EUROCASTLE INVESTMENT LIMITED AND SUBSIDIARIES

FINANCIAL RESULTS FOR THE QUARTER ENDED 31 MARCH 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.

First Quarter 2008 Highlights

- **Net loss after tax** was €84.1 million for the three months ended 31 March 2008, compared with a profit of €54.4 million for the three months ended 31 March 2007.

- **FFO*** was €22.6 million or €0.35 per share for the three months ended 31 March 2008, compared with €27.9 million or €0.44 per share for the three months ended 31 March 2007.

- **FFO* return on average invested capital** was 6.2% for the three months ended 31 March 2008, compared to 7.7% for the three months ended 31 March 2007.

- **NAV** per share of €19.18 as at 31 March 2008 (31 December 2007: €23.05), comprising of (€0.17) for the debt investment business (31 December 2007: €2.11) and €19.35 for the commercial property portfolio (31 December 2007: €20.94). The NAV decline primarily relates to a reduction in the fair value of commercial property of €99.8 million and of the debt investment portfolio of €140.2 million. The decline in fair value on the debt investment portfolio does not impact earnings or FFO. As the majority of the financing of the debt investment business is non recourse to the Group, the exposure to losses is mainly limited to Eurocastle's investment in its relevant subsidiaries. The 31 March 2008 IFRS net asset value reflects approximately €114.9 million of unrealised losses in non recourse financed subsidiaries that could not be realised in cash terms by the Group.**

- **Adjusted NAV***** reflects the mark-to-market of all our financial assets and liabilities within the debt investment portfolio and amounted to €23.04 per share (31 December 2007: €23.47) for the group as a whole and to €3.69 per share at 31 March 2008 (31 December 2007: €2.54) for the debt investment business.

Portfolio Activity

- Signed 172 commercial leases for approximately 82,000 square meters or 3.6% of our total lettable space, including 81 new leases for approximately 27,500 square meters.

- Occupancy was 88.4% at 31 March 2008, unchanged since year end 2007. Excluding the rental guarantee on the Mars portfolio, physical occupancy was 83.6%. Eurocastle's target is to increase occupancy to a stabilized level in the low 90%'s over the next two years, considering the current pace of leasing as well as the profile of our leases. Our year end 2008 occupancy target is to be in the high 80%'s.

- Subsequent to quarter end Eurocastle has signed letters of intent to sell approximately €350 million of German commercial real estate. It is anticipated that binding agreements will be entered into in the near future for completion in mid-2008, and that the sales will result in a net realised gain.

- The credit quality of the €1.9 billion debt portfolio remained strong. The ratio of upgrades to downgrades for the first quarter was 4 to 3.

Financing Activity

- 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. (Refer to page 10 for details).

- 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. (Refer to page 10 for details).

* For an explanation of FFO, see Note 32.
** Please refer to page 9 for more detail.
*** For a reconciliation of NAV to adjusted NAV, see the section headed "Net asset value" on page 9.

Dividends

- In March 2008, the Board has decided that going forward, the Company will declare and pay any dividends on a semi-annual basis, and, therefore, no dividend has been declared for the quarter ended 31 March 2008. Subject to Board approval, Eurocastle intends to pay out a substantial portion of its expected recurring FFO as dividends.

Share buy-backs

- At the Annual General Meeting, on 4 June 2008, the Company will seek Shareholder approval to allow it to repurchase outstanding shares.

Conference Call

Management will conduct a conference call today, 29 May 2008, to review the Group's financial results for the quarter ended 31 March 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 First 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 Friday, 6 June 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 “48745870.”

EUROCASTLE INVESTMENT LIMITED AND SUBSIDIARIES

FINANCIAL RESULTS FOR THE QUARTER ENDED 31 MARCH 2008

Key Financial Information

Income Statement Data

(in €'000, except per share data)	Three months ended 31 March 2008 (Unaudited)	Three months ended 31 December 2007 (Unaudited)	Three months ended 31 March 2007 (Unaudited)
Interest income	38,046	39,575	33,599
Rental income	74,996	78,181	66,054
Real estate fund unit interest income	-	941	3,756
(Decrease) / increase in fair value of investment properties	(99,836)	(220,130)	41,268
Increase in fair value of real estate fund units	-	-	3,346
Interest expense	(75,421)	(76,235)	(60,603)
Property operating expenses	(5,534)	(4,201)	(5,572)
Other operating expenses	(8,717)	(28,593)	(8,715)
Net (loss) / profit before taxation	(85,449)	(214,795)	74,955
Net (loss) / profit after taxation	(84,132)	(205,064)	54,356
Funds from operations ("FFO")	22,647	68,122	27,930
(Loss) / earnings per weighted average basic share	(1.32)	(3.21)	0.85
(Loss) / earnings per weighted average diluted share	(1.31)	(3.16)	0.82
FFO per weighted average basic share	0.35	1.07	0.44
FFO per weighted average diluted share	0.35	1.05	0.42
Weighted average ordinary shares outstanding			
Basic	63,927,634	63,916,532	63,601,040
Diluted	64,412,052	64,875,274	66,178,979
Ordinary shares outstanding	**63,927,634**	**63,927,634**	**63,776,528**

Summarised Balance Sheet

(in €'000, except per share data)	31 March 2008 (Unaudited)	31 December 2007	31 March 2007 (Unaudited)
Cash and cash equivalents	160,439	146,707	160,696
Investment property	5,074,068	5,171,086	5,548,924
Debt investments	1,898,484	2,059,753	2,089,613
Real estate fund units	-	-	151,834
Other assets	135,601	130,649	82,945
Total assets	**7,268,592**	**7,508,195**	**8,034,012**
Interest bearing debt financing	(5,878,600)	(5,859,058)	(6,140,919)
Other liabilities	(164,175)	(175,443)	(261,403)
Total liabilities	**(6,042,775)**	**(6,034,501)**	**(6,402,322)**
Net assets	**1,225,817**	**1,473,694**	**1,631,690**
Net assets per share	**19.18**	**23.05**	**25.58**

Adjusted NAV per share at 31 March 2008 was €23.04. Refer to page 9 for a reconciliation of adjusted NAV.

FFO Reconciliation

(in €'000, except per share data)	Three months ended 31 March 2008 (Unaudited)	Three months ended 31 December 2007 (Unaudited)	Three months ended 31 March 2007 (Unaudited)
Reconciliation of FFO to net profit after taxation			
Net (loss) / profit after taxation	(84,132)	(205,064)	54,356
Decrease / (increase) in fair value of investment properties	99,836	220,130	(41,268)
Decrease / (increase) in fair value of interest rate swaps	10,058	2,135	(2,315)
Unrealised movements on currency swaps (net of translation (gains) / losses on related assets)*	(1,444)	507	-
(Increase) /decrease in fair value of real estate fund units	-	-	(3,346)
Realised gain on sale of real estate fund units	-	19,632	-
Realised gain on sale of investment properties	-	39,556	-
Deferred tax (benefit) / charge on investment properties	(1,671)	(8,774)	20,503
Funds from operations (FFO)	**22,647**	**68,122**	**27,930**

Investment Portfolios

Investment property portfolio

Markets	Number of Properties	Property valuation	Lettable space	Occupancy	Average lease term	Passing rent	Net operating income	NOI yield on valuation
		€m*	(sqm)	%	(yrs)	€m	€m**	%
Top 5 markets								
Frankfurt	53	1,810	567,286	92.5%	5.5	107.5	99.7	5.5%
Munich	17	612	213,817	83.6%	5.9	34.4	31.8	5.2%
Hamburg	16	399	128,425	95.0%	5.8	23.5	21.5	5.4%
Berlin	11	283	102,167	88.3%	4.2	16.1	15.1	5.3%
Düsseldorf	7	353	107,912	93.8%	8.8	18.2	16.8	4.8%
Subtotal – top 5 markets	**104**	**3,457**	**1,119,607**	**90.8%**	**5.8**	**199.7**	**184.9**	**5.3%**
Remaining West	382	1,375	894,692	88.4%	6.5	90.2	82.3	6.0%
Remaining East	105	230	235,441	77.2%	5.7	17.2	15.7	6.8%
Total portfolio	**591**	**5,062**	**2,249,740**	**88.4%**	**6.1**	**307.1**	**282.9**	**5.6%**

* The above valuation does not include €26.2 million relating to head leases.

** 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.

Debt investment portfolio

Asset class	Nominal	Total debt book	Average rating*	Average credit spread*	Number of issues/assets
	€'000	%		Bps	
Commercial real estate backed	1,724,588	80.3%	BBB-	508	104
Residential real estate backed	342,589	15.9%	BBB	748	58
Other	81,782	3.8%	BBB+	721	35
	2,148,959	**100%**	**BBB-**	**553**	**197**

* 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 31 March 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 Three months ended 31 March 2008 (Unaudited)	**Debt investments €'000**	**Investment properties €'000**	**Total Eurocastle €'000**
Revenue	37,122	91,205	**128,327**
Other operating losses[1]	-	(109,894)	**(109,894)**
Interest expense [2]	(29,242)	(46,179)	**(75,421)**
Service charge and property operating expenses	-	(20,819)	**(20,819)**
Other operating expenses (including foreign currency gains/(losses) [3]	(513)	(7,129)	**(7,642)**
Operating profit/(loss) before taxation	**7,367**	**(92,816)**	**(85,449)**
Taxation credit/(expense)	**-**	1,317	**1,317**
Net profit/(loss)	**7,367**	**(91,499)**	**(84,132)**
Decrease / (increase) in fair values	(1,444)	109,894	**108,450**
Deferred tax	-	(1,671)	**(1,671)**
Funds from operations	**5,923**	**16,724**	**22,647**
Funds from operations per ordinary share[4] €	**0.09**	**0.26**	**0.35**

1 Unallocated revenue of €0.08 million has been allocated between the segments based on each segment's share of invested equity. Amounts allocated were; debt investments: €0.02 million and investment properties: €0.06 million.

2 The revolving credit facility expense of €2.9 million has been allocated between the segments based on each segment's share of invested equity. Amounts allocated were; debt investments: €0.5 million and investment properties: €2.4 million.

3 Unallocated other operating expenses of €6.2 million have been allocated between the segments based on each segment's share of invested equity. Amounts allocated were; debt investments: €1.1 million and investment properties: €5.1 million.

4 Earnings per share and FFO per share are calculated on the weighted average number of shares at 31 March 2008.

Three months ended (Unaudited)	**31 March 2008 €'000**	**31 December 2007 €'000**	**31 March 2007 €'000**
Funds from operations	22,647	68,122	27,930
FFO per ordinary share	0.35	1.07	0.44

FFO for the three months ended 31 March 2008, decreased by 18.9% as compared to the three months ended 31 March 2007, and 66.8% as compared to three months ended 31 December 2007. The FFO for the fourth quarter 2007 was higher than the first quarter 2008, and benefited from the inclusion of income on the assets sold towards the end of the fourth quarter and the gains on the sales of those assets, lower non-recoverable property operating expenses and lower corporate income taxes. The decrease in FFO against the first quarter 2007 reflects the impact of deleveraging through asset sales in 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)

Three months ended (Unaudited)	31 March 2008 €'000	31 December 2007 €'000	31 March 2007 €'000
Interest income	38,046	39,575	33,599
Rental income	74,996	78,181	66,054
Service charge income	15,285	19,603	11,856
Real estate fund unit income	-	941	3,756
Total	**128,327**	**138,300**	**115,265**

The increase in interest income compared with the three months ended 31 March 2007, 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 compared with the three months ended 31 December 2007, was mainly the result of lower average debt investment balances during the first quarter 2008.

The increase in rental income as compared with the three months ended 31 March 2007 reflects a full quarter of rental income derived from the Mars portfolio acquired during the first quarter 2007. Rental income for the first quarter 2008 was €3.2 million lower than the previous quarter mainly due to property sales at the end of the fourth quarter 2007.

The Group's commercial real estate in Germany benefits from leases indexed to the German consumer price index ("CPI"), as it is a common practice in the German real estate market. Substantially all of the leases in the Retail Portfolio are indexed to the German CPI with a rental adjustment being made once the index has moved 10% from a reference point level set on signing of each lease. The size of the adjustment is generally between 50% and 70% of the index movement depending on the tenant and form of the lease. The leases to Deutsche Bank within the Wave Portfolio, which account for 73% of the portfolio's revenue, are also indexed to German CPI. A movement of 5% in the index will result in a rent adjustment of 100% of such index movement. The leases to Dresdner Bank within the Drive Portfolio have a fixed upwards rent adjustment of 1% in each year from 2008 to 2009 and thereafter from 2010, the rent adjustment is equal to the change in German CPI determined on an annual basis. Other leases, including the Bridge and Mars portfolios, are also indexed to the German CPI.

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 31 March 2007 and €0.9 million for the three months ended 31 December 2007, to nil due to the sale of the real estate fund units in October 2007.

Fair value movements

Three months ended (Unaudited)	31 March 2008 €'000	31 December 2007 €'000	31 March 2007 €'000
(Decrease) / increase in fair value of investment properties	(99,836)	(220,130)	41,268
Increase in fair value of real estate fund units	-	-	3,346
Gain / (loss) on disposal of asset backed securities, available-for-sale	-	(1,274)	230
(Decrease) / increase in fair value of interest rate swaps	(10,058)	(2,135)	2,315
Total	**(109, 894)**	**(223,539)**	**47,159**

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, and 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:

Three months ended (Unaudited)	31 March 2008 €'000	31 December 2007 €'000	31 March 2007 €'000
Interest expense	75,421	76,235	60,603
(Gains) / losses on foreign currency contracts, translation and swaps	(1,075)	924	723
Service charge expenses	15,285	19,603	11,856
Property operating expenses	5,534	4,201	5,572
Other operating expenses	8,717	28,593	8,715
Total operating expenses	**103,882**	**129,556**	**87,469**
Operating income (excluding fair value movements)	**128,327**	**138,300**	**115,265**

A significant proportion of the Group's operating expenses represent interest expense (72.6% for the three months ended 31 March 2008, against 69.3% for the three months ended 31 March 2007 and 58.8% for the three months ended 31 December 2007). Interest expense of the Group in the three months ended 31 March 2008 amounted to €75.4 million compared with €60.6 million for the three months ended 31 March 2007 and €76.2 million for the three months ended 31 December 2007. The increase from the three months ended 31 March 2007 was primarily due to additional debt taken on to finance the commercial property acquisitions and debt investments completed since the quarter ended 31 March 2007, as well as from increases in market interest rates. The decrease from the three months ended 31 December 2007 reflects the reduction in financing resulting from the sale of investment properties.

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 Group's other operating expenses have decreased from the previous quarter, as the quarter ended 31 December 2007 included costs related to the sale of investment properties and real estate fund units incentive fees.

Corporation Tax

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

	Three months ended 31 March 2008 (Unaudited) €'000	Three months ended 31 December 2007 (Unaudited) €'000	Three months ended 31 March 2007 (Unaudited) €'000
Current tax charge / (credit)	354	(957)	96
Deferred tax (credit) / charge	(1,671)	(8,774)	20,503
Total tax (credit) / expense	**(1,317)**	**(9,731)**	**20,599**

The increase in the current tax charge was largely due to the corporate tax changes in Germany which became effective on 1 January 2008.

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.

Cash Flow from Operations

The Group's cash flows from operations are shown in the table below:

	Three months ended 31 March 2008 (Unaudited) €'000	Three months ended 31 December 2007 (Unaudited) €'000	Three months ended 31 March 2007 (Unaudited) €'000
Net cash inflow / (outflow) from operating activities	611	(42,232)	151,173
Net cash outflow / inflow from investing activities	(40,370)	305,663	(2,303,783)
Net cash inflow / (outflow) from financing activities	53,491	(314,377)	2,190,607
Net increase in cash and short term deposits	**13,732**	**(50,946)**	**37,997**

The cash outflow from investing activities reflects the acquisition net purchases of debt investments during the quarter. The cash flow generated from financing activities reflects the increased bank borrowings and additional issuance of debt to finance the expansion of the Group's debt investment portfolio. The Group's cashflows during the three months ended 31 March 2008 resulted in a positive balance of €160.4 million (31 December 2007: €146.7 million).

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 31 March 2008 (Unaudited)	Debt investments €'000	Investment properties €'000	Total Eurocastle €'000
Investments	1,898,484	5,074,068	**6,972,552**
Other assets[1]	92,987	203,053	**296,040**
Total assets	**1,991,471**	**5,277,121**	**7,268,592**
Interest-bearing debt financing	(1,990,244)	(3,888,356)	**(5,878,600)**
Other liabilities[2]	(12,241)	(126,363)	**(138,604)**
Total liabilities	**(2,002,485)**	**(4,014,719)**	**(6,017,204)**
Segment net assets / (liabilities)	**(11,014)**	**1,262,402**	**1,251,388**
Tax liability	-	(25,571)	**(25,571)**
Minority interest	(2)	(4)	**(6)**
Net assets / (liabilities)	**(11,016)**	**1,236,827**	**1,225,811**
Net assets / (liabilities) per share €	**(0.17)**	**19.35**	**19.18**

1 Unallocated other assets of €45.1 million have been allocated between the segments based on each segment's share of invested equity. Amounts allocated were; debt investments: €8.3 million and investment properties: €36.8 million.

2 Unallocated other liabilities of €28.6 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: €5.3 million and investment properties: €23.3 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 31 March 2008 IFRS net asset value reflects approximately €114.9 million of unrealised losses in assets within the Group's CDOs that exceeds its investments 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 31 March 2008, we estimate the Group's adjusted book value per share is estimated to be €23.04 (31 December 2007: €23.47).

Adjusted net asset value As at 31 March 2008 (Unaudited)	Debt investments €'000	Investment properties €'000	Total Eurocastle €'000
Reported net asset value	**(11,016)**	**1,236,827**	**1,225,811**
Estimated mark to market of real estate related loans	(44,897)	-	**(44,897)**
Estimated mark to market of financial liabilities within the debt investment portfolio	291,820	-	**291,820**
Adjusted net asset value	**235,907**	**1,236,827**	**1,472,734**
Adjusted net asset value per share €	**3.69**	**19.35**	**23.04**

Total Assets

Total assets as at 31 March 2008 amounted to €7.3 billion, representing a 3.2% decrease from €7.5 billion as at 31 December 2007. This primarily reflects the reduction in value of German property investments and debt investments partly offset by the increase in cash balances.

Real Estate Investments

As at 31 March 2008, the Group's real estate portfolio comprised €5.1 billion of commercial property investments compared with €5.2 billion as at 31 December 2007. This represents a decrease of 1.9% due to additional fair value reductions of the Group's German commercial property portfolio.

Debt Investments

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

Asset backed securities are stated at market value. As at 31 March 2008, the fair value movement was a cumulative net loss of €269.4 million, compared to a cumulative net loss of €129.2 million at 31 December 2007. The reduction in fair value in the quarter ended 31 March 2008 is 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 31 March 2008.

As at 31 March 2008, €547.5 million represented real estate related loans (31 December 2007: €570.9 million) representing a decrease of 4.1%. 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.

As at 31 March 2008, the Group's €5.1 billion real estate portfolio was financed with €3.8 billion of non-recourse loans with a weighted average maturity of 5.2 years. €3.4 billion of the total loan financings have maturities falling between September 2012 and November 2017.

The non-core part of the Mars portfolio, totalling €606.5 million, was financed as at 31 March 2008 with a loan for €402.9 million maturing in July 2008. On 14 May 2008, the Group signed 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, which is non-recourse to Eurocastle, becomes effective on 28 May 2008 and will amortize down to €250 million by 30 June 2008, €200 million by 31 December 2008 and mature in June 2009. The interest margin on the loan was unchanged at 1.0%. It has a current loan-to-value of 61%. The original Mars facility with approximately €1 billion outstanding due July 2014 remains in place with the following material changes: the interest margin on the loan will step up from 0.725 % to 1.20 % with effect from 1 January 2010 and the loan will amortize down by €50 million by 31 December 2009.

Debt Investment Portfolio Financing

The Group has eliminated all its mark-to-market and any full recourse exposure on its debt investment portfolio, and all debt investment portfolio financing facilities with maturities during 2008 have been successfully extended to between September and December 2009 with the remaining full recourse facility replaced by a recourse facility limited to €30 million.

At 31 March 2008, approximately 85.7% 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 %.

Business Review

Commercial Property Portfolio

As at 31 March 2008, Eurocastle owned a €5.1 billion portfolio of commercial property investments, comprising investment properties at cost of €5.1 billion and cumulative unrealised fair value losses of €61.5 million. At quarter end, the investment property portfolio comprised 591 properties with approximately 2.2 million square meters (sqm) of lettable space. The portfolio had a total occupancy of 88.4%, and a weighted average remaining lease term of 6.1 years. The Group derives 65% of its rental income from the five major German markets. At the end of the first quarter, the Group's investment property portfolio was valued at €5.1 billion, equivalent to an average NOI*** yield of 5.6%, compared to 5.5% at the end of 2007.

With respect to transaction volume and leasing activities the commercial property markets in Germany have performed well in the first quarter of 2008. The top five markets (Berlin, Düsseldorf, Frankfurt, Hamburg and Munich) made a good start to the year backed by continuing rising employment figures and companies assessing their further business prospects as positive. Turnover of office space increased by 2.1%, totalling 638,000 sqm, compared to the first quarter of 2007. The positive leasing development and the limited supply resulted in a decreased vacancy rate of 9.5% compared to 10.5% in Q1 2007. Compared to Q1 2007 prime rents in the top 5 cities increased by 7.1% and average market rents rose by 3.9%.

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 quarter of 2008 was €7.9 billion and was 19% under the comparable value of the record breaking year 2007. However, this dip is put into context when compared to a three year average, reflecting an 11% increase. Around 30% of this volume was generated in the top five markets.

During the first quarter of 2008, the Group has signed 172 commercial leases for approximately 82,000 sqm, of which new leases accounted for over 27,500 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 portfolio occupancy remained stable as compared to the previous quarter and amounted to 88.4% at 31 March 2008. However, taking into account the sale of non-core assets and the purchase of fully occupied retail properties, the portfolio occupancy increased from 86.8% at the end of first quarter 2007. The Group expects leasing markets to remain active. It has already signed over 11,000 sqm of new leases in the second quarter of 2008 and has a further 25,000 sqm of new leases and 9,000 sqm of renewals currently under negotiation.

Commercial Property Portfolio Overview

(in €'000, except for percentages)	As at 31 March 2008 (Unaudited)	As at 31 December 2007
Investment properties* at cost (including held for sale)	5,123,525	5,118,109
Investment properties at fair value**	5,003,490	5,156,412
Fair value of finance leases	26,167	26,709
Investment properties held for sale	58,500	-
Total investment in commercial property	**5,088,157**	**5,183,121**
Weighted average NOI*** yield on cost	5.5%	5.5%
Weighted average NOI*** yield on carrying value	5.6%	5.5%
Weighted average liability cost	4.6%	4.6%
Weighted average net spread	0.9%	0.9%

* Investment property defined in Note 2.

** The investment value above excludes €26.2 million (31 December 2007: €26.7 million) relating to finance leases on the head leases (Note 15) and includes €114.1 million (31 December 2007: 12.0 million) of capitalised tenant incentives and leasing commissions, included within other assets. The finance leases have not been included in the property valuations shown in the following table headed Investment Property – Valuation Data.

*** Net Operating Income (NOI) represents gross rental income less net service charge expenses and property operating expenses on an annualised basis

The following tables show the split of real estate property investments by use and geographical location as at 31 March 2008. The occupancy and lease expiry information in the tables below reflect the benefit of a rental guarantee on the Mars portfolio on approximately 103,000 square meters of currently vacant space, which as at 31 March 2008 generated annualised income of €28.3 million. The rental guarantee is due on a monthly basis in relation to certain vacant or under leased assets, subject to a maximum total payment of €40 million (including service charge income) or five years.

As at 31 March 2008, the Group had signed 45 new leases for approximately €2.3 million of rental income per annum on approximately 18,000 square meters of vacant space, which will become effective during 2008. The 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	1,246,268	85.0%	178.0	58.0%	14.0
Retail	481,980	97.2%	61.7	20.0%	11.0
Bank Hall	113,561	97.6%	20.8	6.8%	15.7
Other	407,931	85.9%	46.6	15.2%	11.1
Total portfolio	**2,249,740**	**88.4%**	**307.1**	**100%**	**12.9**

By Location

Location	Lettable (sqm)	Occupancy %	Passing rent* €'million Annual	Passing rent* %	Passing rent* € per sqm/month
Frankfurt	567,286	92.5%	107.5	35.0%	17.1
Munich	213,817	83.6%	34.4	11.2%	16.0
Hamburg	128,425	95.0%	23.5	7.7%	16.0
Berlin	102,167	88.3%	16.1	5.2%	14.9
Düsseldorf	107,912	93.8%	18.2	5.9%	15.0
Subtotal – top 5 markets	**1,119,607**	**90.8%**	**199.7**	**65.0%**	**16.4**
Remaining West	894,692	88.4%	90.2	29.4%	9.5
Remaining East	235,441	77.2%	17.2	5.6%	7.9
Total portfolio	**2,249,740**	**88.4%**	**307.1**	**100%**	**12.9**

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

Lease Expiry Data

By Use

Use	Average lease term Years	Passing rent* Yr 1 €m	Yr 2-3 €m	Yr 4-6 €m	Yr 7-10 €m	Yr 10+ €m
Office	4.8	37.2	43.5	36.7	40.7	20.0
Retail	7.9	2.1	5.0	16.9	18.3	19.3
Bank Hall	6.4	1.3	3.5	4.5	7.7	3.9
Other	8.0	7.2	9.5	8.1	8.2	13.6
Total portfolio	**6.1**	**47.8**	**61.5**	**66.2**	**74.9**	**56.8**

By Location

Location	Average lease term Years	Passing rent* Yr 1 €m	Yr 2-3 €m	Yr 4-6 €m	Yr 7-10 €m	Yr 10+ €m
Frankfurt	5.5	20.6	24.9	17.6	29.6	14.9
Munich	5.9	9.7	9.5	7.3	2.6	5.4
Hamburg	5.8	5.0	6.3	3.2	1.5	7.4
Berlin	4.2	2.7	4.1	5.9	2.4	1.0
Düsseldorf	8.8	0.6	1.0	6.9	0.8	9.0
Subtotal – top 5 markets	**5.8**	**38.6**	**45.8**	**40.9**	**36.9**	**37.7**
Remaining West	6.5	7.0	14.1	20.5	31.0	17.8
Remaining East	5.7	2.2	1.6	4.8	7.0	1.3
Total portfolio	**6.1**	**47.8**	**61.5**	**66.2**	**74.9**	**56.8**

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

Valuation Data

Markets	Properties	Lettable space (sqm)	Property valuation €m*	Property cost €m**	% of Portfolio	Net operating income €m***	NOI yield on cost %	NOI yield on valuation %
Top 5 markets								
Frankfurt	53	567,286	1,810	1,850	36.1%	99.7	5.4%	5.5%
Munich	17	213,817	612	649	12.7%	31.8	4.9%	5.2%
Hamburg	16	128,425	399	406	7.9%	21.5	5.3%	5.4%
Berlin	11	102,167	283	271	5.3%	15.1	5.4%	5.3%
Düsseldorf	7	107,912	353	356	7.0%	16.8	4.7%	4.8%
Subtotal – top 5 markets	**104**	**1,119,607**	**3,457**	**3,532**	**69.0%**	**184.9**	**5.2%**	**5.3%**
Remaining West	382	894,692	1,375	1,373	26.7%	82.3	6.0%	6.0%
Remaining East	105	235,441	230	219	4.3%	15.7	7.2%	6.8%
Total portfolio	**591**	**2,249,740**	**5,062**	**5,124**	**100%**	**282.9**	**5.5%**	**5.6%**

* The above valuation does not include €26.2 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	31 March 2008 (sqm)	%	31 December 2007 (sqm)	%
Office	1,059,717	85.0%	1,058,559	84.9%
Retail	468,618	97.2%	469,519	97.2%
Bank Hall	110,796	97.6%	110,933	97.6%
Other	350,544	85.9%	349,257	86.0%
Total portfolio	**1,989,675**	**88.4%**	**1,988,268**	**88.4%**
Total portfolio excluding rental guarantee	**1,881,826**	**83.6%**	**1,887,884**	**83.9%**

By Location

Location	31 March 2008 (sqm)	%	31 December 2007 (sqm)	%
Frankfurt	524,765	92.5%	524,059	92.3%
Munich	178,834	83.6%	178,324	83.2%
Hamburg	122,066	95.0%	122,066	95.8%
Berlin	90,204	88.3%	90,353	88.4%
Düsseldorf	101,227	93.8%	100,439	93.4%
Subtotal – top 5 markets	**1,017,096**	**90.8%**	**1,015,241**	**90.7%**
Remaining West	790,889	88.4%	792,606	88.6%
Remaining East	181,689	77.2%	180,420	76.6%
Total portfolio	**1,989,674**	**88.4%**	**1,988,267**	**88.4%**
Total portfolio excluding rental guarantee	**1,881,826**	**83.6%**	**1,887,884**	**83.9%**

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

Top 5 Tenants

Tenant name	Annualised passing rent €'000	% of total portfolio	Square meters
Dresdner Bank	79,319	26%	450,116
Deutsche Bank	15,782	5%	128,353
Edeka	12,996	4%	121,990
Starman Hotels	9,229	3%	20,918
Deutsche Bahn	8,500	3%	50,441
Total portfolio	**125,826**	**42%**	**771,818**

Debt Investment Portfolio

Overview of the Debt Investment Portfolio

	31 March 2008 (Unaudited)	31 December 2007
Carrying value of total debt investments (excluding restricted cash) (€'000)	**1,866,684**	2,052,913
Implied discount margin (above Euribor) at carrying value	**5.11%**	3.35%
Amortised cost of total debt investments (excluding restricted cash) (€*000)	**2,136,060**	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	**65%**	65%
Number of securities and loans	**197**	201

Eurocastle's €1.9 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 31 March 2008:

Asset/liability structure for debt investment portfolio

31 March 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	369,985	4.1	BBB	11,809	343,983	343,983	7.3	Dec 2060	No
Eurocastle CDO III PLC	715,336	4.4	BBB	18,872	704,250	704,250	7.3	Dec 2060	No
Eurocastle CDO IV PLC	166,394	4.2	A-	-	120,324	127,000	1.7	Dec 2009	No
Duncannon CRE CDO I PLC	756,301	4.3	BB	1,119	698,250	698,667	6.6	Jun 2047	No
Eurocastle Funding Limited (unlevered)	12,053	3.2	CCC	-	-	-	-	-	-
Eurocastle Funding Limited (financed)	128,890	3.9	BB+	-	106,998	106,998	1.5	Sep 2009	No
Total	**2,148,959**	**4.3**	**BBB-**	**31,800**	**1,973,805**	**1,980,898**	**6.4**	-	-

Debt Investment Portfolio Composition (31 March 2008)
(Unaudited)

Asset class	Nominal €'000	Total debt portfolio %
Commercial real estate backed	1,724,588	80.3%
Residential real estate backed	342,589	15.9%
Other	81,782	3.8%
	2,148,959	**100%**

Commercial Real Estate Backed Debt

The Group owned €1.72 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 31 March 2008, the Group purchased €108.5 million, sold no assets and had paydowns of €84.7 million for a net increase of €23.8 million. The Group's €947.5 million CMBS portfolio continues to perform with only 0.17% underlying delinquent loans. In addition, the Group has no delinquencies in its Mezzanine Loans, B-Notes and Real Estate Loans. The Group had 3 securities upgraded, 2 CMBS securities or €6.5 million, and 1 NPL security or €15.5 million upgraded and 1 WBS downgrade totalling €19.2 million. Credit spreads widened on average by 308 basis points, from 31 December 2007, on the CMBS portfolio and were unchanged 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	947,487	44.1%	BBB+	612	64.13%
Commercial real estate loans	549,307	25.6%	B	292	80.09%
NPL securitisation	53,915	2.5%	A+	338	13.8%
SME CLO	98,540	4.6%	BB+	835	N/A
Whole business securitisation	75,339	3.5%	BBB	462	57.62%
	1,724,588	**80.3%**	**BBB-**	**508**	

* 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.

Country exposure / rating distribution	AAA	AA	A	BBB	BB	B	CCC	Total	% of total debt portfolio
	€'000	€'000	€'000	€'000	€'000	€'000	€'000	€'000	
UK	18,610	25,978	82,616	290,725	27,685	197,063	18,848	661,525	30.7%
Germany	19,146	19,724	8,690	136,107	38,074	174,307	-	396,048	18.4%
Italy	15,586	1,829	36,500	57,718	28,957	47,600	-	188,190	8.8%
France	-	-	2,226	23,650	-	72,120	-	97,996	4.6%
Netherlands	-	-	-	19,831	19,017	-	-	38,848	1.8%
Switzerland	-	-	-	-	17,936	24,885	-	42,821	2.0%
Spain	-	-	12,200	5,324	9,600	-	-	27,124	1.3%
Other	24,883	49,061	46,195	139,604	12,293	-	-	272,036	12.7%
Total	**78,225**	**96,592**	**188,427**	**672,959**	**153,562**	**515,975**	**18,848**	**1,724,588**	**80.3%**
% of total debt portfolio	**3.6%**	**4.5%**	**8.8%**	**31.4%**	**7.1%**	**24.0%**	**0.9%**	**80.3%**	

Residential Real Estate Debt

The Group owned €342.6 million face amount of residential mortgage backed securities ("RMBS"). During the quarter, the Group made no purchases or sales and had paydowns of €10.5 million for a net decrease of €10.5 million. The current average rating of the RMBS portfolio was unchanged at BBB. The Group had 1 security or €1.5 million RMBS securities upgraded and 2 downgrades totalling €17.5 million. Credit spreads widened on average by 289 basis points across our whole RMBS portfolio, of which 311 basis points was solely on the UK non-conforming RMBS portfolio.

The composition of the residential mortgage backed securities portfolio as at 31 March 2008 is shown below:

RMBS type	Nominal	Total debt book	Average rating*	Average credit spread*
	€'000	%		Bps
Prime	156,183	7.2%	BBB	650
Mixed	73,309	3.4%	BBB-	827
Non conforming	113,097	5.3%	BBB	831
Total	**342,589**	**15.9%**	**BBB**	**748**

* 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	34,052	159,097	26,177	219,326	10.3%
Italy	-	30,750	-	30,750	1.4%
Netherlands	6,375	10,699	15,000	32,074	1.5%
Germany	3,851	5,000	6,200	15,051	0.7%
Spain	-	10,604	2,200	12,804	0.6%
Belgium	-	5,000	-	5,000	0.2%
Ireland	-	23,784	2,800	26,584	1.2%
Greece	-	1,000	-	1,000	0.0%
Total	**44,278**	**245,934**	**52,377**	**342,589**	**15.9%**
% of total debt portfolio	**2.1%**	**11.4%**	**2.4%**	**15.9%**	

UK Non-Conforming RMBS

Within the larger residential mortgage backed securities portfolio the current average rating of the €101.1 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 3.27 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 31 March 2008.

Year of mortgage origination*	Nominal	Total debt book	Average rating**	Average credit spread**
	€'000	%	%	Bps
2004	23,674	1.1%	BBB	951
2005	64,806	3.0%	BBB	765
2006	12,570	0.6%	BBB	937
Total	**101,050**	**4.7%**	**BBB**	**830**

* 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 31 March 2008, the Group owned €87.8 million face amount of other structured finance debt (commercial & consumer loans). During the quarter, the Group purchased €3.5 million, had no sales and had paydowns of €0.2 million, for a net increase of €3.5 million. There were no rating changes in the other structured finance debt portfolio. Credit spreads widened, on average, by 284 basis points on the other structured finance debt portfolio.

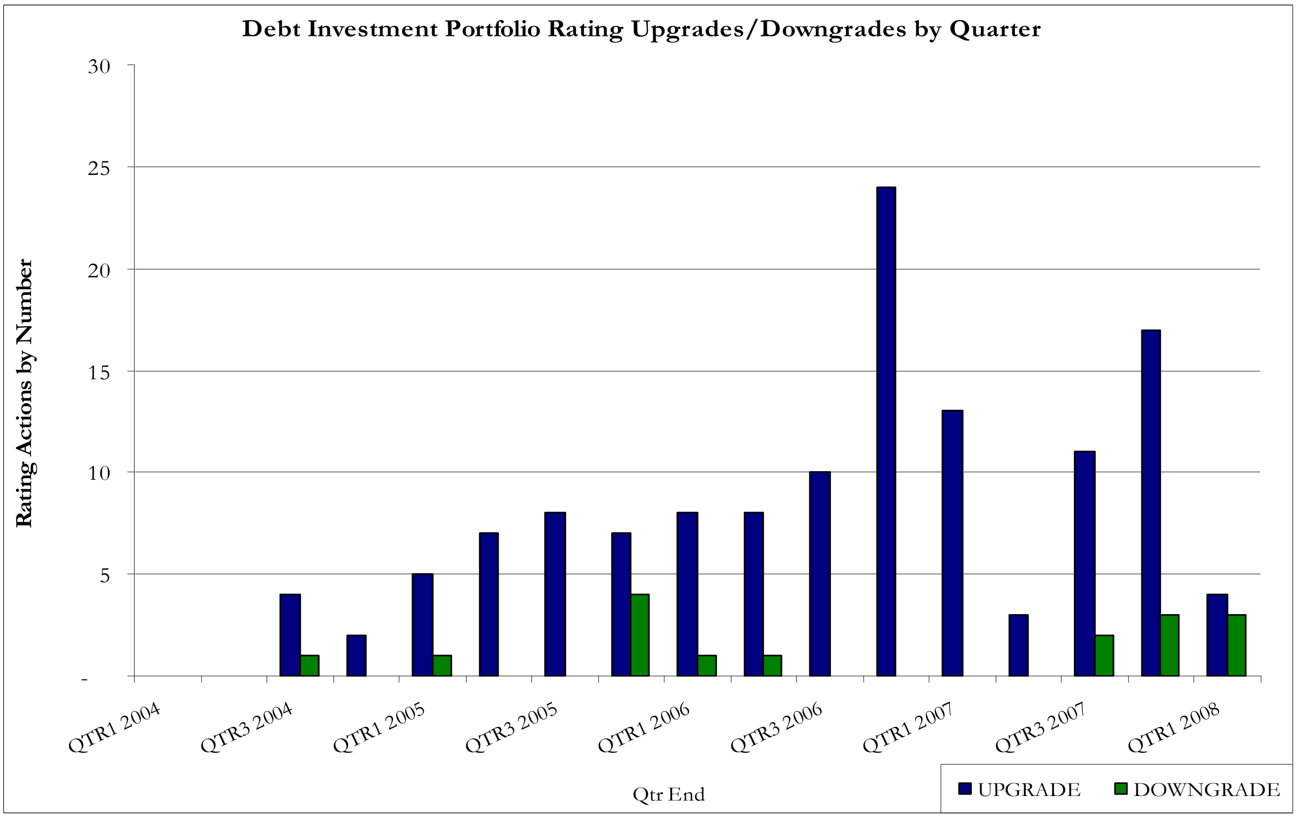
Debt Type	Nominal	Total debt book	Average rating*	Average credit spread*
	€'000	%	%	Bps
Commercial leases & loans	35,132	1.6%	BBB+	664
Consumer leases & loans	46,650	2.2%	BBB+	721
Total	**81,782**	**3.8%**	BBB+	696

* 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	9,682	4,500	19,400	13,000	7,700	54,282	2.5%
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	**9,682**	**4,500**	**19,400**	**33,500**	**14,700**	**81,782**	**3.8%**
% of total debt portfolio	**0.5%**	**0.2%**	**0.9%**	**1.5%**	**0.7%**	**3.8%**	

Credit Quality

The credit quality of the debt investment portfolio has remained strong 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 131:16 and was 4:3 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.



Forward-Looking Statements

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

REPORT ON REVIEW OF 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 three months ended 31 March 2008 which comprises the consolidated balance sheet, consolidated income statement, consolidated statement of changes in equity and consolidated cash flow statement for the three 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 three months ended 31 March 2008 is not prepared, in all material respects, in accordance with the International Accounting Standard 34, "Interim Financial Reporting".

Ernst and Young LLP
London
28 May 2008

EUROCASTLE INVESTMENT LIMITED AND SUBSIDIARIES

CONSOLIDATED INCOME STATEMENT

	Notes	Three months ended 31 March 2008 (Unaudited) €'000	Three months ended 31 March 2007 (Unaudited) €'000
Operating income			
Interest income	3	38,046	33,599
Rental income	4	74,996	66,054
Service charge income	5	15,285	11,856
Real estate fund unit interest income	3	-	3,756
Gain on disposal of asset backed securities, available-for-sale		-	230
(Decrease) / increase in fair value of investment properties	8,15	(99,836)	41,268
Increase in fair value of real estate fund units		-	3,346
(Decrease) / increase in fair value of interest rate swaps		(10,058)	2,315
Total operating (loss)/income		**18,433**	**162,424**
Operating expenses			
Interest expense	6	75,421	60,603
Losses on foreign currency contracts, translation and swaps	9	(1,075)	723
Service charge expenses	5	15,285	11,856
Property operating expenses	4	5,534	5,572
Other operating expenses	7	8,717	8,715
Total operating expenses		**103,882**	**87,469**
Operating (loss) / profit before taxation		**(85,449)**	**74,955**
Taxation charge - current	8	354	96
Taxation (credit) / charge - deferred	8	(1,671)	20,503
Net (loss) / profit after taxation		**(84,132)**	**54,356**
(Losses) / earnings per ordinary share			
Basic	21	(1.32)	0.85
Diluted	21	(1.31)	0.82
Weighted average ordinary shares outstanding			
Basic	21	63,927,634	63,601,040
Diluted	21	64,412,052	66,178,979

EUROCASTLE INVESTMENT LIMITED AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEET

	Notes	31 March 2008 (Unaudited) €'000	31 December 2007 €'000
Assets			
Cash and cash equivalents	10	160,439	146,707
Other assets	13	78,963	81,988
Investment property held for sale	15	58,500	-
Asset backed securities, available-for-sale (includes cash to be invested)	11	1,351,004	1,488,837
Real estate related loans	12	547,480	570,916
Fixtures and fittings	17	719	754
Derivative assets	14	53,043	44,839
Investment property	15	5,015,568	5,171,086
Intangible assets	16	2,876	3,068
Total assets		**7,268,592**	**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 profit		5,772	109,082
Net unrealised (loss) on asset backed securities, available-for-sale	11	(269,376)	(129,221)
Hedging reserve	23	25,923	30,335
Other reserves	22	17,320	17,320
Total shareholders' equity		**1,225,811**	**1,473,688**
Minority interest		**6**	**6**
Total equity		**1,225,817**	**1,473,694**
Liabilities			
Trade and other payables	20	112,437	121,846
CDO bonds payable	18	1,731,919	1,742,746
Bank borrowings	19	4,146,681	4,116,312
Finance lease payable	15	26,167	26,709
Current taxation payable	8	2,384	2,030
Deferred taxation liability	8	23,187	24,858
Total liabilities		**6,042,775**	**6,034,501**
Total equity and liabilities		**7,268,592**	**7,508,195**

EUROCASTLE INVESTMENT LIMITED AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF CASH FLOWS

	Three months ended 31 March 2008 (Unaudited) €'000	Three months ended 31 March 2007 (Unaudited) €'000
Cash flows from operating activities		
Operating (loss) / profit before taxation	(85,449)	74,955
Adjustments for:		
Interest income	(38,046)	(33,599)
Interest expense	75,421	60,603
Unrealised (gain) / loss on foreign currency contracts	(1,075)	723
Amortisation of (discounts) on securities	(429)	(142)
Amortisation of borrowing costs	1,846	1,329
Realised (gain) on disposal of asset backed securities, available-for-sale	-	(230)
Amortisation of intangibles	197	130
Depreciation	35	-
(Increase) in fair value of real estate fund units	-	(3,346)
Decrease / (increase) in fair value of investment properties	99,836	(41,268)
Decrease / (increase) in fair value of interest rate swap	10,058	(2,315)
Decrease in other assets	3,705	14,116
Interest received	38,520	34,827
Interest paid	(75,824)	(48,948)
(Decrease) / increase in trade and other payables	(28,184)	94,338
Net cash flows from operating activities	**611**	**151,173**
Cash flows from investing activities		
Purchase of investment property/capital expenditure	(3,360)	(2,198,784)
Proceeds on sale/prepayment of available-for-sales securities	88,323	172,483
Purchase of asset backed securities, available-for-sale	(133,544)	(184,653)
Sale of securities pledged under repurchase agreements	-	1,479
Purchase of real estate related loans	-	(118,214)
Sale/prepayment of real estate related loans	8,216	24,574
Purchase of intangible assets	(5)	(668)
Net cash flows from investing activities	**(40,370)**	**(2,303,783)**
Cash flows from financing activities		
Proceeds of issuance of ordinary shares	-	5,248
Costs related to issuance of ordinary shares	-	(116)
Proceeds from issuance of bonds	16,894	-
Repayments under repurchase agreements	-	(1,455)
Increase of bank borrowings	36,597	2,195,859
Dividends paid to shareholders	-	(8,929)
Net cash flows from financing activities	**53,491**	**2,190,607**
Net increase in cash and cash equivalents	**13,732**	**37,997**
Cash and cash equivalents, beginning of period	**146,707**	**122,699**
Cash and cash equivalents, end of period	**160,439**	**160,696**

EUROCASTLE INVESTMENT LIMITED AND SUBSIDIARIES

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	-	-	-	(461)	-	-	-	(461)
Share options exercised during the period	257,445	5,248	-	-	-	-	-	5,248
Additional costs related to Dec 06 share issue	-	(116)	-	-	-	-	-	(116)
Realised gains reclassified to the income statement*	-	-	-	272	-	-	-	272
Net unrealised gain on hedge instruments	-	-	-	-	10,024	-	-	10,024
Amortisation of novated swap	-	-	-	-	571	-	-	571
Net gains not recognised in the income statement	-	-	-	(189)	10,595	-	-	10,406
Net profit for the quarter	-	-	-	-	-	54,356	-	54,356
Total income and expense for the quarter	-	-	-	(189)	10,595	54,356	-	64,762
Dividends paid	-	-	-	-	-	(8,929)	-	(8,929)
At 31 March 2007 (Unaudited)	**63,776,528**	**1,444,649**	**17,320**	**1,693**	**34,137**	**133,885**	**6**	**1,631,690**
Net unrealised loss on available-for-sale securities	-	-	-	(130,879)	-	-	-	(130,879)
Share options exercised during the period	147,106	1,668	-	-	-	-	-	1,668
Shares issued to Directors	4,000	98	-	-	-	-	-	98
Additional costs related to Dec 06 share issue	-	(243)	-	-	-	-	-	(243)
Realised losses reclassified to the income statement*	-	-	-	(35)	-	-	-	(35)
Net unrealised loss on hedge instruments	-	-	-	-	(4,972)	-	-	(4,972)
Realised gains on hedge instruments reclassified to the income statement**	-	-	-	-	4,850	-	-	4,850
Amortisation of novated swap	-	-	-	-	(3,680)	-	-	(3,680)
Net gains not recognised in the income statement	-	-	-	(130,914)	(3,802)	-	-	(134,716)
Net profit for the nine months	-	-	-	-	-	80,559	-	80,559
Total income and expense for the nine months	-	-	-	(130,914)	(3,802)	80,559	-	(54,157)
Dividends paid	-	-	-	-	-	(105,362)	-	(105,362)
At 31 December 2007	**63,927,634**	**1,446,172**	**17,320**	**(129,221)**	**30,335**	**109,082**	**6**	**1,473,694**

* Realised 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.

EUROCASTLE INVESTMENT LIMITED AND SUBSIDIARIES

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 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	-	-	-	(140,155)	-	-	-	(140,155)
Net unrealised loss on hedge instruments	-	-	-	-	(4,245)	-	-	(4,245)
Amortisation of novated swaps	-	-	-	-	(167)	-	-	(167)
Net losses not recognised in the income statement	-	-	-	(140,155)	(4,412)	-	-	(144,567)
Net loss for the quarter	-	-	-	-	-	(84,132)	-	(84,132)
Total income and expense for the quarter	-	-	-	(140,155)	(4,412)	(84,132)	-	(228,699)
Dividends paid	-	-	-	-	-	(19,178)	-	(19,178)
At 31 March 2008 (Unaudited)	**63,927,634**	**1,446,172**	**17,320**	**(269,376)**	**25,923**	**5,772**	**6**	**1,225,817**

NOTES TO CONSOLIDATED INTERIM FINANCIAL STATEMENTS (UNAUDITED)

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 financial statements comprise the financial statements of Eurocastle Investment Limited and its subsidiaries for the three months ended 31 March 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 31 March 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 three months ended 31 March 2008 of €38.0 million (31 March 2007: €33.6 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 three months ended 31 March 2008 includes interest calculated using the effective interest method of €36.4 million (31 March 2007: €30.4 million).

There was no real estate fund unit income for the three months ended 31 March 2008 (31 March 2007: €3.8 million).

4. RENTAL INCOME AND PROPERTY OPERATING EXPENSES

Rental income for the three months ended 31 March 2008 of €75.0 million, (31 March 2007: €66.1 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 three months ended 31 March 2008 were €5.5 million (31 March 2007: €5.6 million). Included within property operating expenses is the amortisation of leasing commissions and tenant incentives of €0.7 million (31 March 2007: €0.1 million) and fund costs relating to the Drive portfolio of €0.8 million (31 March 2007: €1.1 million).

5. SERVICE CHARGE INCOME AND EXPENSE

Service charge income for the three months ended 31 March 2008 of €15.3 million (31 March 2007: €11.9 million) represents the service costs recoverable from tenants.

Service charge expense for the three months ended 31 March 2008 of €15.3 million (31 March 2007: €11.9 million) represents the costs of operating the properties, that are recoverable from tenants.

6. INTEREST EXPENSE

Interest expense for the three months ended 31 March 2008 of €75.4 million (31 March 2007: €60.6 million) comprises interest expense incurred on the CDO bonds payable, bank borrowings and repurchase agreements. Interest expense is calculated using the effective interest method.

7. OTHER OPERATING EXPENSES

	Three months ended 31 March 2008 (Unaudited) €'000	Three months ended 31 March 2007 (Unaudited) €'000
Professional fees	689	1,091
Management fees (Note 29)	5,483	5,394
Depreciation	35	-
Amortisation of intangible assets	197	130
Other*	2,313	2,100
	8,717	**8,715**

* Included within other operating expenses for the three months ended 31 March 2008 are reimbursements of property related asset management services of €1.9 million (31 March 2007: €1.4 million) to FIG LLC (See Note 27).

8. TAXATION EXPENSE

	Three months ended 31 March 2008 (Unaudited) €'000	Three months ended 31 March 2007 (Unaudited) €'000
Current tax		
Germany	354	-
Luxembourg	-	96
Total current tax	**354**	**96**
Deferred tax		
Germany	(1,671)	20,503
Total deferred tax	**(1,671)**	**20,503**
Total tax (benefit) / expense	**(1,317)**	**20,599**

Analysis of deferred tax:

	Three months ended 31 March 2008 (Unaudited) €'000	Three months ended 31 March 2007 (Unaudited) €'000
Tax losses carried forward	1,076	(714)
Temporary differences		
Loan expense	(92)	(68)
Tenant improvements and leasing commissions	446	(6)
Accelerated capital allowance	1,792	1,352
Revaluation of investment properties*	(4,399)	19,903
Acquisition expense	11	36
Capital expenditure	329	-
Other	(834)	-
Deferred tax (benefit)/expense	**(1,671)**	**20,503**

* 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	Three months ended 31 March 2008 (decrease) in fair value (Unaudited)) €'000	Three months ended 31 March 2008 deferred tax (Unaudited) €'000	Three months ended 31 March 2007 (decrease) / increase in fair value (Unaudited) €'000	Three months ended 31 March 2007 deferred tax (Unaudited) €'000
Mars*	(43,532)	(1,517)	(53,539)	-
Drive	(35,637)	-	23,222	-
Wave	(3,962)	11	62,923	16,588
Zama	(1,102)	-	(335)	-
Bridge	(8,508)	(1,873)	680	1,076
Retail	(7,095)	(1,020)	8,317	2,239
	(99,836)	**(4,399)**	**41,268**	**19,903**

* The Mars portfolio consists of 39 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 31 March 2008 (Unaudited) €'000	As at 31 December 2007 €'000
Opening tax payable	26,888	6,016
Tax paid	-	-
Tax (benefit) / expense for the period	(1,317)	20,872
Closing taxation payable	**25,571**	**26,888**
Split between:		
Current tax	2,384	2,030
Deferred tax	23,187	24,858
Closing taxation payable	**25,571**	**26,888**

Reconciliation of the total tax charge:

	As at 31 March 2008 (Unaudited) €'000	As at 31 March 2007 (Unaudited) €'000
(Loss)/profit before tax	(85,449)	74,955
Tax calculated at domestic tax rates applicable to profits in the respective countries	**-**	**20,002**
Movement in deferred tax assets	1,076	-
Tax effect of revaluation of investment properties	(1,810)	-
Tax effect of timing differences	(316)	(158)
Tax effect of non-deductible expenses	-	755
Tax effect of tax losses	(254)	-
Other	(13)	-
Total tax (credit)/expense	**(1,317)**	**20,599**

The taxation expense for the three months ended 31 March 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 31 March 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

	Three months ended 31 March 2008 (Unaudited) €'000	Three months ended 31 March 2007 (Unaudited) €'000
Fair value movements on currency swaps	23,848	-
Foreign currency translation loss on assets subject to currency swap	(22,404)	-
Sub-total	**1,444**	**-**
Other currency losses	(369)	(723)
Total currency gains/(losses)	**1,075**	**(723)**

* The foreign currency swap is disclosed in Note 14.2.

10. CASH AND CASH EQUIVALENTS

	As at 31 March 2008 (Unaudited) €'000	As at 31 December 2007 €'000
Cash in hand and balances with banks	120,192	105,468
ECTGPROP1 liquidity requirement	40,247	41,239
Cash and cash equivalents	**160,439**	**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 31 March 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 31 March 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)
Portfolio II									
CMBS	222,583	220,258	-	(39,426)	180,832	BBB+	5.55%	1.26%	4.56
Other ABS	131,917	131,953	-	(19,880)	112,073	BBB	5.75%	1.19%	3.29
	354,500	352,211	-	(59,306)	292,905	BBB	5.63%	1.24%	4.09
Portfolio III									
CMBS	263,261	261,486	-	(51,057)	210,429	BBB+	5.61%	1.32%	5.83
Other ABS	442,384	438,553	513	(75,226)	363,840	BBB	5.89%	1.58%	3.58
	705,645	700,039	513	(126,283)	574,269	BBB	5.79%	1.48%	4.42
Portfolio IV									
CMBS	96,341	94,941	-	(10,501)	84,440	A+	4.98%	0.81%	4.64
Other ABS	40,396	40,368	-	(4,082)	36,286	A+	5.79%	1.30%	3.09
	136,737	135,309	-	(14,583)	120,726	A+	5.22%	0.96%	4.18
Portfolio V									
CMBS	310,305	309,291	-	(55,030)	254,261	BBB	5.89%	1.49%	4.36
Other ABS	37,466	37,489	-	(9,358)	28,131	BBB	5.64%	0.98%	5.22
	347,771	346,780	-	(64,388)	282,392	BBB	5.87%	1.43%	4.45
Other securities									
CMBS	55,000	54,241	-	(5,329)	48,912	A+	5.51%	1.31%	4.85
Other ABS	-	-	-	-	-	-	-	-	-
	55,000	54,241	-	(5,329)	48,912	A+	5.51%	1.31%	4.85
Total portfolio	**1,599,653**	**1,588,580**	**513**	**(269,889)**	**1,319,204**	**BBB+**	**5.71%**	**1.36%**	**4.35**

Restricted cash – cash to be invested	**31,800**
Total asset backed securities (including cash to be invested)	**1,351,004**

* 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.

	Current face amount	Amortised cost basis	Gross unrealised Gains	Gross unrealised Losses	Carrying value	Weighted average Average rating*	Weighted average Coupon	Weighted average Margin	Weighted average 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) / gains on available-for-sale securities and hedge instruments recognised in the statement of changes in equity were as follows:

	As at 31 March 2008 (Unaudited) €'000	As at 31 December 2007 €'000
Unrealised gains	513	909
Unrealised losses	(269,889)	(130,130)
	(269,376)	**(129,221)**

12. REAL ESTATE RELATED LOANS

The following is a summary of the Group's real estate loans as at 31 March 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	549,306	547,480	-	-	547,480	B	7.22%	2.92%	4.03

* 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 31 March 2008 (Unaudited) €'000	As at 31 December 2007 €'000
Unsettled security transactions	-	15,112
Interest receivable	23,772	24,246
Rent receivable	13,073	16,698
Prepaid expenses	1,890	233
Service charge receivable	17,597	10,296
Other accounts receivable*	22,631	15,403
	78,963	**81,988**

* Other accounts receivable includes €14.1 million (31 December 2007: €12 million) of leasing commissions and tenant incentives.

14. DERIVATIVE ASSETS

	As at 31 March 2008 (Unaudited) €'000	As at 31 December 2007 €'000
Foreign exchange forward contracts	1,227	1,412
Foreign currency swaps	47,121	23,274
Interest rate swaps	4,695	20,153
Total derivative assets	**53,043**	**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 31 March 2008 (Unaudited) €'000	As at 31 December 2007 €'000
Tenant incentives and leasing commission (included in other assets)	14,089	12,035
Investment property held for sale	58,500	-
Investment property	5,015,568	5,171,086
Closing balance	**5,088,157**	**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 31 March 2008:

	Freehold land and buildings €'000	Leasehold property €'000	31 March 2008 Total (Unaudited) €'000
Opening balance	5,025,494	157,627	5,183,121
Additions/capital expenditure	5,400	14	5,414
Decrease in minimum payments under head lease	-	(542)	(542)
Decrease in fair value	(98,194)	(1,642)	(99,836)
Total	**4,932,700**	**155,457**	**5,088,157**

As at 31 December 2007:

	Freehold land and buildings €'000	Leasehold property €'000	31 December 2007 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 31 March 2008 (Unaudited) €'000	As at 31 December 2007 €'000
Investment property at market value	5,061,990	5,156,412
Minimum payments under head leases separately included in trade and other payables on the balance sheet	26,167	26,709
Balance sheet carrying value of investment property	**5,088,157**	**5,183,121**

Schedule of Minimum Lease Payments under Finance Leases

	Total value 31 March 2008 €'000	Present value 31 March 2008 €'000	Total value 31 December 2007 €'000	Present value 31 December 2007 €'000
Under 1 year	1,553	1,496	1,572	1,393
From 2 to 5 years	6,451	5,342	6,574	5,044
More than 5 years	99,036	19,329	108,281	20,272
Total	**107,040**	**26,167**	**116,427**	**26,709**

Additional Information

The table below provides additional information for various portfolios within the group at 31 March 2008:

Portfolio	Property valuation* €'000	Term financing €'000	Term financing to property valuation %
Mars	1,895,180	1,411,635	74.5%
Drive	1,758,383	1,307,416	74.4%
Bridge	516,320	367,568	71.2%
Wave	289,147	208,196	72.0%
Zama	51,500	39,380	76.5%
Retail	551,460	415,625	75.4%
Total	**5,061,990**	**3,749,820**	**74.1%**

* Property valuation excludes the leasehold gross-up of €26.2 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 31 March 2008 (Unaudited) €'000	As at 31 December 2007 €'000
Cost		
Balance at 1 January	3,814	1,981
Additions	5	1,833
Balance at 31 March 2008	**3,819**	**3,814**
Amortisation		
Balance at 1 January	(746)	(153)
Charge for the period	(197)	(593)
Balance at 31 March 2008	**(943)**	**(746)**
Carrying amount		
At 1 January	**3,068**	**1,828**
At 31 March 2008 (Unaudited)	**2,876**	**3,068**

17. FIXTURES & FITTINGS

	As at 31 March 2008 (Unaudited) €'000	As at 31 December 2007 €'000
Cost		
Balance at 1 January	817	-
Additions	-	817
Balance at 31 March 2008	**817**	**817**
Depreciation		
Balance at 1 January	(63)	-
Charge for the period	(35)	(63)
Balance at 31 March 2008	**(98)**	**(63)**
Carrying amount		
At 1 January	**754**	**-**
At 31 March 2008 (Unaudited)	**719**	**754**

18. CDO BONDS PAYABLE

As at 31 March 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	343,983	341,693	5.12%	0.46%	7.3
CDO III	A, B, C and D notes	AAA/AA/A/B BB	704,250	699,369	5.14%	0.48%	7.3
Duncannon CRE CDO 1 Plc	A, B, C, D, E and X notes	AAA/AA/A/BB B+/BBB/BBB- /BB+/BB/BB-	698,250	690,857	5.33%	0.67%	6.6
Total			**1,746,483**	**1,731,919**	**5.21%**	**0.55%**	**7.0**

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/B 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/BB B+/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 31 March 2008 (Unaudited) €'000	As at 31 December 2007 €'000
Term finance	(Note 19.1)	3,869,970	3,914,003
Revolving credit facility	(Note 19.2)	169,713	143,049
Other bank financing – under 1 year	(Note 19.3)	-	59,260
Other bank financing – over 1 year	(Note 19.3)	106,998	-
Total		**4,146,681**	**4,116,312**

19.1 Term Financing

		Current face amount €'000		Carrying amount €'000			
Portfolios	**Month Raised**	**As at 31 March 2007 (Unaudited)**	**As at 31 December 2007**	**As at 31 March 2008 (Unaudited)**	**As at 31 December 2007**	**Hedged weighted average funding cost**	**Maturity**
Debt investments							
CDO IV	Jul 2005	120,324	165,230	120,150	165,182	5.02%	Dec 2009
Investment property							
Mars - fixed	Jan 2007	1,029,465	1,029,465	1,008,842	1,008,975	4.71%	Jul 2014
Mars - floating	Jan 2007	402,910	402,910	402,793	402,653	5.03%	Jul 2008
Drive	Feb 2006	1,317,066	1,317,066	1,307,416	1,306,946	4.23%	Jan 2013
Bridge	Oct 2006	372,090	372,090	367,568	367,381	4.74%	Jan 2014
Wave	Apr 2007	210,000	210,000	208,196	208,130	4.94%	Apr 2014
Zama	Feb 2007	39,896	39,896	39,380	39,347	4.97%	May 2014
Turret	May 2006	147,556	147,556	146,081	146,041	4.93%	May 2016
Truss	Dec 2005	85,280	85,280	84,629	84,610	4.93%	Feb 2016
Belfry	Aug 2005	56,240	56,240	55,532	55,512	4.85%	Oct 2015
Rapid	Aug 2007	54,500	54,500	52,778	52,735	4.96%	Nov 2017
Tannenberg	May 2007	52,960	52,960	51,111	51,051	4.92%	Oct 2014
Bastion	Sep 2005	26,500	26,500	25,494	25,440	4.44%	Sep 2012
		3,794,463	**3,794,463**	**3,749,820**	**3,748,821**	**4.61%**	
Total		**3,914,787**	**3,959,693**	**3,869,970**	**3,914,003**	**4.63%**	

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 31 March 2008, there was €120.3 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.

19.2 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 31 March 2008 the amount drawn on this facility was €170.5 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. The facility contains a number of financial covenants including a requirement to deliver cash collateral to the lender equal to the excess of any mark to market decline in the underlying security over €200,000. 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 €59.1 million at 31 March 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 €47.9 million at 31 March 2008 at a weighted average interest rate of 0.8051% above Euribor.

20. TRADE AND OTHER PAYABLES

	As at 31 March 2008 (Unaudited) €'000	As at 31 December 2007 €'000
Security deposit	6,928	6,249
Interest payable	36,605	37,008
Due to Manager (note 27)	5,068	26,951
Accrued expenses & other payables*	63,836	51,638
Total trade and other payables	**112,437**	**121,846**

* Accrued expenses and other payables include the fourth quarter 2007 dividend payable of €19.2 million (31 December 2007: nil)

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 profit / (loss) 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 31 March 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	484,418	1,782,543
Weighted average number of ordinary shares outstanding, diluted	**64,412,052**	**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 quarter (31 March 2007 weighted average exercise price: €20.39).

As at 31 March 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 31 March 2008, cumulative unrealised gains on hedge instruments were €25.9 million (31 December 2007: €30.3 million). The unrealised gains comprise the value of the novated swaps of €24.9 million (31 December 2007: €25.1 million) and the fair value of the interest rate swaps of €1.0 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	31 March 2008 (Unaudited) €'000	31 December 2007 €'000
Mars	14,226	13,885
Drive	3,170	3,371
Bridge	2,966	3,094
Rapid	1,488	1,526
Tannenberg	1,107	1,149
Bastion	797	843
Turret	692	713
Zama	290	314
Truss	220	227
Total	**24,956**	**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

31 March 2008 (Unaudited)	Wave	Mars 2*	Mars 3*
Nominal amount (€'000)	210,000	164,500	210,500
Pay rate	4.03%	4.00%	3.92%
Receive rate	3 Month Euribor	3 Month Euribor	3 Month Euribor
Remaining life	6.0	6.3	6.3
Fair value of swaps (€'000)	968	825	1,976

* 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

31 March 2008 (Unaudited)	Feco EURO B Notes	Feco CHF B Notes	Feco CHF B Notes*	Feco GBP Notes	Feco GBP Notes**
Nominal amount (€'000)	14,923	3,725	2,376	30,707	38,585
Pay rate	2.87%	2.00%	-	4.63%	-
Receive rate	3 Month Euribor	3 Month CHF Libor	-	3 Month Libor	-
Remaining life	2.3	2.5	-	3.6	-
Fair value of swap assets (€'000)	445	83	53	340	427
Fair value of assets attributable to the risk hedged (€'000)	438	83	53	338	424

* 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 31 March 2008, the total capital under management was €1.46 billion (31 December 2007: €1.46 billion).

At 31 March 2008, the Group's leverage ratio was 80.2% (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 31 March 2008, a 100 basis point increase / (decrease) in the credit spreads would increase / (decrease) net book value by €69.6 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 31 March 2008, including the effect of hedging instruments, a 100 basis point increase / (decrease) in interest rates would increase / (decrease) earnings by approximately €1.7 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. As at 31 March 2008, a 100 basis point change in interest rates would impact the net book value by approximately €0.1 million (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 31 March 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 31 March 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, €2.1 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:

	31 March 2007 (Unaudited)			31 December 2007		
	Number of securities/ loans	Face value €'000	Location split	Number of securities/ loans	Face value €'000	Location split
United Kingdom	89	890,852	41.3%	89	972,570	44.4%
Italy	18	273,222	12.7%	19	278,904	12.7%
Germany	33	415,849	19.4%	33	433,550	19.8%
Pan-European	12	272,040	12.7%	13	204,589	9.3%
France	11	97,996	4.6%	11	103,287	4.7%
Other	34	199,000	9.3%	36	199,933	9.1%
	197	**2,148,959**	**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 85.7% 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 31 March 2008, were financed with a short-term floating facility of €402.9 million maturing in July 2008. On 14 May 2008, short term financing of €330 million (the outstanding balance at the time of signing) was signed for a 20 June 2009 maturity, amortising down to €250 million by 30 June 2008 and €200 million by 31 December 2008.

At 31 March 2007, 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 31 March 2008 and 31 December 2007:

31 March 2008 (Unaudited)

Type	Total outstanding at 31 March 2008 €'000	Within 1 year €'000	1 to 5 years €'000	Over 5 years €'000
Assets				
Cash and cash equivalents	160,439	160,439	-	-
Asset backed securities, available-for-sale (includes cash to be invested)	1,351,004	133,135	775,522	442,347
Real estate related loans	547,480	14,512	421,829	111,139
Derivative assets	53,043	8,200	37,774	15,430
Total assets	**2,111,966**	**316,286**	**1,235,125**	**568,916**
Liabilities				
Interest payable*	36,605	273,519	985,756	327,814
CDO bonds payable	1,731,919	-	-	1,731,919
Bank loans***	4,146,681	572,506	1,560,058	2,014,117
Finance leases payable**	26,167	1,553	6,451	99,036
Total liabilities	**5,941,372**	**847,578**	**2,552,265**	**4,172,886**

* 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.

*** As a result of the refinancing completed subsequent to quarter-end, of the €572.5 million financing due within one year, €73 million has been repaid and €200 million is now maturing within 1-5 years.

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**

* 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 31 March 2008 (Unaudited) Carrying value €'000	As at 31 December 2007 Carrying value €'000	As at 31 March 2008 (Unaudited) Fair value €'000	As at 31 December 2007 Fair value €'000
Financial assets				
Cash and cash equivalents	160,439	146,707	160,439	146,707
Asset backed securities, available-for-sale (includes cash to be invested)	1,351,004	1,488,837	1,351,004	1,488,837
Real estate related loans	547,480	570,916	502,583	546,636
Derivative assets	53,043	44,839	53,043	44,839
Financial liabilities				
CDO bonds payable	1,731,919	1,742,746	1,440,099	1,691,063
Bank loans	4,146,681	4,116,312	4,148,146	4,054,063
Finance lease payable	26,167	26,709	26,167	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 quarter ended 31 March 2008	Options remaining at 31 March 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

	Three months ended 31 March 2008 (Unaudited) €'000	Three months ended 31 March 2007 (Unaudited) €'000
Paid during the three months :	-	8,929
Equity dividends on ordinary shares		
Fourth quarter dividend for 2007: €0.30 (2006: €0.14)	19,178	8,929
	19,178	**8,929**
First quarter dividend for 2008: €0.00 (2007: €0.45)	-	28,711

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 31 March 2008, management fees, incentive fees and expense reimbursements of approximately €5.1 million (Note 20) (31 December 2007: €27.0 million) were due to the Manager. For the three months ended 31 March 2008 management fees of €5.5 million (31 March 2007: €5.4. million), no incentive fees (31 March 2007: nil), and expense reimbursements of €1.9 million (31 March 2007: €1.5 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:

Three months ended 31 March 2008 (Unaudited)	Debt investment €'000	Real estate fund units* €'000	Investment properties €'000	Unallocated €'000	Total Eurocastle €'000
Revenue	37,108	-	91,142	77	**128,327**
Other operating (loss) / income	-	-	(109,894)	-	**(109,894)**
Interest expense	(29,242)	-	(46,179)	-	**(75,421)**
Other operating expenses	624	-	(22,898)	(6,187)	**(28,461)**
Segment result	**8,490**	**-**	**(87,829)**	**(6,110)**	**(85,449)**
Taxation expense	-	-	1,317	-	**1,317**
Net profit	**8,490**	**-**	**(86,512)**	**(6,110)**	**(84,132)**
Decrease / (increase) in fair values	(1,444)	-	109,894	-	**108,450**
Deferred tax	-	-	(1,671)	-	**(1,671)**
Funds from operations	**7,046**	**-**	**21,711**	**(6,110)**	**22,647**

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

Three months ended 31 March 2007 (Unaudited)	Debt investment €'000	Real estate fund units €'000	Investment properties €'000	Unallocated €'000	Total Eurocastle €'000
Revenue	32,541	3,763	78,732	229	**115,265**
Other operating income / (loss)	230	3,346	43,583	-	**47,159**
Interest expense	(21,701)	(1,380)	(37,522)	-	**(60,603)**
Other operating expenses	(1,021)	(9)	(19,380)	(6,456)	**(26,866)**
Segment result	**10,049**	**5,720**	**65,413**	**(6,227)**	**74,955**
Taxation expense	-	-	(20,599)	-	**(20,599)**
Net profit	**10,049**	**5,720**	**44,814**	**(6,227)**	**54,356**
Decrease / (increase) in fair values	-	(3,346)	(43,583)	-	**(46,929)**
Deferred tax	-	-	20,503	-	**20,503**
Funds from operations	**10,049**	**2,374**	**21,734**	**(6,227)**	**27,930**

NOTES TO CONSOLIDATED INTERIM FINANCIAL STATEMENTS (UNAUDITED)

As at 31 March 2008 (Unaudited)	Debt investment €'000	Real estate fund units* €'000	Investment properties €'000	Unallocated €'000	Total Eurocastle €'000
Total assets	1,983,180	-	5,240,280	45,132	**7,268,592**
Total liabilities	(1,997,234)	-	(3,991,387)	(28,583)	**(6,017,204)**
Segment net assets	**(14,054)**	**-**	**1,248,893**	**16,549**	**1,251,388**
Tax liability	-	-	(25,571)	-	**(25,571)**
Minority interest	(2)	-	(4)	-	**(6)**
Net assets	**(14,056)**	**-**	**1,223,318**	**16,549**	**1,225,811**

* 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 2-40 s.a.r.l. (39 real estate holding companies numbered 2-40)
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 11 April 2008, the Group sold a non-core asset held within the Mars portfolio for a gross sale price of €58.5 million.

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.

On 14 May 2008, the Group signed 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, which is non-recourse to Eurocastle, becomes effective on 28 May 2008 and will amortize down to €250 million by 30 June 2008, €200 million by 31 December 2008 and mature in June 2009. The interest margin on the loan was unchanged at 1.0%. It has a current loan-to-value of 61%. The original Mars facility with approximately €1 billion outstanding due July 2014, remains in place with the following material changes: the interest margin on the loan will step up from 0.725 per cent to 1.20 per cent with effect from 1 January 2010 and the loan will amortize down by €50 million by 31 December 2009.

Subsequent to quarter end, signed letters of intent to sell approximately €350 million of German commercial real estate. It is anticipated that binding agreements will be entered into in the near future for completion in mid-2008, and that the sales will result in a net realised gain.

31. COMMITMENTS

As at 31 March 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)	Three months ended 31 March 2008 (Unaudited)	Three months ended 31 March 2007 (Unaudited)
Reconciliation of FFO to net profit after taxation		
Net (loss) / profit after taxation	(84,132)	54,356
Decrease / (increase) in fair value of investment properties	99,836	(41,268)
Decrease / (increase) in fair value of interest rate swaps	10,058	(2,315)
Unrealised movements on currency swaps (net of translation (gains) / losses on related assets)*	(1,444)	-
(Increase) /decrease in fair value of real estate fund units	-	(3,346)
Realised gain on sale of real estate fund units	-	-
Realised gain on sale of investment properties	-	-
Deferred tax (benefit) / charge on investment properties	(1,671)	20,503
Funds from operations (FFO)	**22,647**	**27,930**
FFO per weighted average basic share	0.35	0.44
FFO per weighted average diluted share	0.35	0.42

* During the three months ended 31 March 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.