EUROPEAN EQUITY FUND, INC / MD
Form N-CSR
March 09, 2009
UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D. C. 20549

FORM N-CSR

Investment Company Act file number 811-4632

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: 12/31/08

ITEM 1. REPORT TO STOCKHOLDERS

SUMMARY OF GENERAL INFORMATION

THE FUND

The European Equity Fund, Inc. (the "Fund") is a 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:

o The European Equity Fund, Inc.--investing primarily in equity and equity-linked securities of companies domiciled in European countries utilizing the Euro currency.

o The New Germany Fund, Inc.--investing primarily in middle market German companies and up to 20% elsewhere in Western European companies (with no more than 10% in any single country).

o The Central Europe and Russia Fund, Inc.--investing primarily in Central European and Russian equities.

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.

The European

Equity Fund, Inc.

Annual Report

December 31, 2008

20957

The European
Equity Fund, Inc.

LETTER TO THE SHAREHOLDERS

In the fourth quarter of 2008, the impact of the financial crisis on the general economy became increasingly apparent. Companies in the industrial sector, which had reported a mild decrease in order intake for the third quarter, faced a sharp reduction in order activity. From October onwards, earnings forecasts for 2008 were reduced and visibility for 2009 vanished. The US and European stock markets accordingly continued their steep declines until the end of November, followed by a relief rally through December.

During the fourth quarter, the remaining confidence in a potential economic recovery in early 2009 dissipated. In the US, the unemployment rate rose to its highest level in 15 years. The US Federal Reserve Board (the Fed) cut the key rate from 1% to a target range of 0.00-0.25%, essentially saying farewell to traditional interest-rate policy.

In Europe, the leading indicators showed a rapid deterioration in the economic environment and hinted at a rather bleak start in 2009. The German Ifo Business Climate Index fell in December to its lowest level since 1982 (at the time West Germany only).[1] In the euro-zone, annualized industrial production fell in October more than at any time in the preceding 15 years. The European Central Bank made its biggest rate cut ever, reducing the key rate by 75 basis points to 2.5% while the Bank of England cut the base rate by one percentage point to 2% (the lowest level since 1951).

During the fourth quarter, the worst performing sector by quite some margin was the financial sector; the best performing sectors were telecommunications and health care due to their defensive nature. Within Europe, the Fund's focus market, the European Monetary Union (EMU), performed slightly better than the wider European region. The weakest countries within the EMU were smaller countries, such as Luxembourg, Austria, Greece and Ireland, while the core countries -- France and Germany -- showed relative resilience. Small- and mid-cap stocks in the EMU generally underperformed large-cap stocks.

The fourth quarter saw an unabated, and even accelerated, reduction in earnings forecasts. Nonetheless, we believe that consensus earnings estimates still have to come down considerably. Although current valuations may provide some market support, share prices still tend to react on negative earnings news, so we do not expect a sustainable recovery until consensus earnings have been revised further downward. In addition we need to see improvement in the leading economic indicators and signs that the credit market have started to open up so that the exceptional high risk aversion can revert to more normalized levels.

For the fiscal year ended December 31, 2008, the European Equity Fund's total return was -50.68% based on net asset value and -53.96% based on share price. The Fund's net asset value is denominated in US dollars, therefore, the decline in foreign currency against the dollar affected the Fund's total return. During the same period, the total return of the Fund's benchmark, the MSCI-EMU, was -47.57%.[2] From a country perspective, the overweight in Germany and the underweight in Benelux and Ireland contributed positively while the overweight in Norway and Cyprus were the biggest performance detractors.[3] The Fund's underperformance was mainly attributable to sector selections: the energy sector and the industrials sector were the biggest performance detractors; defensive positioning in the financial and the IT sectors generated a positive contribution.

On a single-stock basis, the largest positive contributions in the quarter were the holding in Hannover Rueckversicherung and underweight positions in ING* and Banco Santander. The Fund's holdings in Aegon* and AXA and an underweight in France Telecom were the largest negative contributors. The Fund's structural component of small- and mid-cap stocks (introduced in the third quarter of 2007) was reduced in the fourth quarter from 21% to 17% as small-caps on aggregate have higher financial leverage and tend to underperform in a deteriorating economic environment with tighter credit conditions.

On a country level, Germany is now its biggest overweight followed by Switzerland. The biggest underweight continues to be France followed by the Benelux countries and Italy.

From a sector perspective, the biggest changes during the fourth quarter were in the telecom sector, where the Fund

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

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LETTER TO THE SHAREHOLDERS (continued)

shifted from a slight underweight to an overweight position as high dividend yield and stable cash flows represent an attractive investment in such turbulent times, and in the energy sector, where the Fund's significant overweight position was reduced due to the continued oil price collapse.

In the consumer sector we sold the Fund's position in Finish Nokian Renkaat as the outlook for its Russian tire business continued to worsen, and added Dutch Unilever NV Certificates based on the stock's valuation and hopes that the new CEO can achieve a long-anticipated turnaround.

In the energy sector, reduction in capex spending on new oil exploration projects would be especially negative for new orders of oil service companies. We sold the Fund's positions in Norwegian Aker Solutions, French Generale de Geophysique-Veritas and Spanish Tecnicas Reunidas & Westinghouse.

In the financial sector we continue our pronounced preference for companies in the insurance sector, particularly non-life and re-insurance. They are generally less exposed to investment risk and therefore the risk of dilutive capital increases. We added a position in Swiss Helvetia Holding, which has a solid capital base and a defensive investment portfolio, and bought a small position in German Commerzbank, which traded at a significant discount to book value despite an improved capital base after receiving capital support from the German government. We sold the Fund's position in Dutch Aegon, which has significant investment exposure to the deteriorating corporate bond market, as well as Bank of Cyprus and Greek EFG Eurobank to reduce exposure to the banking sector. We also sold the position in German IVG, as the highly leveraged real estate sector has been hit hard by the worsening credit market conditions.

In the industrial sector we switched out of the Danish Vestas Wind Systems into the Spanish Gamesa Corp. Tecnologica, as the latter represents more defensive exposure in the alternative energy space. We sold the Fund's position in Dutch Boskalis Westminster, as the company had to withdraw its bid for Smit International, and Flughafen Wien due to the deteriorating economic environment in Central and Eastern Europe. We added a position in German GEA Group as the current share price does not reflect the solid order back log of the company. In the materials sector we sold some of the less diversified cyclical stocks (German K+S and French Lafarge). After a steep share price drop we bought a position in Luxembourg-based ArcelorMittal, despite the cyclicality of its business, as the share price does not give the largest steel maker of the world credit for its medium-term earnings potential. In the telecommunication sector, which represents an attractive investment with its high dividend yields and stable cash flows in such turbulent times, we added German Deutsche Telekom and French France Telecom.

The European Equity Fund's discount to net asset value averaged 12.99% for the year ending December 31, 2008, compared with 8.47% for the prior year. The Fund purchased 80,800 of its shares in the open market during the fourth quarter of 2008.

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.

[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 approximately 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.

The Benelux is an economic union in Western Europe that comprises three neighboring countries, Belgium, the Netherlands, and Luxembourg, which lie in the north western European region between France and Germany

* Not held in the portfolio as of December 31, 2008.

Sincerely,

Christian Strenger Chairman	Ralf Oberbannscheidt Lead Portfolio Manager	Michael G. Clark President and Chief Executive Officer

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

ECONOMIC OUTLOOK

Economic expectations for 2009 took a severe hit in the fourth quarter and more companies accordingly reduced their forecasts. Order intake had come to a complete standstill in several industrial sectors. Market participants are not giving the huge global economic stimulus that has been implemented the benefit of the doubt; instead, they are waiting to see some results before reducing the risk premium for equities. GDP growth in the EU decelerated to a 0.6% rate in the third quarter of 2008 and is expected to contract in 2009, in part due to Germany's export-driven economy, which will be impacted by declining global demand.

Concerns of inflation have shifted to concerns of deflation as the price of oil continued to fall during the quarter, returning to levels last seen in 2004. The pace of inflation in the Eurozone slowed from a high of 4.0% year-on-year in July 2008 to 1.6% in December. Retail sales fell 2.6% in November and are expected to continue declining in December. Unemployment ticked up to 8.0% in December from 7.6% at the end of the third quarter. The European Central Bank (ECB) reduced interest rates 0.75 percentage points to 2.5%.

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FUND HISTORY AS OF DECEMBER 31, 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.eeafund.com for the Fund's most recent performance.

TOTAL RETURNS:

	For the years ended December 31,				
	2008	**2007**	**2006**	**2005**	**2004**
Net Asset Value(a)	(50.68)%	15.35%	34.01%	7.17%	12.58%
Market Value(a)	(53.96)%	11.79%	42.35%	9.66%	7.25%
Benchmark	(47.57)%(1)	19.55%(1)	36.29%(1)	8.41%(2)	15.91%(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 gains distributions, if any. 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.

(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 approximately 300 stocks of companies domiciled in the countries utilizing the Euro currency. MSCI indices are calculated using closing local market prices and translate 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 reinvestment of dividends and, unlike Fund returns, do not reflect any fees or expenses. It is not possible to invest directly in an index.

Investments in funds involve risk including the loss of principal.

This Fund is diversified but 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, 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 DECEMBER 31, 2008 (continued)

STATISTICS:

Net Assets	$ 77,263,373
Shares Outstanding	12,107,168
NAV Per Share	$ 6.38

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 (12/31/08)	1.43%

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

PORTFOLIO BY MARKET SECTOR AS OF DECEMBER 31, 2008
(As a % of Common and Preferred Stocks)

10 LARGEST EQUITY HOLDINGS AS OF DECEMBER 31, 2008
(As a % of Common and Preferred Stocks)

1.	Total	6.1%
2.	E.ON	5.6%
3.	Telefonica	5.0%
4.	Allianz	4.4%
5.	Linde	3.8%
6.	Bayer	3.7%
7.	Intesa Sanpaolo	3.5%
8.	UniCredit SpA	3.3%
9.	Deutsche Telekom	3.3%
10.	Iberdrola	3.1%

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-ends, 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 has the banking crisis affected companies in the European Monetary Union (EMU)? What exposure did the Fund have to impacted stocks?**

Answer: The banking system in EMU countries has been impacted by the financial crisis in much the same way as the US system. Germany, for example, has a network of regional state banks that were particularly hard hit in the early days of the subprime crisis, suffering billions of dollars in losses. Throughout 2008, the problems spread to listed European banks, which suffered significant declines in market value amidst investor concerns fueled by liquidity issues and write-downs of more than $100 billion since 2007. Governments in the EMU spent more than $90 billion in 2008 bailing out banks. As governments around the world acted in concert in the fall of 2008 to boost confidence in a coordinated global response to the credit crisis, governments in the EU unveiled EUR 2 trillion in rescue packages. This included a EUR 500 billion German rescue package that was initially shunned due to conditions placed on companies that accepted the rescue funds, such as limits to dividend payments, executive pay and a requirement to lend to small companies. The Fund owned shares of several European banks during the second half of 2008.

***Question:* What steps have European governments taken to address the crisis and stimulate the economy?**

Answer: The European Commission called on member states to implement stimulus measures. Each of the five largest countries in the EMU (Germany, France, Italy, Spain, and the Netherlands) has announced fiscal stimulus packages, totaling more than EUR 110 billion. The German government unveiled a EUR 12 billion stimulus package that included measures primarily focused on infrastructure spending and tax incentives. The package was perceived to be inadequate and was subsequently followed by an additional EUR 50 billion package, bringing the size of the total stimulus to 2.6% of the country's GDP.

The new package includes a combination of infrastructure spending, tax relief, spending incentives, loan guarantees, and other measures and will be spent over two years. Although it is the largest stimulus package Germany has ever implemented and the largest of the stimulus plans announced by EU member countries, economists believe this may still be inadequate to avoid a deep recession. France's EUR 26 billion stimulus package is focused on infrastructure projects, support for low-income households, and incentives for small businesses to hire.

***Question:* The Fund's discount to NAV widened in the last few months of 2008. Why has this happened and what is fund management doing to address this issue?**

Answer: The Fund's management monitors the discount to NAV on a daily basis and reviews the discount trend with the Fund's Board of Directors on a quarterly basis. It is our observation that the Fund's discount to NAV tends to widen during periods of market decline, as we saw also in 2001 and 2002. The Fund's management team continues to managed the Fund's assets to maximize long-term value for stockholders. In addition, recognizing that some stockholders are troubled when the discount appears to be "too high", the Fund repurchases shares when it believes it is advantageous to do so. To address the discount level, a share buyback program is in place that saw 141,900 shares being repurchased during the annual period ended December 31, 2008.

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DIRECTORS OF THE FUND

Name, Address, Age*	Principal Occupation(s) During Past Five Years	Other Directorships Held by Director
Detlef Bierbaum, 66 Class I	Member of the Supervisory Board of Sal. Oppenheim Jr. & Cie KGaA (investment management) (over five years).	Director of The Central Europe and Russia Fund, Inc. (since 1990) and The New Germany Fund, Inc. (since 2008).(1) Member of Supervisory Board, Tertia Handelsbeteiligungsgesellschaft mbH (electronics retailer). Member of Supervisory Board, Douglas AG (retailer). Member of Supervisory Board, LVM Landwirtschaftlicher Versicherungsverein (insurance). Member of Supervisory Board, Monega KAG. Member of Supervisory Board, AXA Investment Managers GmbH (investment company). Chairman of Supervisory Board, Oppenheim Kapitalanlagegesellschaft mbH (investment company). Chairman of the Supervisory Board, Oppenheim Real Estate Investment GmbH. Member of the Board of Dundee REIT, Toronto.
Dr. Kurt W Bock, 50 Class III	Chairman and Chief Executive Officer of BASF Corporation, (since 2007); and Member of the Board of Executive Directors and CFO, BASF Aktiengesellschaft (since 2003; since January 14, 2008 BASF SE).	Director of The Central Europe and Russia Fund, Inc. (since 2004) and The New Germany Fund, Inc. (since 2008). Member of the Supervisory Board of Wintershall Holding AG (since 2006). Member of the Advisory Board of Gebr. Rochling KG (since 2004). Member of the Board of Deutsches Rechnungslegungs Standards Committee ("DRSC") (since 2003).
John A. Bult, 72 Class II	Chairman, PaineWebber International (asset management) (since 1985).	Director of The Central Europe and Russia Fund, Inc. (since 1990) and The New Germany Fund, Inc. (since 1990).(1) Director of The Greater China Fund, Inc. (closed-end fund).
Ambassador Richard R. Burt, 61 Class II	Managing Director, McLarty Associates (international strategic advisory) (since 2007). Chairman, IEP Advisors, LLP (information services firm). Chairman of the Board, Weirton Steel Corp. (1996-2004). Formerly, Partner, McKinsey & Company (consulting firm) (1991-1994). U.S. Ambassador to the Federal Republic of Germany (1985-1989).	Director of The Central Europe and Russia Fund, Inc. (since 2000) and The New Germany Fund, Inc. (since 2004). Board Member, IGT, Inc. (gaming technology) (since 1995). Director, UBS family of Mutual Funds (since 1998).

DIRECTORS OF THE FUND (continued)

Name, Address, Age*	Principal Occupation(s) During Past Five Years	Other Directorships Held by Director
John H. Cannon, 66 Class I	Consultant (since 2002). Vice President and Treasurer, Venator Group/Footlocker, Inc. (footwear retailer) (until 2001).	Director of The New Germany Fund, Inc. (since 1990) and The Central Europe and Russia Fund, Inc. (since 2004).
Richard Karl Goeltz, 66 Class I	Consultant. Retired Vice Chairman and Chief Financial Officer of American Express Co. (financial services) (1996-2000).	Director of The New Germany Fund, Inc. (since 1990) and The Central Europe and Russia Fund, Inc. (since 2008). Independent Non-Executive Director of Aviva plc (financial services). Director of The Warnaco Group, Inc. (apparel). Trustee, The American Academy in Berlin (since 2008). Member of the Court of Governors of the London School of Economics and Political Science.
Dr. Franz Wilhelm Hopp, 66 Class III	Members of the Board of Management of VICTORIA Holding, VICTORIA Lebensversicherung AG, VICTORIA Versicherung AG, VICTORIA International, VICTORIA Ruckversicherung AG and D.A.S. Versicherungs-AG (insurance). Former Member of the Boards of Management of ERGO Versicherungsgruppe AG, ERGO Europa Beteiligungsgesellschaft AG, and ERGO International AG (insurance).	Director of The New Germany Fund, Inc. (since 1993) and The Central Europe and Russia Fund, Inc. (since 2008). Chairman of the Supervisory Board of Ideenkapital Media Finance. Member of the Supervisory Boards of Jenoptik, AG; TMW Immobilien AG; Oesterreichische Volksbanken; Karastadt Quelle Bank GmbH; GFKL Financial Services AG; MEAG Munich ERGO Kapitalanlagegesellschaft mbH; Internationales Immobilieninstitut GmbH; TMW Real Estate Group L.P., and Victoria Volksbanken, Oesterreich. Member of the Administrative Boards of Frankfurter Volksbank (bank) and HSBC Trinkaus & Burkhardt (bank). Member of the Advisory Boards of Dresdner Bank AG, EnBW Energie Baden-Wuerttemberg AG (energy); Falke Bank AG; Landerskreditbank Baden-Wuerttemberg; Millenium Entertainment Partners L.P. and MPE Hotel, LLC.
Dr. Friedbert Malt, 67 Class II	Vice Chairman and Member of the Executive Committee of NOL Neptune Orient Lines Ltd., Singapore ("NOL") (since 2002).	Director of The Central Europe and Russia Fund, Inc. (since 2007) and The New Germany Fund, Inc. (since 2007). Director, TUV Rheinland of North America, Inc. (independent testing and assessment services). Member of the Board of NOL (since 2000).

DIRECTORS OF THE FUND (continued)

Name, Address, Age*	Principal Occupation(s) During Past Five Years	Other Directorships Held by Director
Christian H. Strenger, 65 Class III	Member of Supervisory Board of DWS Investment GmbH (investment management) (since 1999), a subsidiary of Deutsche Bank AG.	Director of The New Germany Fund, Inc. (since 1990) and The Central Europe and Russia Fund, Inc. (since 1990).[1] Member, Supervisory Board, Evonik Industries AG (chemical/utility), Fraport AG (international airport business) and Hermes Focus Asset Management Europe Ltd. (asset management).
Dr. Frank Tromel, 72 Class I	Deputy Chairman of the Supervisory Board of DELTON AG (strategic management holding company operation in the pharmaceutical, household products, logistics and power supply sectors) (2000-2006). Member (since 2000) and Vice-President (2002-2006) of the German Accounting Standards Board.	Director of The New Germany Fund, Inc. (since 1990) and The Central Europe and Russia Fund, Inc. (since 2005).
Robert H. Wadsworth, 68 Class II	President, Robert H. Wadsworth Associates, Inc. (consulting firm) (May 1983-present).	Director of The New Germany Fund, Inc. (since 1992) and The Central Europe and Russia Fund, Inc. (since 1990), as well as other funds in the Fund Complex as indicated.[2]
Werner Walbrol, 71 Class III	Delegate for North America, Humboldt-Universitat zu Berlin. Formerly, President and Chief Executive Officer, The European American Chamber of Commerce, Inc. (until 2008). Formerly, President and Chief Executive Officer, The German American Chamber of Commerce, Inc. (until 2003).	Director of The Central Europe and Russia Fund, Inc. (since 1990) and The New Germany Fund, Inc. (since 1990). Director, TUV Rheinland of North America, Inc. (independent testing and assessment services). Director, The German American Chamber of Commerce, Inc. President and Director, German-American Partnership Program (student exchange programs).

DIRECTORS OF THE FUND (continued)

Name, Address, Age*	Principal Occupation(s) During Past Five Years	Other Directorships Held by Director
Peter Zuhlsdorff, 67 Class II	Managing Director of DIH Deutsche Industrie Holding (holding company) (since 1997). Managing Director of DSO Duales System Deutschland AG (recycling) (until 2006).	Director of The New Germany Fund, Inc. (since 1997) and The Central Europe and Russia Fund, Inc. (since 2008). Chairman of the Supervisory Board, Sinn Leffers AG (retail). Member of the Supervisory Boards of Kaisers Tengelmann AG (food and specialty retailing) and YOC AG (mobile marketing). Member of the Advisory Board, Tengelmann Verwaltungs-und Beteiligungsgesellschaft GmbH (food and specialty retailing) and Ziegler Film (TV and film productions). President of the Wettbewerbs Centrale (competition center).

The term of office for Directors in Class I expires at the 2009 Annual Meeting, Class II expires at the 2010 Annual Meeting and Class III expires at the 2011 Annual Meeting. Each Director also serves as a Director of The Central Europe and Russia Fund, Inc., and The European Equity Fund, Inc., the two other closed-end registered investment companies for which Deutsche Investment Management Americas Inc. acts as manager.

(1) Indicates "interested" Director, as defined in the Investment Company Act of 1940, as amended (the "1940 Act"). Mr. Bierbaum is an "interested" Director because of his affiliation with Sal. Oppenheim Jr. & Cie KGaA, which engages in brokerage with the Fund and other accounts managed by the investment advisor and manager; Mr. Bult is an "interested" Director because of his affiliation with PaineWebber International, an affiliate of UBS Securities Inc., a registered broker-dealer; and Mr. Strenger is an "interested" Director because of his affiliation with DWS-Deutsche Gesellschaft fur Werpapiersparen mbH ("DWS"), a majority-owned subsidiary of Deutsche Bank AG and because of his ownership of Deutsche Bank AG shares.

(2) Indicates that Mr. Wadsworth also serves as Director/Trustee of the DWS Investments' open-end and closed-end investment companies. These Funds are advised by Deutsche Investment Management Americas Inc., an indirect wholly-owned subsidiary of Deutsche Bank AG.

* The address of each Director is 345 Park Avenue, New York, NY 10154.

OFFICERS OF THE FUND*

Name, Age	Principal Occupations During Past Five Years
Michael G. Clark[1,2], 43 President and Chief Executive Officer	Managing Director[3], Deutsche Asset Management (2006-present); President of DWS family of funds; formerly, Director of Fund Board Relations (2004-2006) and Director of Product Development (2000-2004), Merrill Lynch Investment Managers; Senior Vice President Operations, Merrill Lynch Asset Management (1999-2000).
Paul H. Schubert[2], 45 Chief Financial Officer and Treasurer	Managing Director[3], Deutsche Asset Management (since July 2004); formerly, Executive Director, Head of Mutual Fund Services and Treasurer for UBS Family of Funds (1998-2004); Vice President and Director of Mutual Fund Finance at UBS Global Asset Management (1994-1998).
David Goldman[2,4], 34 Secretary	Director[3], Deutsche Asset Management
John Millette[5,6], 46 Assistant Secretary	Director[3], Deutsche Asset Management
Rita Rubin[2,7], 38 Chief Legal Officer	Vice President and Counsel, Deutsche Asset Management (2007-present). Formerly, Vice President, Morgan Stanley Investment Management Inc. (2004-2007); Director and Associate General Counsel, UBS Global Asset Management (US) Inc. (2001-2004).
Brett Rogers[2,8], 32 Chief Compliance Officer	Director[3], Deutsche Asset Management (2008-present); formerly, Chief Compliance Officer, Deutsche Asset Management (Japan) Ltd. (2006); Vice President, Deutsche Asset Management (2005-2008); and Assistant Vice President, Deutsche Asset Management (2003-2005).

Each also serves as an Officer of The Central Europe and Russia Fund, Inc. and The New Germany Fund, Inc., two other closed-end registered investment companies for which Deutsche Investment Management Americas Inc. acts as manager.

* As a result of their respective positions held with the Manager, these individuals are considered "interested persons" of the Manager within the meaning of the 1940 Act. Interested persons receive no compensation from the Fund.

(1) Since June 15, 2006.

(2) Address: 345 Park Avenue, New York, New York 10154.

(3) Executive title, not a board directorship.

(4) Since July 14, 2006.

(5) Since July 14, 2006. From January 30, 2006 to July 14, 2006 served as Secretary to the Fund.

(6) Address: One Beacon Street, Boston, Massachusetts 02108.

(7) Since December 19, 2008.

(8) Since April 20, 2007.

SHARES REPURCHASED AND ISSUED

The Fund has been purchasing shares of its common stock in the open market. Shares repurchased and shares issued for dividend reinvestment for the past five years are as follows:

Fiscal years ended December 31,	**2008**	**2007**	**2006**	**2005**	**2004**
Shares repurchased	141,900	--	10,450	183,700	652,150
Shares issued for dividend reinvestment	--	427,524	--	--	52,561

PRIVACY POLICY AND PRACTICES

We never sell customer lists or information about individ-ual clients (stockholders). We consider privacy fundamental to our client relationships and adhere to the policies and practices described below to protect current and former clients' information. Internal policies are in place to protect confidentiality, while allowing client needs to be served. Only individuals who need to do so in carrying out their job responsibilities may access client information. We maintain physical, electronic and procedural safeguards that comply with federal and state standards to protect confidentiality. These safeguards extend to all forms of interaction with us, including the Internet.

In the normal course of business, we may obtain information about stockholders whose shares are registered in their names. For purposes of these policies, "clients" means stockholders of the Fund. (We generally do not have knowledge of or collect personal information about stockholders who hold Fund shares in "street name," such as through brokers or banks.) Examples of the nonpublic personal information collected are name, address, Social Security number and transaction and balance information. To be able to serve our clients, certain of this client information may be shared with affiliated and nonaffiliated third party service providers such as transfer agents, custodians, and broker-dealers to assist us in processing transactions and servicing the client's account with us. The organizations described above that receive client information may only use it for the purpose designated by the Fund.

We may also disclose nonpublic personal information about clients to other parties as required or permitted by law. For example, we are required or we may provide information to government entities or regulatory bodies in response to requests for information or subpoenas, to private litigants in certain circumstances, to law enforcement authorities, or any time we believe it necessary to protect the firm from such activity.

CERTIFICATIONS

The Fund's chief executive officer has certified to the New York Stock Exchange that, as of July 16, 2008, he was not aware of any violation by the Fund of applicable NYSE corporate governance listing standards. The Fund's reports to the Securities and Exchange Commission on Forms N-CSR, N-CSRS and N-Q contain certifications by the Fund's chief executive officer and chief financial officer that relate to the Fund's disclosure in such reports and that are required by rule 30a-2(a) under the Investment Company Act of 1940.

PROXY VOTING

A description of the Fund's policies and procedures for voting proxies for portfolio securities and information about how the Fund voted proxies related to its portfolio securities during the 12-month period ended June 30 is available on our Web site -- www.eeafund.com or on the SEC's Web site -- www.sec.gov. To obtain a written copy of the Fund's policies and procedures without charge, upon request, call us toll free at (800) 437-6269.

THE EUROPEAN EQUITY FUND, INC.
SCHEDULE OF INVESTMENTS -- DECEMBER 31, 2008

Shares	Description	Value[(a)]
INVESTMENTS IN GERMAN SECURITIES - 37.8%		
	COMMON STOCKS - 36.8%	
	CHEMICALS - 7.1%	
52,000	BASF	$ 2,004,469
33,000	Linde	2,745,517
7,000	Wacker Chemie	726,981
		5,476,967
	COMMERCIAL BANKS - 0.7%	
55,000	Commerzbank	507,665
	CONSTRUCTION & ENGINEERING - 0.8%	
16,000	Bauer	655,015
	DIVERSIFIED FINANCIAL SERVICES - 1.4%	
15,000	Deutsche Boerse	1,059,256
	DIVERSIFIED TELECOMMUNICATION SERVICES - 3.1%	
160,000	Deutsche Telekom	2,390,972
	ELECTRIC UTILITIES - 5.3%	
104,000	E.ON	