EUROPEAN EQUITY TRANCHE INCOME LIMITED

PRELIMINARY ANNOUNCEMENT OF ANNUAL RESULTS

The directors announce the statement of results for the year ended 30 June 2007 as follows:-

ABOUT THE COMPANY

European Equity Tranche Income Limited (EETI or the "Company") was incorporated in Guernsey as a closed-ended investment company on 17 March 2006. On 26 April 2006 the Company raised via an institutional offering EUR 100 million by the issue of 100,000,000 Ordinary shares of no par value ("Shares") at an issue price of EUR 1 each. The Company does not have a fixed life. Shareholders will have the opportunity to review the future of the Company after an initial period of seven years, being on or after 26 April 2013 and every second year thereafter.

INVESTMENT OBJECTIVE AND POLICY

The Company's investment objective is to deliver stable returns to shareholders in the form of quarterly dividends and to preserve capital.

The Company achieves this by investment in non-investment grade and equity tranche (or "first loss") positions of residential mortgage-backed securities ("RMBS") and, to a limited extent, other asset-backed securities ("ABS") in Europe. The directors intend that, once fully invested no less than 75 per cent of investments are made in RMBS with the remainder being in other ABS.

INVESTMENT PERFORMANCE

As at 30 June 2007, the net asset value of a Share was EUR 0.9734 (2006: EUR 0.9805).

CHAIRMAN'S STATEMENT

I am pleased to present the second annual report and accounts for European Equity Tranche Income Limited . This has been a turbulent year in the market and EETI has been tested in difficult conditions. However, I am glad to report that as at 30 June 2007 our current portfolio had increased to EUR 129 million (on an amortised cost basis) and the quality of our assets remains on target as predicted by our models. It is also worth me reiterating yet again that we have no exposure to sub-prime mortgages in the United States, and the only investment we have made in the UK consists of EUR 8 million of a prime niche mortgage securitisation.

As you will be aware from our earlier communication in July we marked down some of our Italian investments by a total of EUR 2.7 million. This was due to the Italian government introducing a new law significantly reducing prepayment charges. This law not only affected new mortgages but was also, despite our appeals, applied retrospectively. This write down was taken as a change in the investment values in the final quarter.

We declared dividends in relation to the financial year amounting to a total of EUR 0.0671. Our dividend payment in relation to the fourth quarter was EUR 0.02 per share, and whilst this was marginally more than our earnings excluding the investment write down, given the increase in assets which occurred close to year end we expect our income to rise in the current year. In July we also bought back 2 million shares at a price of GBP 0.51, an approximate 20% discount to the 30 June 2007 post dividend NAV. As previously announced, it is the Board's intention to maintain our dividend at EUR 0.02 per share until we have built up the net asset value to a level of EUR 1.00 per share. As at 30 June 2007, our net asset value was EUR 0.9734 per share before the dividend payment of EUR 0.02 per share.

INVESTMENT PERFORMANCE AND PORTFOLIO CHARACTERISTICS

At 30 June 2007, the Company's investment portfolio comprised 15 investments with a value of EUR 129 million. Since that time we have sold one of our smaller investments for a modest profit. The Company's portfolio is heavily weighted to continental Europe and consists of individual investments in residual income positions or subordinated tranches of RMBS. The underlying asset pools are comprised of prime mortgages originated by established local banks in Italy, Portugal, Spain, the Netherlands, Germany, UK and France. As all investments are euro denominated or fully hedged, the fund currently has no foreign exchange exposures.

The Company's investment portfolio has performed in line with initial expectations and the fair values and effective yields attributed to each investment at the time they were acquired have, with the exception of our Italian mortgage portfolio noted earlier, not been adjusted since acquisition.

The current IRR of the portfolio is approximately 10% and the IRR of all assets purchased is between 9% and 11%. These IRRs are booked under a base case, loss-adjusted scenario determined by the Investment Manager and reviewed by the Auditors of the Company.

Geographical Breakdown as of 30 June 2007:

Country	% of Portfolio Book Value
Italy	32%
Portugal	21%
Spain	15%
Netherlands	9%
Germany	8%
Austria	6%
UK	6%
France	3%
Total	100%

FINANCING STRATEGY

As at 30 June 2007, the Company had approximately EUR 2 million in cash, representing principal payments received on its investments and the Company's indebtedness was EUR 36 million. While our prospectus noted that we could increase our leverage to 240% of shareholders' equity, the Board is going to be cautious about increasing its present leverage. We have recently renewed our EUR 70 million facility with Citibank until December 2008. The Company has mandated Citibank to rate this facility and issue long-term senior debt as soon as debt markets permit. To the extent that market conditions are unfavourable for such a take out, any increase in borrowing is likely to be modest.

ASSET SALE

The Company's investment manager, Ocean Capital, sold one investment after the year-end. This was a EUR 8.1 million auto loan Austrian rated bond. The investment yield was no longer attractive for EETI once our borrowing had increased. This disposal generated a modest profit of circa EUR 25,000.

OUTLOOK

The implementation of the Basle II framework continues to provide opportunities for us to increase our portfolio in a prudent manner and EETI has developed a network of relationships with blue chip banks and issuers across Europe which should serve us well.

The market we operate in is highly specialised. The expertise provided by our investment manager, Ocean Capital, combined with careful oversight by your Board, has enabled EETI to weather the storm which has recently hit the markets in which we operate. There are some limited signs that the credit market is starting to stabilise and when that happens we will be in a strong position to build up our assets and provide excellent returns to our shareholders. However, for the time being we are going to be extremely cautious both with regard to our investments and leverage.

ANNUAL GENERAL MEETING

Your second Annual General Meeting will be held at the registered office of the Company on 5 December 2007. The Notice of the Annual General Meeting is set out at the end of the annual report and a form of proxy accompanies the annual report.

Robin Monro-Davies, Chairman

INVESTMENT MANAGER'S REPORT

MARKET OUTLOOK

The first half of 2007 has again set a record for ABS issuance. Primary RMBS issuance in Continental Europe and the UK represented a total volume of approximately EUR 160m in the six months to June 30, 2007* , compared with EUR 87 billion for the same period in 2006; issuance volume for the whole of 2006 was approximately EUR 245bn. The UK continued to lead RMBS issuance over the period, with approximately 78% of the total. The main issuing countries in Continental Europe were Spain (EUR 31bn), Italy (EUR 21bn) and the Netherlands (EUR 16bn). The growth of the market was also noticeable in the non-investment grade and equity tranches segment of securitisations as issuing banks were getting prepared for the implementation of Basle II.

Since the end of June 2007, performance issues in the US Subprime RMBS markets have triggered an unprecedented crisis in the global ABS markets leading to a global liquidity crisis. The crisis has affected almost all asset classes of the structured finance markets, including CDOs and CLOs. The liquidity crunch, combined with mark to market losses has forced the majority of levered investors (including SIVs) to liquidate positions, accelerating a downward spiral in asset prices. In Europe spreads have widened to an all time high in spite of a collateral performance that remains overall extremely strong.

As a consequence of the crisis the primary market for European RMBS has been shut since the beginning of August, which triggered the debacle of some UK mortgage lenders using securitisation as their main funding source, notably Northern Rock. On the continent commercial banks which dominate origination in the prime RMBS sector are currently relying on other sources of funding until spreads come back to acceptable levels.

In the second half of September, as market participants welcomed the collective efforts of Central Banks to provide liquidity, spreads tightened significantly with some markets regaining almost half of the losses incurred since the beginning of the market dislocation.

During the turmoil the main market in which EETI operates, namely equity tranches of prime RMBS in continental Europe, recorded no activity at all, both on the secondary and primary markets. As a matter of fact Ocean Capital has not been in contact with any opportunity since its last purchase in July. In the secondary market the forced selling was concentrated on investment grade assets, mostly in AAAs. Leverage loans CLOs and ABS CDOs, which are all arbitrage-based transactions, were hit across the entire capital structure due to mark to market losses on their underlying collateral. As the primary markets have been shut since August no opportunity arose.

With the gradual reopening of the European prime RMBS markets, some issuers are considering selling residual positions before year-end. Unfortunately it is not envisaged that EETI will be able to purchase assets at wider spreads as equity tranches of prime continental RMBS sold for balance sheet management purposes by strong institutions remain a highly sought after asset class. There still remain a few buyers apparently unaffected by the liquidity crisis and attracted by the prospect of ongoing excellent performance of underlying collateral.

VALUATION OF INVESTMENTS

The recent market conditions have stressed the importance of using a consistent and coherent methodology to monitor the value of EETI's assets. EETI's residual RMBS investments are directly backed by residential mortgages representing a granular and statistical risk. Those assets, being illiquid, are valued using a "mark to model" methodology. The value of each investment is a function of the three following variables:

1. Credit assumptions (defaults, recoveries, prepayments, etc)

2. Cash flow pattern of each transaction

3. Rate or yield at which cash flows are discounted

The first two elements have remained very stable in EETI's portfolio and the quarterly cash generation of the portfolio is in line with our models. The discount rate could be considered more volatile at present and we are monitoring the evolution of the market on a daily basis. Even though spreads have been wider in all securitisation markets (senior notes of European RMBS, mezzanine and equity tranches of CDOs and CLOs) Ocean Capital has no evidence that the same has happened in EETI's targeted market which comprises equity tranches of Prime RMBS issued in continental Europe by strong financial institutions. In spite of constant discussion with investment banks and issuers, we have not been shown or offered any transactions since early August on the primary or the secondary market. In addition, no sub-investment grade tranches of similar transactions (which could have served as a spread guidance) have traded in relevant quantities. We believe that our targeted issuers are not sellers of those prime assets at wider spreads, nor are asset managers with a stable funding base, such as EETI. As a consequence, EETI has not been able to purchase assets at wider IRRs.

In this context the investment manager has recommended to the Board to take no action on the current booking IRR of the current investments. With the expected and gradual reopening of the market in the fourth quarter of 2007 we anticipate having further evidence that our "niche market" has not been impacted by last summer's crisis and still offers yields similar to those at which EETI currently books its investments.

We have in the past not hesitated to recognise immediate impairment on our Italian assets when necessary and would react in a similar way should we have evidence of a change in our market in the future.

EETI DEBT FINANCING

In December 2006 EETI mandated Citi to arrange a debt-financing package articulated as follows:

1. A Euro 40 million one year facility (raised to 70 million), of which Euro 36 million is currently drawn.

2. A structured, rated, capital market term refinancing to be launched when the portfolio is further invested.

Ocean Capital has since worked with Citi and Standard and Poor's to assess the credit quality of the current portfolio as backing for the term refinancing. The preliminary results, based on the analysis of 75% of the portfolio, are quite encouraging and show that more than half of EETI's portfolio could be financed by debt rated BBB or higher.

However the current liquidity condition of the market makes the capital market term financing unlikely before the year-end. Therefore Ocean Capital has recently negotiated with Citi an extension of the facility until December 2008, with an option for EETI to extend it, if necessary, until 2009.

The terms and conditions of the extended facility include some triggers based on the value of the portfolio. Although the levels of the triggers are quite far from the current value of EETI's investments (at our current debt level sale of assets could be required if N.A.V. was to go down by more than 30%), Ocean Capital will propose to the board an investment plan with the objective of minimizing EETI's liquidity risk while it continues its investment program and until the term refinancing is completed.

We expect the financing markets will show signs of recovery by the first half of 2008 and term refinancing to be completed within this time frame.

*Figures are based on The International Securitisation Report of July 2007

INCOME STATEMENT FOR THE YEAR ENDED 30 JUNE 2007

	Year ended 30 June 2007 EUR	Period from 17 Mar 2006 to 30 Jun 2006 EUR
Operating income	8,779,107	778,122
Gains and losses on fair value through profit and loss financial instruments	(2,668,884)	-
Operating expenses	(1,754,493)	(402,906)
Loan interest payable	(353,258)	-
Net profit for the year / period	4,002,472	375,216
Retained profit transferred to reserves	4,002,472	375,216
Basic and diluted earnings per share for the year/period	0.0400	0.0060
Proforma basic and diluted earnings per share for the year / period	0.0400	0.0037

In arriving at the results for the financial year, all amounts above relate to continuing operations.

BALANCE SHEET AS AT 30 JUNE 2007

	30 June 2007 EUR	30 June 2007 EUR	30 June 2006 EUR	30 June 2006 EUR
ASSETS				
NON-CURRENT ASSETS				
Investments designated at fair value through the income statement		129,069,538		55,104,283
CURRENT ASSETS				
Trade and other receivables	3,375,740		608,025	
Cash and cash equivalents	1,757,210		42,663,014	
		5,132,950		43,271,039
TOTAL ASSETS		134,202,488		98,375,322
EQUITY AND LIABILITIES				
EQUITY				
Issued share capital	-		-	
Share premium	50,000,000		50,000,000	
Retained earnings	47,344,025		48,051,553	
		97,344,025		98,051,553
CURRENT LIABILITIES				
Bank loans and overdrafts		36,238,827		-
Trade and other payables		619,636		323,769
TOTAL EQUITY AND LIABILITIES		134,202,488		98,375,322

CASH FLOW STATEMENT FOR THE YEAR ENDED 30 JUNE 2007

	Year ended 30 Jun 2007 EUR	Period from 17 Mar 2006 to 30 Jun 2006 EUR
Cash flows from operating activities		
Profit for the year / period	4,002,472	375,216
Gains and losses on fair value through profit and loss financial instruments	2,668,884	-
Increase in accrued expenses	295,867	323,769
(Increase) in prepayments and accrued income	(2,767,715)	(608,025)
Purchases of non-current assets	(82,027,000)	(55,343,773)
Capital repayments	5,392,861	239,490
Net cash flow from operating activities	(72,434,631)	(55,013,323)
Cash flows from financing activities		
Proceeds of issue of ordinary shares	-	100,000,000
Costs related to the issuance of ordinary shares	-	(2,323,663)
Dividends	(4,710,000)	-
Bank loan drawdowns	36,238,827	-
Net cash flow from financing activities	31,528,827	97,676,337
Cash and cash equivalents at the beginning of the year / period	42,663,014	-
Net increase / (decrease) in cash and cash equivalents	(40,905,804)	42,663,014
Cash and cash equivalents at the end of the year / period	1,757,210	42,663,014

STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY FOR THE YEAR ENDED 30 JUNE 2007

	Share Capital EUR	Share Premium EUR	Accumulated Profits EUR	Total EUR
Net profit for the period since incorporation	-	-	375,216	375,216
TOTAL RECOGNISED INCOME AND EXPENSE	-	-	375,216	375,216
Issuance of ordinary shares	-	100,000,000	-	100,000,000
Costs related to issuance of ordinary shares	-	(2,323,663)	-	(2,323,663)
Cancellation of share premium	-	(47,676,337)	47,676,337	-
Balance at 30 June 2006	-	50,000,000	48,051,553	98,051,553
Net profit for the year	-	-	4,002,472	4,002,472
TOTAL RECOGNISED INCOME AND EXPENSE	-	-	4,002,472	4,002,472
Distribution to ordinary shareholders	-	-	(4,710,000)	(4,710,000)
Balance at 30 June 2007	-	50,000,000	47,344,025	97,344,025

For further information contact:

Alastair Moreton
Arbuthnot Securities Limited
Nominated Adviser

Tel: 020 7012 2000

Anson Fund Managers Limited
Company Secretary.

Tel: 01481 722260

22 October 2007

E&OE – in transmission