	63,803,222
Diluted	21	64,052,378	66,108,555	63,927,634	66,034,081

EUROCASTLE INVESTMENT LIMITED AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEET

	Notes	30 June 2008 (Unaudited) €'000	31 December 2007 €'000
Assets			
Cash and cash equivalents	10	172,941	146,707
Investment property held for sale	15	32,460	-
Other assets	13	82,943	81,988
Asset backed securities, available-for-sale (includes cash to be invested)	11	1,292,391	1,488,837
Real estate related loans	12	544,707	570,916
Fixtures and fittings	17	681	754
Derivative assets	14	69,827	44,839
Investment property	15	4,706,706	5,171,086
Intangible assets	16	2,679	3,068
Total assets		**6,905,335**	**7,508,195**
Equity and liabilities			
Capital and reserves			
Issued capital, no par value, unlimited number of shares authorised	22	1,446,172	1,446,172
Accumulated (loss) / profit		(25,802)	109,082
Net unrealised (loss) on asset backed securities, available-for-sale	11	(296,432)	(129,221)
Hedging reserve	23	36,302	30,335
Other reserves	22	17,320	17,320
Total shareholders' equity		**1,177,560**	**1,473,688**
Minority interest		**6**	**6**
Total equity		**1,177,566**	**1,473,694**
Liabilities			
Trade and other payables	20	88,873	121,846
CDO bonds payable	18	1,734,311	1,742,746
Bank borrowings	19	3,856,195	4,116,312
Derivative liabilities		240	-
Finance lease payable	15	23,990	26,709
Current taxation payable	8	2,712	2,030
Deferred taxation liability	8	21,448	24,858
Total liabilities		**5,727,769**	**6,034,501**
Total equity and liabilities		**6,905,335**	**7,508,195**

EUROCASTLE INVESTMENT LIMITED AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF CASH FLOWS

	Six months ended 30 June 2008 (Unaudited) €'000	Six months ended 30 June 2007 (Unaudited) €'000
Cash flows from operating activities		
Operating (loss) / profit before taxation	(118, 407)	349,464
Adjustments for:		
Interest income	(76,473)	(66,495)
Interest expense	142,255	129,168
Unrealised loss on foreign currency contracts	323	712
Amortisation of (discounts) on securities	(876)	(506)
Amortisation of borrowing costs	3,648	4,707
Realised loss / (gain) on disposal of asset backed securities, available-for-sale	269	(190)
Taxation paid	(27)	-
Amortisation of intangibles	394	268
Depreciation	73	-
(Increase) in fair value of real estate fund units	-	(4,611)
Decrease / (increase) in fair value of investment properties	164,281	(280,377)
Decrease / (increase) in fair value of interest rate swap	1,216	(12,673)
(Increase) in other assets	2,893	(9,229)
Interest received	77,899	63,556
Interest paid	(145,146)	(105,816)
(Decrease) / increase in trade and other payables	(29,857)	60,591
Net cash flows from operating activities	**22,465**	**128,569**
Cash flows from investing activities		
Purchase of investment property/capital expenditure	(14,907)	(2,214,026)
Proceeds on sale of investment property	275,680	305,293
Proceeds on sale/prepayment of available-for-sales securities	171,495	257,262
Purchase of asset backed securities, available-for-sale	(181,469)	(297,634)
Sale of securities pledged under repurchase agreements	-	16,447
Purchase of real estate related loans	-	(155,816)
Sale/prepayment of real estate related loans	10,092	62,672
Purchase of intangible assets	(5)	(923)
Net cash flows from investing activities	**260,886**	**(2,026,725)**
Cash flows from financing activities		
Proceeds of issuance of ordinary shares	-	5,820
Costs related to issuance of ordinary shares	-	(359)
Proceeds from issuance of bonds	17,311	241,750
Costs related to issuance of bonds	(833)	(1,615)
Repayments under repurchase agreements	-	(15,683)
Repayments of bonds issued	-	(351,000)
(Decrease) / increase of bank borrowings	(254,417)	2,192,447
Dividends paid to shareholders	(19,178)	(37,640)
Net cash flows from financing activities	**(257,117)**	**2,033,720**
Net increase in cash and cash equivalents	**26,234**	**135,564**
Cash and cash equivalents, beginning of period	**146,707**	**122,699**
Cash and cash equivalents, end of period	**172,941**	**258,263**

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Attributable to equity holders of the Group							
	Ordinary shares 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 during the period	300,548	5,820	-	-	-	-	-	5,820
Additional costs related to Dec 06 share issue	-	(359)	-	-	-	-	-	(359)
Realised losses reclassified to the income statement*	-	-	-	277	-	-	-	277
Net unrealised gain on hedge instruments	-	-	-	-	30,745	-	-	30,745
Amortisation of novated swap	-	-	-	-	(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**
Net unrealised loss on available-for-sale securities	-	-	-	(127,888)	-	-	-	(127,888)
Share options exercised during the period	104,003	1,096	-	-	-	-	-	1,096
Shares issued to Directors	4,000	98	-	-	-	-	-	98
Realised gains reclassified to the income statement*	-	-	-	(40)	-	-	-	(40)
Net unrealised loss on hedge instruments	-	-	-	-	(25,693)	-	-	(25,693)
Realised gains on hedge instruments reclassified to the income statement**	-	-	-	-	4,850	-	-	4,850
Amortisation of novated swap	-	-	-	-	(1,748)	-	-	(1,748)
Net losses not recognised in the income statement	-	-	-	(127,928)	(22,591)	-	-	(150,519)
Net loss for the six months	-	-	-	-	-	(155,634)	-	(155,634)
Total income and expense for the six months	-	-	-	(127,928)	(22,591)	(155,634)	-	(306,153)
Dividends paid	-	-	-	-	-	(76,651)	-	(76,651)
At 31 December 2007	**63,927,634**	**1,446,172**	**17,320**	**(129,221)**	**30,335**	**109,082**	**6**	**1,473,694**

* Realised (gains) / losses are reclassified to the gain / (loss) on disposal of asset backed securities, available-for-sale in the income statement.

** Realised gains on hedge instruments are reclassified to the interest expense in the income statement.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Attributable to equity holders of the Group							
	Ordinary shares Number	**Share capital €'000**	**Other reserves €'000**	**Net unrealised gains/ (losses) €'000**	**Hedging Reserves €'000**	**Accumulated Profit / (Loss) €'000**	**Minority interest €'000**	**Total equity €'000**
At 1 January 2008	**63,927,634**	**1,446,172**	**17,320**	**(129,221)**	**30,335**	**109,082**	**6**	**1,473,694**
Net unrealised loss on available-for-sale securities	-	-	-	(167,185)	-	-	-	(167,185)
Realised gains reclassified to the income statement*	-	-	-	(26)	-	-	-	(26)
Net unrealised loss on hedge instruments	-	-	-	-	4,808	-	-	4,808
Swaps novated during the period	-	-	-	-	3,229	-	-	3,229
Realised gains on hedge instruments reclassified to the income statement**	-	-	-	-	(817)	-	-	(817)
Amortisation of novated swaps	-	-	-	-	(1,253)	-	-	(1,253)
Net losses not recognised in the income statement	-	-	-	(167,211)	5,967	-	-	(161,244)
Net loss for the six months	-	-	-	-	-	(115,706)	-	(115,706)
Total income and expense for the six months	-	-	-	(167,211)	5,967	(115,706)	-	(276,950)
Dividends paid	-	-	-	-	-	(19,178)	-	(19,178)
At 30 June 2008 (Unaudited)	**63,927,634**	**1,446,172**	**17,320**	**(296,432)**	**36,302**	**(25,802)**	**6**	**1,177,566**

* Realised (gains) / losses are reclassified to the gain / (loss) on disposal of asset backed securities, available-for-sale in the income statement.

** Realised gains on hedge instruments are reclassified to the interest expense in the income statement.

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 2007 and for the year then ended. The consolidated financial statements are presented in euros, the functional currency of the parent company, because the Group conducts its business predominantly in euros.

Critical Accounting Judgements and Estimates

The preparation of these interim 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 Manager's best knowledge of the amount, event or actions, actual results ultimately may differ from those estimates.

(i) Impairment of available-for-sale investments and real estate related loans

The Group assesses on a regular basis whether there is any objective evidence of impairment in respect of the available-for-sale investments and real estate related loan portfolios. In determining whether objective evidence of impairment exists, the Group makes judgements as to whether there is any observable data indicating that there is a measurable decrease in the estimated future cash flows. This evidence may include observable significant financial difficulty of the issuer or obligor, defaults or breaches of contract, the probability of the borrower entering bankruptcy or other financial reorganisation, adverse changes in the payment status of the borrowers in a group or external events that would imply a high probability of default and loss.

(ii) Valuation of available-for-sale investments

Available-for-sale investments are stated at fair value. The fair value is based on dealer price quotations.

(iii) Valuation of investment properties

Investment properties are stated at fair value, which has been determined based on valuations performed by external valuers. The main factors the valuers consider when determining a fair valuation are the following: passing rent, void periods, and relettability and marketability of properties.

(iv) Fair values of derivatives

The fair values of derivatives are determined by using valuation techniques. Where valuation techniques including models are used to determine fair values, they are validated and periodically reviewed by qualified personnel. All models are calibrated to ensure that outputs reflect actual data and comparative market prices. To the extent practical models use only observable data, however, areas such as credit risk (both own and counter party) and volatilities require management to make estimates. Changes in assumptions about these factors could affect the reported fair value of financial instruments.

Basis of Consolidation

The consolidated interim financial statements comprise the financial statements of Eurocastle Investment Limited and its subsidiaries for the six and three months ended 30 June 2008. 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 2008, 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.

Financial Instruments

Classification

Financial assets and liabilities classified at fair value through profit or loss include those designated as such in initial recognition, including interest rate swaps, foreign currency swaps and forward foreign exchange contracts that are not designated as effective hedging instruments and financial assets held for trading.*

Available-for-sale assets, including restricted cash balances, are financial assets that are not classified as instruments held at fair value through the income statement, loans and advances, or held to maturity.

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. Transaction costs that are directly attributable to the acquisition or issue of financial assets or liabilities that are not measured at fair value through profit or loss are included in the carrying amount.

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.

Real estate related loans (loans and receivables)

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market, do not qualify as trading assets and have not been designated as either fair value through profit and loss or available-for-sale. Such assets are carried at amortised cost, using the effective interest method if the time value of money is significant. Gains and losses are recognised in income when the loans and receivables are derecognised or impaired, as well as through the amortisation process.

* The carrying value of financial assets classified at fair value through the income statement is disclosed in Note 14.

*Interest-bearing loans and borrowings (financial liabilities measured at amortise cost)**

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.

Interest income and interest expense

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.

Fair value measurement principles

The fair value of a financial instrument is based on its 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 the 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 statement 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 related 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.

* The carrying value of financial liabilities measured at amortised cost is disclosed in Notes 18 and 19.

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.

If objective evidence of impairment 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

Hedge accounting is only used where, at the inception of the hedge, there is formal designation and documentation of the hedging relationship and it meets the Group's risk management objective strategy for undertaking the hedge. 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, cash held by the trustees of securitisation vehicles as a reserve for future trustee expenses, and cash held as part of the minimum liquidity requirement by property funds. 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 cost of replacing part of an existing investment property is included in the carrying amount when the cost is incurred, if the recognition criteria are met. 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. Tenant incentives and leasing commissions are held as other assets and are amortised over the life of the lease.

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 that meet the definition of investment property held under operating leases are accounted for as 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.

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.

Other leases are classified as operating leases and the expenses are taken on a straight line basis over the lease term, unless they relate to properties that meet the definition of investment property (see above).

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.

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 costs and 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.

Fixtures and Fittings

Fixtures and fittings are stated at historical cost less depreciation. Historical cost includes expenditure that is directly attributable to the acquisition of the items. Fixtures and fittings are depreciated on a straight line basis over their expected useful life of 5 years.

Minority Interests

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

Revenue

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.

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, relating to lettable space for which it has been agreed with tenants to recover these amounts and are recognised on an accruals basis.

Property Expenses

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

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 presentation currency of the Group and functional currency of the company 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.

Comparatives

Certain comparative figures have been reclassified (only those expenses that are charged to tenants are recognised as service charge expenses, with the remaining costs recognised in property operating expenses) to provide better understanding of the Group's financial performance and conform with the presentation adopted in these financial statements).

International Financial Reporting Standards to be Adopted in 2008 and Later

IAS 1 Amendment – Presentation of Financial Statements and IFRS 8 – Operating Segments.

Upon adoption of IAS 1 Amendment, the Group will have to present a statement of comprehensive income, which will combine all items of income and expense recognised the profit and loss together with 'other comprehensive income'.

Upon adoption of IFRS 8, the Group will have to adopt a full management approach to identify and measure the result of reportable operating segments and report information on the basis of that which management uses to internally evaluate the performance of operating segments.

3. INTEREST INCOME

Interest income for the six and three months ended 30 June 2008 of €76.5 million and €38.4 million, respectively, (30 June 2007: €66.5 million and €32.9 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. Interest income for the six and three months ended 30 June 2008 includes interest calculated using the effective interest method of €72.9 million and €36.5 million, respectively (30 June 2007: €62.1 million and €31.7 million).

There was no real estate fund unit income for the six and three months ended 30 June 2008 (30 June 2007: €7.5 million and €3.8 million respectively).

4. RENTAL INCOME AND PROPERTY OPERATING EXPENSES

Rental income for the six and three months ended 30 June 2008 of €149.4 million and €74.4 million, respectively, (30 June 2007: €148.9 million and €82.8 million) represents rental income earned on investment properties.

Property operating expenses, including repairs and maintenance, arising from investment properties that generated rental income for the six and three months ended 30 June 2008 were €12.1 million and €6.6 million, respectively, (30 June 2007: €11.7 million and €5.9 million). Included within property operating expenses is the amortisation of leasing commissions and tenant incentives for the six and three months of €1.7 million and €0.9 million, respectively, (30 June 2007: €0.5 million and €0.4 million) and fund costs relating to the Drive portfolio of €1.4 million and €0.6 million, respectively, (30 June 2007: €2.1 million and €1.1 million).

5. SERVICE CHARGE INCOME AND EXPENSE

Service charge income for the six and three months ended 30 June 2008 of €30.8 million and €15.5 million, respectively, (30 June 2007: €25.8 million and €14.0 million) represents the service costs recoverable from tenants.

Service charge expense for the six and three months ended 30 June 2008 of €30.8 million and €15.5 million, respectively, (30 June 2007: €25.8 million and €14.0 million) represents the costs of operating the properties, that are recoverable from tenants.

6. INTEREST EXPENSE

Interest expense for the six and three months ended 30 June 2008 of €142.3 million and €66.8 million, respectively, (30 June 2007: €129.2 million and €68.6 million) comprises interest expense incurred on the CDO bonds payable, bank borrowings and repurchase agreements. Interest expense is calculated using the effective interest method.

Included within the interest expense for the six and three months are gains on the closure of interest rate swaps of €8.8 million (30 June 2007: €7.8 million) and capitalised financing costs written off of €0.7 million (30 June 2007: €2.9 million) relating to the sale of non-core assets

7. OTHER OPERATING EXPENSES

	Six months ended 30 June 2008 (Unaudited) €'000	Six months ended 30 June 2007 (Unaudited) €'000	Quarter ended 30 June 2008 (Unaudited) €'000	Quarter ended 30 June 2007 (Unaudited) €'000
Professional fees	1,602	1,582	913	711
Sale related costs	6,098	3,407	6,098	3,407
Management fees (Note 29)	10,939	10,862	5,456	5,468
Incentive fees	-	8,456	-	8,456
Depreciation	73	-	38	-
Amortisation of intangible assets	394	268	197	138
Other*	4,727	5,085	2,414	3,015
	23,833	**29,660**	**15,116**	**21,195**

* Included within other operating expenses for the six and three months ended 30 June 2008 are reimbursements of property related asset management services of €4.0 million and €2.1 million, respectively, (30 June 2007: €3.5 million and €2.0 million) to FIG LLC (See Note 27).

8. TAXATION EXPENSE

	Six months ended 30 June 2008 (Unaudited) €'000	Six months ended 30 June 2007 (Unaudited) €'000	Quarter ended 30 June 2008 (Unaudited) €'000	Quarter ended 30 June 2007 (Unaudited) €'000
Current tax				
Germany	709	2,654	355	2,654
Luxembourg	-	191	-	95
Total current tax	**709**	**2,845**	**355**	**2,749**
Deferred tax				
Germany	(3,410)	56,070	(1,739)	35,567
Total deferred tax	**(3,410)**	**56,070**	**(1,739)**	**35,567**
Total tax (benefit) / expense	**(2,701)**	**58,915**	**(1,384)**	**38,316**

Analysis of deferred tax:

	Six months ended 30 June 2008 (Unaudited) €'000	Six months ended 30 June 2007 (Unaudited) €'000	Quarter ended 30 June 2008 (Unaudited) €'000	Quarter ended 30 June 2007 (Unaudited) €'000
Tax losses carried forward	554	(2,858)	(522)	(1,882)
Temporary differences				
Loan expense	(287)	(789)	(195)	(721)
Tenant improvements and leasing commissions	191	270	(255)	276
Accelerated capital allowance	1,946	4,871	154	3,518
Revaluation of investment properties*	(5,925)	53,335	(1,527)	33,432
Acquisition expense	-	47	-	11
Capital expenditure	554	14	225	14
Other	(443)	1,180	381	919
Deferred tax (benefit)/expense	**(3,410)**	**56,070**	**(1,739)**	**35,567**

* 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 as 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.

Deferred tax on revaluation of investment properties:

Portfolio	Six months ended 30 June 2008 (decrease) in fair value (Unaudited)) €'000	Six months ended 30 June 2008 deferred tax (Unaudited) €'000	Six months ended 30 June 2007 increase in fair value (Unaudited) €'000	Six months ended 30 June 2007 deferred tax (Unaudited) €'000
Mars*	(71,980)	(2,033)	19,400	22,215
Drive	(57,632)	-	130,165	-
Wave	(5,835)	(193)	63,568	13,947
Zama	(1,230)	-	433	114
Bridge	(11,201)	(1,663)	45,996	11,569
Retail	(16,403)	(2,036)	20,815	5,490
	(164,281)	**(5,925)**	**280,377**	**53,335**

* The Mars portfolio consists of 38 entities, each holding investment properties. Deferred tax represents the tax on the valuation gains at the individual entity level.

Portfolio	Quarter ended 30 June 2008 (decrease) in fair value (Unaudited)) €'000	Quarter ended 30 June 2008 deferred tax (Unaudited) €'000	Quarter ended 30 June 2007 increase in fair value (Unaudited) €'000	Quarter ended 30 June 2007 deferred tax (Unaudited) €'000
Mars*	(28,448)	(516)	72,939	22,216
Drive	(21,995)	-	106,943	-
Wave	(1,873)	(204)	645	(2,642)
Zama	(128)	-	768	114
Bridge	(2,693)	210	45,316	10,493
Retail	(9,308)	(1,017)	12,498	3,251
	(64,445)	**(1,527)**	**239,109**	**33,432**

* The Mars portfolio consists of 38 entities, each holding investment properties. Deferred tax represents the tax on the valuation gains at the individual entity level.

Movement in taxation liability:

	As at 30 June 2008 (Unaudited) €'000	As at 31 December 2007 €'000
Opening tax payable	26,888	6,016
Tax paid	(27)	-
Tax (benefit) / expense for the period	(2,701)	20,872
Closing taxation payable	**24,160**	**26,888**
Split between:		
Current tax	2,712	2,030
Deferred tax	21,448	24,858
Closing taxation payable	**24,160**	**26,888**

Reconciliation of the total tax charge:

	Six months ended 30 June 2008 (Unaudited) €'000	Six months ended 30 June 2007 (Unaudited) €'000	Quarter ended 30 June 2008 (Unaudited) €'000	Quarter ended 30 June 2007 (Unaudited) €'000
(Loss)/profit before tax	(118,407)	349,464	(32,958)	274,509
Tax at domestic tax rates applicable to profits in the respective countries	**-**	**60,003**	**-**	**40,001**
Movement in deferred tax assets	554	-	(522)	-
Tax effect of revaluation of investment properties	(3,837)	-	(2,027)	-
Tax effect of timing differences	15	(917)	331	(759)
Tax effect of non-deductible expenses	1,331	(171)	1,331	(926)
Tax effect of tax losses	(753)	-	(499)	-
Other	(11)	-	2	-
Total tax (credit)/expense	**(2,701)**	**58,915**	**(1,384)**	**38,316**

The taxation expense for the six and three months ended 30 June 2008 relates to the Group's Luxembourg and German subsidiary companies. The Company is a Guernsey, Channel Islands limited company and is not subject to taxation. The Company'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 three months ended 30 June 2008 includes a provision relating to these subsidiaries.

The Group's subsidiary clusters Bastion, Belfry, Truss, Bridge, Turret, Mars, Zama, Tannenberg and Superstella are also subject to German income tax on rental income net of interest and other expense deductions on a cash basis.

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 these units.

The Group's Luxembourg subsidiaries are subject to Luxembourg tax on the net income earned within these subsidiaries.

9. LOSSES ON FOREIGN CURRENCY CONTRACTS, TRANSLATION AND SWAPS

	Six months ended 30 June 2008 (Unaudited) €'000	Six months ended 30 June 2007 (Unaudited) €'000	Quarter ended 30 June 2008 (Unaudited) €'000	Quarter ended 30 June 2007 (Unaudited) €'000
Fair value movements on currency swaps	22,488	-	(1,360)	-
Foreign currency translation loss on assets subject to currency swap	(22,258)	-	146	-
Sub-total	**230**	**-**	**(1,214)**	**-**
Other currency losses	(553)	(712)	(184)	11
Total currency gains/(losses)	**(323)**	**(712)**	**(1,398)**	**11**

* The foreign currency swap is disclosed in Note 14.2.

10. CASH AND CASH EQUIVALENTS

	As at 30 June 2008 (Unaudited) €'000	As at 31 December 2007 €'000
Cash in hand and balances with banks	136,237	105,468
ECTGPROP1 liquidity requirement	36,704	41,239
Cash and cash equivalents	**172,941**	**146,707**

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 2008, the liquidity requirement of 5% has been invested in cash and high grade debt securities of short duration.

11. ASSET BACKED SECURITIES, AVAILABLE-FOR-SALE

The following is a summary of the Group's asset backed securities, available-for-sale at 30 June 2008 (Unaudited):

			Gross unrealised			Weighted average			
	Current face amount €'000	Amortised cost basis €'000	Gains €'000	Losses €'000	Carrying value €'000	Average Rating*	Coupon	Margin	Maturity (years)
Portfolio II									
CMBS	215,222	213,018	3	(40,655)	172,366	BBB+	5.95%	1.27%	4.47
Other ABS	132,481	132,506	-	(30,546)	101,960	BBB	6.07%	1.19%	3.12
	347,703	345,524	3	(71,201)	274,326	BBB	6.00%	1.24%	3.96
Portfolio III									
CMBS	256,806	254,962	-	(49,856)	205,106	BBB+	5.98%	1.27%	5.76
Other ABS	445,047	441,455	484	(93,922)	348,017	BBB	6.26%	1.58%	3.51
	701,853	696,417	484	(143,778)	553,123	BBB	6.16%	1.46%	4.33
Portfolio IV									
CMBS	77,693	76,655	-	(7,010)	69,645	AA-	5.26%	0.63%	4.21
Other ABS	23,786	23,785	-	(1,055)	22,730	AA+	5.67%	0.66%	2.29
	101,479	100,440	-	(8,065)	92,375	AA	5.36%	0.64%	3.76
Portfolio V									
CMBS	285,034	283,777	-	(57,345)	226,432	BBB+	6.25%	1.49%	4.65
Other ABS	35,167	35,189	-	(11,510)	23,679	BBB	5.88%	0.98%	4.96
	320,201	318,966	-	(68,855)	250,111	BBB+	6.20%	1.44%	4.69
Other securities									
CMBS	48,366	47,751	-	(5,020)	42,731	A+	5.77%	1.22%	4.60
Other ABS	-	-	-	-	-	-	-	-	-
	48,366	47,751	-	(5,020)	42,731	A+	5.77%	1.22%	4.60
Total portfolio	**1,519,602**	**1,509,098**	**487**	**(296,919)**	**1,212,666**	**BBB+**	**6.07%**	**1.34%**	**4.29**

Restricted cash – cash to be invested	**79,725**
Total asset backed securities (including cash to be invested)	**1,292,391**

* Average Ratings are calculated by reference to the lowest rating currently assigned to each loan or security by any of Moody Investor Services, Standard and Poor's, and Derivative Fitch and an arithmetic mean weighted by the current face amount of each loan or security.

CMBS – Commercial Mortgage Backed Securities.
Other ABS – Other Asset Backed Securities.

The securities within Portfolio II, III and V are encumbered by CDO securitisations (Note 19).

The following is a summary of the Group's asset backed securities, available-for-sale at 31 December 2007.

			Gross unrealised			Weighted average			
	Current face amount	**Amortised cost basis**	**Gains**	**Losses**	**Carrying value**	**Average rating***	**Coupon**	**Margin**	**Maturity (years)**
	€'000	**€'000**	**€'000**	**€'000**	**€'000**				
Portfolio II									
CMBS	246,323	244,677	88	(19,303)	225,462	BBB+	5.79%	1.27%	4.76
Other ABS	145,994	146,087	23	(11,425)	134,685	BBB	6.02%	1.20%	3.51
	392,317	390,764	111	(30,728)	360,147	BBB	5.88%	1.24%	4.29
Portfolio III									
CMBS	248,896	247,672	14	(21,758)	225,928	BBB+	5.91%	1.45%	6.00
Other ABS	471,431	468,712	259	(42,109)	426,862	BBB	6.14%	1.56%	3.56
	720,327	716,384	273	(63,867)	652,790	BBB	6.06%	1.52%	4.40
Portfolio IV									
CMBS	101,851	100,318	525	(4,238)	96,605	A+	5.22%	0.91%	4.92
Other ABS	25,671	25,639	-	(2,264)	23,375	BBB+	6.17%	2.47%	4.91
	127,522	125,957	525	(6,502)	119,980	A	5.41%	1.23%	4.91
Portfolio V									
CMBS	320,887	320,263	-	(23,906)	296,357	BBB+	6.08%	1.48%	4.41
Other ABS	42,589	42,615	-	(5,119)	37,496	BBB	5.80%	1.03%	5.30
	363,476	**362,878**	**-**	**(29,025)**	**333,853**	**BBB+**	**6.05%**	**1.42%**	**4.51**
Other securities									
CMBS	-	-	-	-	-	-	-	-	-
Other ABS	15,235	15,235	-	(8)	15,227	AAA	5.67%	0.90%	0.16
	15,235	**15,235**	**-**	**(8)**	**15,227**	**AAA**	**5.67%**	**0.90%**	**0.16**
Total portfolio	**1,618,877**	**1,611,218**	**909**	**(130,130)**	**1,481,997**	**BBB+**	**5.96%**	**1.40%**	**4.40**

Restricted cash – cash to be invested	**6,840**
Total asset backed securities (including cash to be invested)	**1,488,837**

* Average Ratings are calculated by reference to the lowest rating currently assigned to each loan or security by any of Moody Investor Services, Standard and Poor's, and Derivative Fitch and an arithmetic mean weighted by the current face amount of each loan or security.

CMBS – Commercial Mortgage Backed Securities.
Other ABS – Other Asset Backed Securities.

The securities within Portfolio II, III and V are encumbered by CDO securitisations (Note 19).

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

	As at 30 June 2008 (Unaudited) €'000	As at 31 December 2007 €'000
Unrealised gains	487	909
Unrealised losses	(296,919)	(130,130)
	(296,432)	**(129,221)**

12. REAL ESTATE RELATED LOANS

The following is a summary of the Group's real estate loans as at 30 June 2008 (Unaudited).

	Current face amount €'000	Amortised cost basis €'000	Gross unrealised Gains €'000	Gross unrealised Losses €'000	Carrying value €'000	Weighted average Average rating*	Weighted average Coupon	Weighted average Margin	Weighted average Maturity (years)
Real estate loans	547,935	544,707	-	-	544,707	B	7.53%	2.92%	3.78

* Average Ratings are calculated by reference to the lowest rating currently assigned to each loan or security by any of Moody Investor Services, Standard and Poor, and Derivative Fitch and an arithmetic mean weighted by the current face amount of each loan or security.

As at 31 December 2007:

	Current face amount €'000	Amortised cost basis €'000	Gross unrealised Gains €'000	Gross unrealised Losses €'000	Carrying value €'000	Weighted average Average rating*	Weighted average Coupon	Weighted average Margin	Weighted average Maturity (years)
Real estate loans	573,956	570,916	-	-	570,916	B	7.29%	2.89%	4.27

* Average Ratings are calculated by reference to the lowest rating currently assigned to each loan or security by any of Moody Investor Services, Standard and Poor, and Derivative Fitch and an arithmetic mean weighted by the current face amount of each loan or security.

13. OTHER ASSETS

	As at 30 June 2008 (Unaudited) €'000	As at 31 December 2007 €'000
Unsettled security transactions	15	15,112
Interest receivable	22,820	24,246
Rent receivable	9,248	16,698
Prepaid expenses	2,181	233
Service charge receivable	13,558	10,296
Other assets*	35,121	15,403
	82,943	**81,988**

* Other assets includes €16.2 million (31 December 2007: €12 million) of leasing commissions and tenant incentives.

14. DERIVATIVE ASSETS

	As at 30 June 2008 (Unaudited) €'000	As at 31 December 2007 €'000
Foreign exchange forward contracts	20	1,412
Foreign currency swaps	45,762	23,274
Interest rate swaps	24,045	20,153
Total derivative assets	**69,827**	**44,839**

14.1 Derivative Assets

Derivative assets represent the fair value of interest rate swaps, foreign exchange forward contracts and foreign currency swaps.

14.2 Foreign Currency Swaps

During 2007, a subsidiary entered into a series of foreign currency swaps with a major investment bank, whereby it pays any Pound Sterling and / or Swiss Franc interest or principal it receives (through prepayments, repayments, or recoveries) on assets held and receives the Euro equivalent of such principal sums converted at a fixed foreign exchange rate and with regards to interest Euribor plus a spread.

15. INVESTMENT PROPERTY

Total investment property consists of:

	As at 30 June 2008 (Unaudited) €'000	As at 31 December 2007 €'000
Tenant incentives and leasing commission (included in other assets)	16,151	12,035
Investment property held for sale	32,460	-
Investment property	4,706,706	5,171,086
Closing balance	**4,755,317**	**5,183,121**

The table below shows the items classified under investment property in the consolidated balance sheet (including capitalised tenant incentives and leasing commissions classified in other assets) as at 30 June 2008:

	Freehold land and buildings €'000	Leasehold property €'000	Total (Unaudited) €'000
Opening balance	5,025,494	157,627	5,183,121
Additions/capital expenditure	14,682	225	14,907
Disposals	(281,390)	-	(281,390)
Decrease in minimum payments under head lease	-	(2,719)	(2,719)
Decrease in fair value	(155,889)	(2,713)	(158,602)
Total	**4,602,897**	**152,420**	**4,755,317**

As at 31 December 2007:

	Freehold land and buildings €'000	Leasehold property €'000	Total €'000
Opening balance	3,182,130	126,742	3,308,872
Additions/capital expenditure	2,312,141	54,944	2,367,085
Disposals	(513,174)	(15,575)	(528,749)
Increase in minimum payments under head lease	-	909	909
Increase/(decrease) in fair value	44,397	(9,393)	35,004
Total	**5,025,494**	**157,627**	**5,183,121**

Investment properties are stated at fair value, which has been determined based on valuations performed by external valuers. 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 31 investment properties are built have unexpired terms ranging from 7 years to 92 years.

A reconciliation of investment property valuations to the balance sheet carrying value of property (including tenant incentives and leasing commissions within other assets) is shown below:

	As at 30 June 2008 (Unaudited) €'000	As at 31 December 2007 €'000
Investment property at market value	4,731,327	5,156,412
Minimum payments under head leases separately included in trade and other payables on the balance sheet	23,990	26,709
Balance sheet carrying value of investment property	**4,755,317**	**5,183,121**

Schedule of Minimum Lease Payments under Finance Leases

	Total value 30 June 2008 €'000	Present value 30 June 2008 €'000	Total value 31 December 2007 €'000	Present value 31 December 2007 €'000
Under 1 year	1,554	1,491	1,572	1,393
From 2 to 5 years	6,471	5,263	6,574	5,044
More than 5 years	98,603	17,236	108,281	20,272
Total	**106,628**	**23,990**	**116,427**	**26,709**

Additional Information

The table below provides additional information for various portfolios within the group at 30 June 2008:

Portfolio	Property valuation* €'000	Term financing €'000	Term financing to property valuation %
Mars	1,810,800	1,328,399	73.4%
Drive	1,524,310	1,120,557	73.5%
Bridge	514,030	367,757	71.5%
Wave	288,577	208,262	72.2%
Zama	51,400	39,402	76.7%
Retail	542,210	415,869	76.7%
Total	**4,731,327**	**3,480,246**	**73.6%**

* Property valuation excludes the leasehold gross-up of €24.0 million.

The tables below provide additional information for various portfolios within the group at 31 December 2007:

Portfolio	Property valuation* €'000	Term financing €'000	Term financing to property valuation %
Mars	1,935,790	1,411,628	72.9%
Drive	1,792,575	1,306,946	72.9%
Bridge	524,270	367,381	70.1%
Wave	292,677	208,130	71.1%
Zama	52,600	39,347	74.8%
Retail	558,500	415,389	74.4%
Total	**5,156,412**	**3,748,821**	**72.7%**

* Property valuation excludes the leasehold gross-up of €26.7 million.

16. INTANGIBLE ASSETS

	As at 30 June 2008 (Unaudited) €'000	As at 31 December 2007 €'000
Cost		
Balance at 1 January	3,814	1,981
Additions	5	1,833
Balance at 30 June 2008	**3,819**	**3,814**
Amortisation		
Balance at 1 January	(746)	(153)
Charge for the period	(394)	(593)
Balance at 30 June 2008	**(1,140)**	**(746)**
Carrying amount		
At 1 January	**3,068**	**1,828**
At 30 June 2008 (Unaudited)	**2,679**	**3,068**

17. FIXTURES & FITTINGS

	As at 30 June 2008 (Unaudited) €'000	As at 31 December 2007 €'000
Cost		
Balance at 1 January	817	-
Additions	-	817
Balance at 30 June 2008	**817**	**817**
Depreciation		
Balance at 1 January	(63)	-
Charge for the period	(73)	(63)
Balance at 30 June 2008	**(136)**	**(63)**
Carrying amount		
At 1 January	**754**	**-**
At 30 June 2008 (Unaudited)	**681**	**754**

18. CDO BONDS PAYABLE

As at 30 June 2008 (Unaudited):

	Class	Rating	Current face amount €'000	Carrying amount €'000	Weighted average cost of financing	Weighted average margin	Weighted average maturity (in years)
CDO II	A, B and C notes	AAA/AA/A	346,182	343,994	5.41%	0.45%	7.0
CDO III	A, B, C and D notes	AAA/AA/A/BB	704,250	699,603	5.44%	0.48%	7.0
Duncannon CRE CDO 1 Plc	A, B, C, D, E and X notes	AAA/AA/A/BBB+/BBB/BBB-/BB+/BB/BB-	697,833	690,714	5.63%	0.66%	6.4
Total			**1,748,265**	**1,734,311**	**5.51%**	**0.55%**	**6.8**

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

As at 31 December 2007:

	Class	Rating	Current face amount €'000	Carrying amount €'000	Weighted average cost of financing	Weighted average margin	Weighted average maturity (in years)
CDO II	A, B and C notes	AAA/AA/A	372,431	369,830	5.23%	0.46%	7.5
CDO III	A, B, C and D notes	AAA/AA/A/BB	704,250	699,156	5.36%	0.48%	7.5
Duncannon CRE CDO 1 Plc	A, B,C, D, E and X notes	AAA/AA/A/BBB+/BBB/BBB-/BB+/BB/BB-	681,356	673,760	4.96%	0.67%	6.4
Total			**1,758,037**	**1,742,746**	**5.18%**	**0.55%**	**7.1**

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

19. BANK BORROWINGS

The bank borrowings comprise:

		As at 30 June 2008 (Unaudited) €'000	As at 31 December 2007 €'000
Term finance	(Note 19.1)	3,581,113	3,914,003
Corporate loan	(Note 19.2)	173,773	143,049
Other bank financing – under 1 year	(Note 19.3)	-	59,260
Other bank financing – over 1 year	(Note 19.3)	101,309	-
Total		**3,856,195**	**4,116,312**

19.1 Term Financing

		Current face amount €'000		Carrying amount €'000			
Portfolios	**Month Raised**	**As at 30 June 2008 (Unaudited)**	**As at 31 December 2007**	**As at 30 June 2008 (Unaudited)**	**As at 31 December 2007**	**Hedged weighted average funding cost**	**Maturity**
Debt investments							
CDO IV	Jul 2005	100,998	165,230	100,867	165,182	5.40%	Dec 2009
Investment property							
Mars - fixed 1	Jan 2007	1,029,465	1,029,465	1,006,436	1,008,975	4.71%	Jul 2014
Mars - fixed 2	Jun 2008	79,000	-	78,446	-	5.32%	Jun 2013
Mars - floating	Jan 2007	243,549	402,910	243,517	402,653	5.02%	Jun 2009
Drive	Feb 2006	1,128,464	1,317,066	1,120,557	1,306,946	4.26%	Jan 2013
Bridge	Oct 2006	372,090	372,090	367,757	367,381	4.74%	Jan 2014
Wave	Apr 2007	210,000	210,000	208,262	208,130	4.94%	Apr 2014
Zama	Feb 2007	39,896	39,896	39,402	39,347	4.97%	May 2014
Turret	May 2006	147,556	147,556	146,121	146,041	4.93%	May 2016
Truss	Dec 2005	85,280	85,280	84,647	84,610	4.93%	Feb 2016
Belfry	Aug 2005	56,240	56,240	55,553	55,512	4.85%	Oct 2015
Rapid	Aug 2007	54,500	54,500	52,822	52,735	4.96%	Nov 2017
Tannenberg	May 2007	52,960	52,960	51,171	51,051	4.92%	Oct 2014
Bastion	Sep 2005	26,500	26,500	25,555	25,440	4.44%	Sep 2012
		3,525,500	**3,794,463**	**3,480,246**	**3,748,821**	**4.64%**	
Total		**3,626,498**	**3,959,693**	**3,581,113**	**3,914,003**		

Debt Investments

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. 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.

In January 2008, the CDO IV term financing was extended out to 1 December 2009 under a €127 million facility.

As at 30 June 2008, there was €101.0 million drawn on the facility (31 December 2007: €165.2 million).

Investment Properties

In order to finance the investment property portfolios, the Group entered into non-recourse loan facilities as described in the table on page 46. 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.

On 14 May 2008, the short term financing on the Mars portfolio of €330 million (the outstanding balance at the time of signing) was signed for a 20 June 2009 maturity, amortising down to €250million by 30 June 2009 and €200 million by 31 December 2008.

On 25 June 2008, the Group successfully refinanced three of the properties within the Mars floating portfolio, through a European bank, for an amount of €79.0 million. The new facility is non-recourse to Eurocastle, has an effective interest rate of 5.21% and matures in June 2013.

19.2 Corporate Loan (formerly Revolving Credit Facility)

In October 2007, the Group extended, for twelve months, a revolving €300 million credit facility with a syndicate of commercial investment banks as a means of securing access to 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 FIG LLC. The facility contains a number of financial covenants including leverage ratios relating to both the debt investment portfolio and the real estate portfolio, and interest cover ratios. The interest rate on drawn amounts was Euribor + 2.0% p.a., while on undrawn amounts it was 0.4% p.a.

On 9 May 2008, the revolving credit facility was converted into a term loan facility of €175 million and extended to mature on 31 March 2009. The interest rates remained unchanged, however no further drawings were permitted on the facility and the facility is required to be paid down to €125 million by 31 October 2008.

As at 30 June 2008 the amount drawn on this facility was €175.0 million (31 December 2007: €144.2 million).

19.3 Other Bank Financing

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 an investment bank, which was subsequently extended to expire in August 2008. Interest rates on the drawn amounts are 1.50% above Euribor. In January 2008 this facility was extended to expire in September 2009 with recourse limited to €30 million from the Group. There was no change in the interest rates. The security facility is backed by a security assignment over the financed asset and was drawn in an amount of €58.9 million at 30 June 2008 (31 December 2007: €59.3 million).

In January 2008 the facility was also increased by an additional €82.8 million in order to finance a €96.8 million acquisition of 4 classes from a recently issued CMBS transaction. The security facility is also backed by a security assignment over the financed assets and was drawn in an amount of €42.3 million at 30 June 2008 at a weighted average interest rate of 0.8051% above Euribor.

20. TRADE AND OTHER PAYABLES

	As at 30 June 2008 (Unaudited) €'000	As at 31 December 2007 €'000
Security deposit	6,157	6,249
Interest payable	34,117	37,008
Due to Manager (note 27)	4,601	26,951
Accrued expenses & other payables*	43,998	51,638
Total trade and other payables	**88,873**	**121,846**

* Accrued expenses and other payables include €15.4 million relating to capital expenditure (31 December 2007: €16.2 million).

21. EARNINGS PER SHARE

Basic earnings per share is calculated by dividing net (loss) / 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 (loss) / 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 2008 (Unaudited)	As at 31 December 2007
Weighted average number of ordinary shares, outstanding, basic	63,927,634	63,787,016
Dilutive effect of ordinary share options	124,744	1,782,543
Weighted average number of ordinary shares outstanding, diluted	**64,052,378**	**65,569,559**

22. SHARE CAPITAL AND RESERVES

As at 31 December 2007, there were 63,927,634 shares issued and outstanding.

There were no options exercised during the six months ended 30 June 2008, (30 June 2007 weighted average exercise price: €19.37).

As at 30 June 2008, there were 63,927,634 shares issued and outstanding.

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

Other Reserves

Other reserves represent the fair value at the grant date of unexercised share options, granted to the Manager in December 2003, June 2004, June 2005, February 2006 and December 2006. (Note 25)

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 2008, cumulative unrealised gains on hedge instruments were €36.3 million (31 December 2007: €30.3 million). The unrealised gains comprise the value of the novated swaps of €26.3 million (31 December 2007: €25.1 million) and the fair value of the interest rate swaps of €10.0 million (31 December 2007: €5.2 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 have been recognised in the income statement.

Novated Swaps

The details of the carrying value of swaps novated to lending banks in conjunction with the loans are as follows:

Portfolio	30 June 2008 (Unaudited) €'000	31 December 2007 €'000
Mars	16,882	13,885
Drive	2,132	3,371
Bridge	2,839	3,094
Rapid	1,449	1,526
Tannenberg	1,065	1,149
Bastion	751	843
Turret	671	713
Zama	278	314
Truss	213	227
Total	**26,280**	**25,122**

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 2008 (Unaudited)	Wave	Mars 2*	Mars 3*
Nominal amount (€'000)	210,000	117,000	131,500
Pay rate	4.03%	4.00%	3.92%
Receive rate	3 Month Euribor	3 Month Euribor	3 Month Euribor
Remaining life	5.8	6.1	6.1
Fair value of swaps (€'000)	10,021	5,740	5,946

* These hedges are deemed ineffective for hedge accounting purposes and any gains or losses are recognised in the income statement.

31 December 2007	Wave	Mars 2*	Mars 3*
Nominal amount (€'000)	210,000	220,000	210,500
Pay rate	4.03%	4.00%	3.92%
Receive rate	3 Month Euribor	3 Month Euribor	3 Month Euribor
Remaining life	6.3	6.6	6.6
Fair value of swaps (€'000)	5,213	6,063	6,774

* These hedges are deemed ineffective for hedge accounting purposes and any gains or losses are recognised in the income statement.

Fair Value Hedges

30 June 2008 (Unaudited)	Feco EURO B Notes	Feco CHF B Notes	Feco CHF B Notes*	Feco GBP Notes	Feco GBP Notes**
Nominal amount (€'000)	13,509	3,658	2,274	30,442	38,497
Pay rate	2.87%	2.00%	-	4.63%	-
Receive rate	3 Month Euribor	3 Month CHF Libor	-	3 Month Libor	-
Remaining life	2.1	2.3	-	3.4	-
Fair value of swap assets (€'000)	720	116	72	1,295	1,638
Fair value of assets attributable to the risk hedged (€'000)	661	116	72	1,294	1,636

* 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 2007	Feco EURO B Notes	Feco CHF B Notes	Feco CHF B Notes*	Feco GBP Notes	Feco GBP Notes**
Nominal amount (€'000)	29,895	3,685	2,228	30,533	41,539
Pay rate	3.38%	2.00%	-	4.63%	-
Receive rate	3 Month Euribor	3 Month CHF Libor	-	3 Month Libor	-
Remaining life	5.9	2.6	-	3.9	-
Fair value of swap assets (€'000)	1,366	92	56	501	681
Fair value of assets attributable to the risk hedged (€'000)	1,352	92	56	486	661

* 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 the Group to control risk. The most important types of financial risk to which the Group is exposed are market, credit, liquidity, interest rate and foreign currency risk.

Capital Risk Management Policy

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern in order to provide returns for Shareholders and benefits to other Stakeholders, as well as maintain an optimal structure to reduce the overall cost of capital.

The Group recognises the effect on Shareholder returns of the level of equity capital employed within the Group and seeks to maintain a prudent balance between the advantages and flexibility afforded by a strong capital position and the higher returns on equity that are possible with greater leverage.

In order to maintain an adequate capital structure, the Group maintains a rational dividend policy and also considers other strategies such as sale assets to reduce debt and return on capital to Shareholders.

The Group maintains its capital position on the basis of the leverage ratio. This ratio is calculated as net borrowing compared to total capital. At 30 June 2008, the total capital under management was €1.46 billion (31 December 2007: €1.46 billion).

At 30 June 2008, the Group's leverage ratio was 79.3% (31 December 2007 80.2%).

Market Risk

The Group's exposure to market risk is comprised mainly of movements in the value of its investments.

The Group's real estate investment assets are based in Germany and are subject to general property market risks. These risks are assessed by the Group 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 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 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 ability to realise gains on such securities, or indirectly through its impact on its ability to borrow and access capital.

At 30 June 2008, a 100 basis point increase / (decrease) in the credit spreads would increase / (decrease) net book value by €65.2 million (31 December 2007: €71.2 million).

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 interest rates affect net interest income, which is the difference between the interest income earned on assets and the interest expense incurred in connection with debt obligations and hedges.

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.

Based on the Group's primary interest rate exposure to floating rate financial assets and financial liabilities held at 30 June 2008, including the effect of hedging instruments, a 100 basis point increase / (decrease) in interest rates would increase / (decrease) earnings by approximately €1.0 million per annum (31 December 2007: €0.7 million per annum).

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. Increasing interest rates would decrease the value of the fixed rate assets because higher required yields result in lower prices on existing fixed rate assets in order to adjust their yield upward to meet the market. At 30 June 2008, the Group did not hold any fixed rate assets, therefore, a 100 basis point change in interest rates would not impact the net book value (31 December 2007: €0.3 million).

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 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) sterling denominated financing and (ii) rolling forward foreign exchange contacts to hedge its net non-euro 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 and foreign currency swaps.

Given the mitigating factors described above, a fluctuation in the foreign currency exchange rates would not have a significant impact on the Group's operating profit.

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 2008 , 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- (31 December 2007: BBB-).

The maximum credit risk exposure as at 30 June 2008 without taking account of any collateral held or other credit enhancements is the full carrying value of all financial assets on the Balance Sheet, €2.0 billion (31 December 2007: €2.3 billion).

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

	30 June 2008 (Unaudited)			31 December 2007		
	Number of securities/ loans	**Face value €'000**	**Location split**	**Number of securities/ loans**	**Face value €'000**	**Location split**
United Kingdom	88	866,027	42.0%	89	972,570	44.4%
Italy	18	268,327	13.0%	19	278,904	12.7%
Germany	33	414,515	20.0%	33	433,550	19.8%
Pan-European	9	227,885	11.0%	13	204,589	9.3%
France	11	96,034	4.6%	11	103,287	4.7%
Other	33	194,749	9.4%	36	199,933	9.1%
	192	**2,067,537**	**100%**	**201**	**2,192,833**	**100%**

The Group's hedging and trading 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.

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 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 in 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 debt investments are generally financed long-term, with 87.3% of the debt investment portfolio benefiting from financing maturing beyond the maturity date of the debt investments, 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.

The Group's investment property portfolio is generally financed with long-term, fixed rate, non-recourse financing with the exception of a group on non-core assets within the Mars portfolio which, as at 30 June 2008, were financed with a short-term floating facility of €243.5 million amortising down to €200 million by 31 December 2008 and maturing in June 2009.

At 30 June 2008, as described in Note 19.2, the Group had access to temporary working capital through a revolving €300 million credit facility, expiring in October 2008. On 9 May 2008, the revolving credit facility was converted into a term loan facility of €175 million and extended to mature on 31 March 2009. The interest rates remained unchanged, however no further drawings were permitted on the facility and the facility is required to be paid down to €125 million by 31 October 2008.

The tables below represent the details of the remaining contractual maturities of financial assets and liabilities, excluding trade receivables and payables as at 30 June 2008 and 31 December 2007:

30 June 2008 (Unaudited)

Type	Total outstanding at 30 June 2008 €'000	Within 1 year €'000	1 to 5 years €'000	Over 5 years €'000
Assets				
Cash and cash equivalents	172,941	172,941	-	-
Asset backed securities, available-for-sale (includes cash to be invested)	1,292,391	138,755	784,956	368,680
Real estate related loans	544,707	17,370	437,585	89,752
Derivative assets*	69,827	8,415	54,322	18,275
Total assets	**2,079,866**	**337,481**	**1,276,863**	**476,707**
Liabilities				
Interest payable**	34,117	281,008	993,588	290,186
CDO bonds payable	1,734,311	-	-	1,734,311
Bank loans	3,856,195	418,549	1,357,271	2,126,987
Finance leases payable***	23,990	1,554	6,471	98,603
Total liabilities	**5,648,613**	**701,111**	**2,357,330**	**4,250,087**

* Derivative assets reflects the cash flows over the remaining life of the assets.
** Interest payable reflects the interest payable over the life of the financing.
*** Finance leases payable represent all lease payments due over the lives of the leases.

31 December 2007

Type	Total outstanding at 31 December 2007 €'000	Within 1 year €'000	1 to 5 years €'000	Over 5 years €'000
Assets				
Cash and cash equivalents	146,707	146,707	-	-
Asset backed securities, available-for-sale (includes cash to be invested)	1,488,837	128,968	797,887	561,982
Real estate related loans	570,916	-	438,492	132,424
Derivative assets*	44,839	29,272	9,836	6,519
Total assets	**2,251,299**	**304,947**	**1,246,215**	**700,925**
Liabilities				
Interest payable**	37,008	267,992	982,648	363,770
CDO bonds payable	1,742,746	-	-	1,742,746
Bank loans	4,116,312	770,144	-	3,346,168
Finance lease payable***	26,709	1,572	6,574	108,281
Total liabilities	**5,922,775**	**1,039,708**	**989,222**	**5,560,965**

* Derivative assets reflects the cash flows over the remaining life of the assets.
** Interest payable reflects the interest payable over the life of the financing.
*** Finance leases payable represent all lease payments due over the lives of the leases.

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 2008 (Unaudited) Carrying value €'000	As at 31 December 2007 Carrying value €'000	As at 30 June 2008 (Unaudited) Fair value €'000	As at 31 December 2007 Fair value €'000
Financial assets				
Cash and cash equivalents	172,941	146,707	172,941	146,707
Asset backed securities, available-for-sale (includes cash to be invested)	1,292,391	1,488,837	1,292,391	1,488,837
Real estate related loans	544,707	570,916	498,475	546,636
Derivative assets	69,827	44,839	69,827	44,839
Financial liabilities				
CDO bonds payable	1,734,311	1,742,746	1,389,768	1,691,063
Bank loans	3,856,195	4,116,312	3,811,947	4,054,063
Finance lease payable	23,990	26,709	23,990	26,709

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.

Movements in the number of share options outstanding and their related weighted average exercise prices are as follows:

Date of grant	Options outstanding at 1 January 2007	Exercised in the year ended 31 December 2007	Exercised in the six months ended 30 June 2008	Options remaining at 30 June 2008	Exercise price €	Date of expiration	Fair value at grant date €'000
31 Dec 03	1,114,621	(129,838)	-	984,783	10.00	31-Dec-2013	200
23 Jun 04	660,000	(59,400)	-	600,600	12.00	23-Jun-2014	200
24 Jun 05	574,000	(69,644)	-	504,356	17.25	24-Jun-2015	620
27 Jan 06	857,142	(65,856)	-	791,286	18.00	27-Jan-2016	4,800
27 Jan 06	1,282,300	(61,975)	-	1,220,325	30.00	27-Jan-2016	2,100
1 Dec 06	1,783,783	(17,838)	-	1,765,945	37.00	1-Dec-2016	9,400
Total	**6,271,846**	**(404,551)**	**-**	**5,867,295**			**17,320**

The weighted average fair value of the options at date of grant was determined using a trinomial model. The significant inputs into the model were the weighted average share price at the grant date, the exercise price, volatility, expected option life, dividend yield and a risk fee rate. The volatility is measured at the standard deviation of continuously compounded share returns is based on statistical analysis of daily share price since the date of the initial public offering of Eurocastle Investments Limited.

26. DIVIDENDS PAID & DECLARED

	Six months ended 30 June 2008 (Unaudited) €'000	Six months ended 30 June 2007 (Unaudited) €'000
Paid during the six months :	19,178	37,640
Equity dividends on ordinary shares		
Fourth quarter dividend for 2007: €0.30 (2006: €0.14)	19,178	8,929
First quarter dividend for 2008: €0.00 (2007: €0.45)	-	28,711
	19,178	**37,640**
Second quarter dividend for 2008: €0.30 (2007: €0.60)	19,178	38,292

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. In addition, unless an arrangement is made between the Group and the Manager, incentive compensation (as outlined below) will continue to be payable to the Manager post termination. 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 arrear) 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 (but not subject to clawback) 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, unrealised movements on currency swaps (net of translation gains/losses of related assets) and mark-to-market fluctuations in real estate fund units.

At 30 June 2008, management fees, incentive fees and expense reimbursements of approximately €4.6 million (Note 20) (31 December 2007: €27.0 million) were due to the Manager. For the six and three months ended 30 June 2008 management fees of €10.9 million and €5.5 million, respectively, (30 June 2007: €10.9. million and €5.5 million), no incentive fees (30 June 2007: €8.5 million), and expense reimbursements of €4.0 million and €2.1 million respectively, (30 June 2007: €3.5 million and €2.0 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 2008 (Unaudited)	Debt investment €'000	Real estate fund units* €'000	Investment properties €'000	Unallocated €'000	Total Eurocastle €'000
Revenue	74,270	-	182,070	335	**256,675**
Other operating (loss) / income	(269)	-	(165,497)	-	**(165,766)**
Interest expense	(57,750)	-	(84,505)	-	**(142,255)**
Other operating expenses	(1,193)	-	(53,002)	(12,866)	**(67,061)**
Segment result	**15,058**	**-**	**(120,934)**	**(12,531)**	**(118,407)**
Taxation expense	-	-	2,701	-	**2,701**
Net profit / (loss)	**15,058**	**-**	**(118,233)**	**(12,531)**	**(115,706)**
Decrease / (increase) in fair values	(230)	-	165,497	-	**165,267**
Realised gains on sale	-	-	8,960	-	**8,960**
Deferred tax	-	-	(3,410)	-	**(3,410)**
Funds from operations	**14,828**	**-**	**52,814**	**(12,531)**	**55,111**

* The real estate fund units were sold in October 2007.

Six months ended 30 June 2007 (Unaudited)	Debt investment €'000	Real estate fund units €'000	Investment properties €'000	Unallocated €'000	Total Eurocastle €'000
Revenue	64,643	7,519	176,370	194	**248,726**
Other operating income / (loss)	190	4,611	293,050	-	**297,851**
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**
Decrease / (increase) in fair values	-	(4,611)	(293,050)	-	**(297,661)**
Realised gains on sale	-	-	36,155	-	**36,155**
Deferred tax	-	-	56,070	-	**56,070**
Funds from operations	**17,061**	**4,629**	**88,364**	**(24,941)**	**85,113**

NOTES TO CONSOLIDATED INTERIM FINANCIAL STATEMENTS (UNAUDITED)

Three months ended 30 June 2008 (Unaudited)	**Debt investment €'000**	**Real estate fund units* €'000**	**Investment properties €'000**	**Unallocated €'000**	**Total Eurocastle €'000**
Revenue	37,162	-	90,928	258	**128,348**
Other operating (loss) / income	(269)	-	(55,603)	-	**(55,872)**
Interest expense	(28,508)	-	(38,326)	-	**(66,834)**
Other operating expenses	(1,817)	-	(30,104)	(6,679)	**(38,600)**
Segment result	**6,568**	**-**	**(33,105)**	**(6,421)**	**(32,958)**
Taxation expense	-	-	1,384	-	**1,384**
Net profit	**6,568**	**-**	**(31,721)**	**(6,421)**	**(31,574)**
Decrease / (increase) in fair values	1,214	-	55,603	-	**56,817**
Realised gains on sale	-	-	8,960	-	**8,960**
Deferred tax	-	-	(1,739)	-	**(1,739)**
Funds from operations	**7,782**	**-**	**31,103**	**(6,421)**	**32,464**

* The real estate fund units were sold in October 2007.

Three months ended 30 June 2007 (Unaudited)	**Debt investment €'000**	**Real estate fund units €'000**	**Investment properties €'000**	**Unallocated €'000**	**Total Eurocastle €'000**
Revenue	33,416	3,757	96,264	24	**133,461**
Other operating (loss) / income	(40)	1,265	249,467	-	**250,692**
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**
Decrease / (increase) in fair values	-	(1,265)	(249,467)	-	**(250,732)**
Realised gains on sale	-	-	36,155	-	**36,155**
Deferred tax	-	-	35,567	-	**35,567**
Funds from operations	**6,155**	**2,298**	**65,787**	**(17,057)**	**57,183**

NOTES TO CONSOLIDATED INTERIM FINANCIAL STATEMENTS (UNAUDITED)

As at 30 June 2008 (Unaudited)	Debt investment €'000	Real estate fund units* €'000	Investment properties €'000	Unallocated €'000	Total Eurocastle €'000
Total assets	1,926,931	-	4,936,210	42,194	**6,905,335**
Total liabilities	(1,973,569)	-	(3,724,704)	(5,336)	**(5,703,609)**
Segment net assets	**(46,638)**	**-**	**1,211,506**	**36,858**	**1,201,726**
Tax liability	-	-	(24,160)	-	**(24,160)**
Minority interest	(2)	-	(4)	-	**(6)**
Net assets	**(46,640)**	**-**	**1,187,342**	**36,858**	**1,177,560**

* The real estate fund units were sold in October 2007.

As at 31 December 2007	Debt investment €'000	Real estate fund units €'000	Investment properties €'000	Unallocated €'000	Total Eurocastle €'000
Total assets	2,140,672	32	5,360,189	7,302	**7,508,195**
Total liabilities	(2,001,689)	(182)	(3,977,004)	(28,738)	**(6,007,613)**
Segment net assets	**138,983**	**(150)**	**1,383,185**	**(21,436)**	**1,500,582**
Tax liability	-	(124)	(26,764)	-	**(26,888)**
Minority interest	(2)	(4)	-	-	**(6)**
Net assets	**138,981**	**(278)**	**1,356,421**	**(21,436)**	**1,473,688**

29. INVESTMENT IN SUBSIDIARIES

The legal entity group structure of the Group 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, are listed by jurisdiction below:

Luxembourg:

Turret Lux Participation s.a.r.l.
Zama (Windhoek) s.a.r.l.
Sulzbach (Bridge) s.a.r.l.
Wiesbaden (Bridge) s.a.r.l.
Berlin (Bridge) s.a.r.l.
Galluspark (Bridge) s.a.r.l.
Dusseldorf Bridge) s.a.r.l.
Eschborn (Bridge) s.a.r.l.
Superstella s.a.r.l.
Tannenberg s.a.r.l.
Mars PropCo 2 and 4-40 s.a.r.l. (38 real estate holding companies numbered 2 and 4-40)
Drive 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

Additionally, the Group has investments in Eurocastle Funding Limited, Eurocastle CDO I PLC, Eurocastle CDO II PLC, Eurocastle CDO III PLC, 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

On 15 July 2008, an investment property within the Drive portfolio was sold for net proceeds of €26.4 million.

On 25 July 2008, an investment property within the Drive portfolio was sold for net proceeds of €4.3 million.

The Group has entered into binding agreements to sell three further investment properties, within the Drive and Mars portfolios, expected to be completed in the third quarter of 2008, with estimated total proceeds of €90.0 million.

31. COMMITMENTS

As at 30 June 2008, the Group had no commitments that were not disclosed in these financial statements.

32. FUNDS FROM OPERATIONS ("FFO")

(in €'000, except per share data)	Six months ended 30 June 2008 (Unaudited)	Six months ended 30 June 2007 (Unaudited)	Quarter ended 30 June 2008 (Unaudited)	Quarter ended 30 June 2007 (Unaudited)
Reconciliation of FFO to net profit after taxation				
Net (loss) / profit after taxation	(115,706)	290,549	(31,574)	236,193
Decrease / (increase) in fair value of investment properties	164,281	(280,377)	64,445	(239,109)
Decrease / (increase) in fair value of interest rate swaps	1,216	(12,673)	(8,842)	(10,358)
Unrealised movements on currency swaps (net of translation (gains) / losses on related assets)*	(230)	-	1,214	-
(Increase) /decrease in fair value of real estate fund units	-	(4,611)	-	(1,265)
Realised gain on sale of investment properties	8,960	36,155	8,960	36,155
Deferred tax (benefit) / charge on investment properties	(3,410)	56,070	(1,739)	35,567
Funds from operations (FFO)	**55,111**	**85,113**	**32,464**	**57,183**
FFO per weighted average basic share	0.86	1.34	0.51	0.90
FFO per weighted average diluted share	0.86	1.29	0.51	0.87

* During the three and six months ended 30 June 2008, the group recognised fair value gains on currency swaps that it had entered into to hedge certain debt investments denominated in Pounds Sterling and Swiss Francs (see Notes 9 and 14 of the consolidated financial statements for further details). In the table above the fair value gains of the currency swaps have been netted against the translation losses on the related assets, and the resulting unrealised net gain of €1.4 million has been excluded from 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. 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, unrealised movements on currency swaps (net of translation gains/losses of related assets) and mark-to-market fluctuations in real estate fund units. The Group considers the realisation of gains and losses on 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.