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EUROPEAN EQUITY FUND, INC / MD
Form N-CSRS
September 04, 2008
UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D. C. 20549

FORM N-CSRS

Investment Company Act file number 811-04632

The European Equity Fund, Inc.

(Exact Name of Registrant as Specified in Charter)

345 Park Avenue

New York, NY 10154-0004

(Address of principal executive offices) (Zip code)

Registrant's Telephone Number, including Area Code: (212) 454-7190

Paul Schubert

345 Park Avenue

New York, NY 10154-0004

(Name and Address of Agent for Service)

Date of fiscal year end: 12/31

Date of reporting period: 06/30/08

ITEM 1. REPORT TO STOCKHOLDERS

SUMMARY OF GENERAL INFORMATION

THE FUND

The European Equity Fund, Inc. (the "Fund") is a non-diversified, actively-managed closed-end fund listed on the New York Stock Exchange with the symbol "EEA." The Fund seeks long-term capital appreciation primarily through investment in European equities. It is managed and advised by wholly-owned subsidiaries of the Deutsche Bank Group.

SHAREHOLDER INFORMATION

Prices for the Fund's shares are published daily in the New York Stock Exchange Composite Transactions section of newspapers. Net asset value and market price information are published each Saturday in *Barron's* and other newspapers in a table called "Closed End Funds." Daily information on the Fund's net asset value is available from NASDAQ (symbol XEEAX). It is also available by calling: 1-800-437-6269 (in the U.S.) or 212-454-6266 (outside of the U.S.). In addition, a schedule of the Fund's largest holdings, dividend data and general shareholder information may be obtained by calling these numbers.

The foregoing information is also available on our Web site: www.eeafund.com

There are three closed-end funds investing in European equities managed by wholly-owned subsidiaries of the Deutsche Bank Group:

- The European Equity Fund, Inc.—investing primarily in equity or equity-linked securities of companies domiciled in European countries that utilize the Euro currency.
- The New Germany Fund, Inc.—investing primarily in the middle market German companies and up to 35% of its assets in large cap German companies, and up to 20% elsewhere in Western Europe.
- The Central Europe and Russia Fund, Inc.—investing primarily in Central European and Russian companies.

Please consult your broker for advice on any of the above or call 1-800-437-6269 (in the U.S.) or 212-454-6266 (outside of the U.S.) for shareholder reports.

These funds focus their investments in certain geographical regions, thereby increasing their vulnerability to developments in that region. Investing in foreign securities presents certain risks, such as currency fluctuation, political and economic changes, and market risks. This may result in greater share price volatility.

**The European
Equity Fund, Inc.
Semi-Annual Report
June 30, 2008**

**The European
Equity Fund, Inc.**

LETTER TO THE SHAREHOLDERS

In the second quarter, global stock market performance was characterized by high volatility. Following aggressive policy measures by the US Federal Reserve Board (the Fed) to support the US financial sector in March, tension in the credit markets continued to ease and stock markets recovered until mid-May. From then on, however, stock markets declined based on a combination of renewed tensions in credit markets, negative indications for growth, and accelerating inflation. Important leading indicators, such as the German Ifo Business Climate Index, continued to signal a slowdown of growth, while consumer confidence continued to weaken, particularly in the US, UK, Spain, Italy, and — to a smaller extent — Germany. At the same time, commodity prices continued to rise significantly despite indications of slowing growth. Oil prices increased by some 34% over the quarter, reaching a record level of \$140 per barrel at the end of June 2008. Inflation accelerated on a global scale, reaching 4.0% year-over-year in the Eurozone in June.² With reference to the threat of further accelerating inflation and despite the weakening outlook for growth, the European Central Bank (ECB) signaled a rate increase for July, which was a further burden for stock markets.

For the six-month period ended June 30, 2008, the European Equity Fund's total return was -12.47% based on net asset value and -15.19% based on share price. During the same period, the total return of the Fund's benchmark, the MSCI-EMU, was -14.92%.²

In the second quarter of 2008, the Fund's outperformance was mainly attributable to stock selection effects, particularly from the small-cap segment of the Fund. While allocation decisions played a lesser role in this quarter's performance, investments in the ex-benchmark countries Norway and Switzerland added to results from a regional perspective. On a single-stock basis, the largest positive contributions in the quarter were provided by holdings in Bauer, K+S and Fortum. Summarizing the Fund's structure on a country level, Germany is still the Fund's largest overweight, but to a lesser extent than in the first quarter.³ Additions in Spain turned the Fund's position to an overweight in the second quarter. The biggest underweight by far continues to be France, even though we increased the exposure there, followed by Italy and the Benelux countries. Switzerland and Norway are the two countries we continue to prefer outside the benchmark universe.

From a sector perspective, over the second quarter, we increased the Fund's financials and materials weightings while reducing technology holdings. We continued to underweight consumer goods, banks and financial services, while the largest overweight sectors in the Fund are industrials, technology, and health care. In the industrials sector, we sold two of the Fund's small cap holdings, Metso and D+S Europe, and reduced a position in Siemens. We added three new holdings in the sector, emphasizing infrastructure and oil-related themes: Spanish Obrascon Huarte for its growth in the concession business; the Italian foundation engineering company Trevi Finanziaria; and Vestas Wind Systems, the wind turbine manufacturer from Denmark. The overweight in the technology sector was significantly reduced as we sold the Fund's holdings in SAP, Inficon and Smartrac. In the health care sector, the Fund's overweight and holdings were unchanged. Within this defensive sector, we continued to favor Swiss Lonza Group, which is less exposed to GDP trends and raw material cycles and benefits from global trends towards outsourcing in the (bio)pharma industry, and Spanish Grifols, the manufacturer of high-quality blood products purified from blood plasma. Within the energy sector, where the Fund's overweight remained the same, we shifted the relative preference from OMV and Statoil, both of which we sold, to the

For additional information about the Fund including performance, dividends, presentations, press releases, daily NAV and shareholder reports, please visit www.eeafund.com

LETTER TO THE SHAREHOLDERS (continued)

oil major Total, now a neutral position, and added Norwegian oil service firm Aker Solutions ASA. Related to the dynamics in the energy sector we have emphasized utilities that benefit most from an increasing spread between the electricity prices they can charge and the production cost — a function of the power generation mix, favoring "clean" or "green" energy sources. While the Fund's utility sector weight remains neutral, over the quarter we added Iberdrola Renovables, the renewable energy arm of Spanish Iberdrola. We further added Suez as a neutral-weight position. Telecom is now represented in the Fund by only two holdings, resulting in a slightly underweight overall sector position: Telefonica, which we increased, and Telekom Austria. We eliminated the Fund's position in Hellenic Telecom after Deutsche Telekom took a controlling stake. In the materials sector, we added K+S again, but maintained an underweight position in the sector as we are cautious about the repercussions of the economic slowdown on this typically cyclical space. The Fund's holdings in the financial sector continued to be underweight with a preference for insurance companies, which we accentuated further by adding Dutch Aegon to the Fund. While still fairly underweight in banks and diversified financials, we took a first gradual step to position for a turnaround in the sector by adding UBS AG. We also bought National Bank of Greece and DnB NOR, two new positions that are in line with our preferred low-risk approach favoring well-capitalized banks in countries where customers are underleveraged. On the other hand, we sold Hellenic Exchanges as their operational trends have been deteriorating rapidly and reduced UniCredito Italiano SpA, which we still like but where headwinds continue. Within the underweighted consumer sectors the most significant change over the second quarter was the sale of most of the Fund's holding in Continental, and addition of Nokian Renkaat of Finland.

The European Equity Fund purchased 8,500 of its shares in the open market during the 2nd quarter of 2008. The Fund's discount to net asset value averaged 11.79% for the fiscal 2nd quarter ending June 30, 2008, compared with 7.37% for the same period last year.

¹ The Ifo Business Climate Index is a closely watched indicator of German business conditions, based on a monthly survey of about 7,000 companies. It is widely seen as a barometer for economic conditions in the whole of the Eurozone, which is a term used to describe the countries that joined the third stage of EMU and adopted the euro.

² The MSCI-EMU Index is an unmanaged capitalization weighted index that is comprised of more than 300 stocks of companies domiciled in the countries utilizing the Euro currency. MSCI indices are calculated using closing local market prices and converted to US dollars using the London close foreign exchange rates. Index returns assume reinvested dividends and, unlike Fund returns, do not reflect any fees or expenses. It is not possible to invest directly into an index.

³ "Overweight" means the Fund holds a higher weighting in a given sector or security than the benchmark. "Underweight" means the Fund holds a lower weighting.

Sincerely,

Christian Strenger
Chairman

Ralf Oberbanscheidt
Lead Portfolio Manager

Michael G. Clark
President and Chief
Executive Officer

The sources, opinions and forecasts expressed are as of the date of this report. There is no guarantee that the views, opinions and forecasts expressed herein will come to pass. This information is subject to change at any time based on market and other conditions and should not be construed as a recommendation for any specific security. Past performance does not guarantee future results.

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FUND HISTORY AS OF JUNE 30, 2008

All performance shown is historical, assumes reinvestment of all dividend and capital gain distributions, and does not guarantee future results. Investment return and principal value fluctuate with changing market conditions so that, when sold, shares may be worth more or less than their original cost. Current performance may be lower or higher than the performance data quoted. Please visit www.eefund.com for the Fund's most recent performance.

TOTAL RETURNS:

	For the six months period June 30,	For the years ended December 31,				
	2008(b)	2007	2006	2005	2004	2003
Net Asset Value(a)	(12.47)%	15.35%	34.01%	7.17%	12.58%	59.62%
Market Value(a)	(15.19)%	11.79%	42.35%	9.66%	7.25%	68.81%
Benchmark	(14.92)%(1)	19.55%(1)	36.29%(1)	8.41%(2)	15.91%(3)	65.16%(3)

(a) Total return based on net asset value reflects changes in the Fund's net asset value during each period. Total return based on market value reflects changes in market value. Each figure includes reinvestments of dividend and capital gain distributions, if any, at prices obtained under the Fund's reinvestment program. These figures will differ depending upon the level of any discount from or premium to net asset value at which the Fund's shares trade during the period.

(b) Total returns shown for the six month period are not annualized.

(1) Represents MSCI-EMU Index*.

(2) Represents DAX Index** for 1/1/05–10/31/05 and MSCI-EMU* for 11/1/05–12/31/05.

(3) Represents DAX Index**.

* The MSCI-EMU index is an unmanaged capitalization weighted index that is comprised of more than 300 stocks of companies domiciled in the countries utilizing the Euro currency. MSCI indices are calculated using closing local market prices and translates into US dollars using the London close foreign exchange rates.

** DAX Index is a total rate of return index of 30 selected German blue chip stocks traded on the Frankfurt Stock Exchange.

Index returns assume reinvested dividends and, unlike Fund returns, do not reflect any fees or expenses. It is not possible to invest directly into an index.

Investments in funds involve risk including the loss of principal.

This Fund is not diversified and primarily focuses its investments in equity securities of issuers domiciled in European countries that utilize the Euro currency, thereby increasing its vulnerability to developments in that region. Investing in foreign securities presents certain risks, such as currency fluctuation and political and economic changes and market risks. This may result in greater share price volatility.

Closed-end funds, unlike open-end funds, are not continuously offered. Shares, once issued, are traded in the open market through a stock exchange. Shares of closed-end funds frequently trade at a discount to net asset value. The price of the Fund's shares is determined by a number of factors, several of which are beyond the control of the Fund. Therefore, the Fund cannot predict whether its shares will trade at, below or above net asset value.

The Fund has elected to not be subject to the statutory calculation, notification and publication requirements of the German Investment Tax Act (Investmentsteuergesetz). As a result, German investors in the Fund may be subject to less favorable lump-sum taxation under German law.

FUND HISTORY AS OF JUNE 30, 2008 (continued)**STATISTICS:**

Net Assets	\$ 138,880,854
Shares Outstanding	12,240,568
NAV Per Share	\$ 11.35

DIVIDEND AND CAPITAL GAIN DISTRIBUTIONS:

Record Date	Payable Date	Ordinary Income	ST Capital Gains	LT Capital Gains	Total
05/06/08	05/15/08	\$ —	\$ 0.124	\$ 0.403	\$ 0.527
12/21/07	12/31/07	\$ —	\$ —	\$ 1.000	\$ 1.000
05/03/07	05/15/07	\$ 0.250	\$ —	\$ —	\$ 0.250
12/21/06	12/28/06	\$ 0.290	\$ —	\$ —	\$ 0.290
05/05/06	05/15/06	\$ 0.090	\$ —	\$ —	\$ 0.090
12/22/05	12/30/05	\$ 0.060	\$ —	\$ —	\$ 0.060
12/22/04	12/31/04	\$ 0.025	\$ —	\$ —	\$ 0.025
05/06/04	05/14/04	\$ 0.039	\$ —	\$ —	\$ 0.039
11/19/02	11/29/02	\$ 0.010	\$ —	\$ —	\$ 0.010
11/19/01	11/29/01	\$ 0.060	\$ —	\$ —	\$ 0.060
09/03/01	09/17/01	\$ —	\$ —	\$ 0.020	\$ 0.020
11/20/00	11/29/00	\$ —	\$ —	\$ 2.180	\$ 2.180
09/01/00	09/15/00	\$ 0.190	\$ —	\$ 0.120	\$ 0.310

OTHER INFORMATION:

NYSE Ticker Symbol	EEA
NASDAQ Symbol	XEEAX
Dividend Reinvestment Plan	Yes
Voluntary Cash Purchase Program	Yes
Annual Expense Ratio (6/30/08)	1.29%

Fund statistics and expense ratio are subject to change. Distributions are historical, will fluctuate and are not guaranteed.

PORTFOLIO BY MARKET SECTOR AS OF JUNE 30, 2008(As a % of Portfolio's Assets)

10 LARGEST EQUITY HOLDINGS AS OF JUNE 30, 2008 (As a % of Portfolio's Net Assets)

1.	Telefonica	5.0%
2.	Total	4.5%
3.	E.ON	4.0%
4.	AXA	3.7%
5.	Intesa Sanpaolo	3.0%
6.	Nokia	3.0%
7.	Allianz	3.0%
8.	UniCredito Italiano SpA	2.7%
9.	BASF	2.6%
10.	Iberdrola	2.4%

Portfolio by Market Sector and 10 Largest Equity Holdings are subject to change and not indicative of future portfolio composition.

Following the Fund's fiscal first and third quarter-end, a complete portfolio holdings listing is filed with the SEC on Form N-Q. The form will be available on the SEC's Web site at www.sec.gov, and it also may be reviewed and copied at the SEC's Public Reference Room in Washington, D.C. Information on the operation of the SEC's Public Reference Room may be obtained by calling (800) SEC-0330.

INTERVIEW WITH THE LEAD PORTFOLIO MANAGER — RALF OBERBANNSCHEIDT

Question:How is the economy in France faring after president Nicolas Sarkozy took office last year?

Answer: Since taking office, Sarkozy proposed constitutional reforms, dealt with civilian's issues and other public sectors. Given the global economic crisis, the French economy's outlook is no better than elsewhere in the region. However, the recent rise of inflation in France is not as large as with other Eurozone countries. The drop of consumer sentiment was primarily due to weakening prospects for housing prices and a deterioration of wage growth. Export forecasts for 2008 and 2009 are weak and do not suggest signs of improvement or recovery until 2010. France was the second-largest country weighting for European Equity Fund ending second quarter of 2008, accounting for 20%. As of the end of the period, we were underweight the country relative to the fund's MSCI EMU benchmark and continued to focus on stock selection.

Question:Climate change has been a key focus of governments and investors lately. How is this issue impacting European countries, and how is the Fund positioned to take advantage of the heightened interest in climate change?

Answer: Climate change is accelerating around the world. What we see today are only the early signs of climate change and the result of past greenhouse gas emissions. European countries are starting to take action to prevent climate change from reaching catastrophic dimensions later this century. Recently the European Commission adopted its first policy document on dealing with the impacts of climate change. In light of rising energy prices, some utility companies have to seek alternative energy to generate power and to increase efficiency. And companies in the industrial sector are also eager to adapt policies to improve efficiency. The European Equity Fund currently owns Solarworld and Vestas Wind Systems in this regard. In general, the fund is overweight relative to its benchmark in the energy and industrial sectors and market weight in the utility sector.

Question:In light of the recent market sell-off, how do European stocks look at the current level?

Answer: During the first six months of 2008, most European indices declined by mid teen to mid 20% levels. We believe the equity market in Europe is trading at a reasonable valuation compared to six months ago. Despite the economic slowdown, heightened inflation concerns and weak consumer sentiments, we view this as a transitional economic cycle, which may pass in the medium term. The forecast of real GDP growth in Europe (except Italy and Ireland) is likely to exceed real GDP growth in the US for 2008 and 2009. In our view, many European economies are in a better position compared to the US economy for a recovery over the next few years.

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ECONOMIC OUTLOOK

Market sentiment remains dominated by fears of inflation and slower economic growth. These concerns were fuelled by the price rally in commodities and in particular by the record high oil and agricultural prices witnessed during the second quarter. The consumer price index proved investors right, increasing 4% year-on-year as of June, while GDP shows a modest deceleration to +2.1% year-on-year as of March 2008. As a result, we observed a continuing deterioration in valuation levels that now have breached the bottom of our range-bound expectation for market levels. Nevertheless, we expect that markets will broadly stay within these bounds, which is fundamentally based on the view of risk premia and volatility returning to their normal levels while we believe current valuation levels will require incremental bad news for the market to fall meaningfully further. Despite waning consumer and business confidence indicators, the labor market remains in good health. The European Central Bank (ECB) stated they will raise interest rates by quarter point to 4.25% during early July.

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THE EUROPEAN EQUITY FUND
SCHEDULE OF INVESTMENTS — JUNE 30, 2008 (unaudited)

Shares	Description	Value ^(a)
INVESTMENTS IN GERMAN SECURITIES – 29.5%		
COMMON STOCKS – 28.0%		
AUTO COMPONENTS – 1.0%		
14,000	Continental	\$ 1,439,569
CHEMICALS – 8.0%		
52,000	BASF	3,589,770
5,000	K + S	2,885,345
23,000	Linde	3,235,714
7,000	Wacker Chemie	1,464,051
		11,174,880
CONSTRUCTION & ENGINEERING – 1.1%		
16,000	Bauer†	1,545,656
DIVERSIFIED FINANCIAL SERVICES – 1.2%		
15,000	Deutsche Boerse	1,694,106
ELECTRIC UTILITIES – 4.1%		
28,000	E.ON	5,652,850
ELECTRICAL EQUIPMENT – 3.5%		
38,000	Solarworld	1,812,120
64,325	Tognum	1,734,900
10,000	Vestas Wind Systems*	1,309,702
		4,856,722
INDUSTRIAL CONGLOMERATES – 2.2%		
27,500	Siemens	3,055,173
INSURANCE – 4.7%		
23,000	Allianz	4,054,607
14,000	Muenchener Rueckversicherungs	2,453,906
		6,508,513
INTERNET SOFTWARE & SERVICES – 1.2%		
85,000	United Internet†	1,676,541
SOFTWARE – 1.0%		
22,000	Software AG	1,335,750
	Total Common Stocks (cost \$32,404,643)	38,939,760
PREFERRED STOCK – 1.5%		
HEALTHCARE EQUIPMENT & SUPPLIES – 1.5%		
24,000	Fresenius (cost \$783,786)	\$ 2,074,613