

Unaudited Half-Yearly Report & Financial Statements

for the six month period ended 31 December 2008

**European Equity Tranche Income
Limited**

European Equity Tranche Income Limited

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European Equity Tranche Income Limited

ABOUT THE COMPANY

European Equity Tranche Income Limited (“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 €100 million by the issue of 100,000,000 Ordinary Shares of no par value at an issue price of €1 per share. The Company purchased for cancellation 2,000,000 Ordinary Shares in the capital of the Company on 26 July 2007. The total number of shares in issue as at 31 December 2008 was 98,000,000.

On the 5 February 2009 the Company issued a further 927,000,000 Ordinary Shares as part of a capital restructuring. On 13 February 2009 the Ordinary Shares were consolidated into Consolidated Shares on the basis of one Consolidated Share for every 100 Ordinary Shares. The total number of shares in issue as at the date of this report is 10,250,000 Consolidated Shares.

On 12 December 2008, Scribona Nordic AB (“Scribona”) purchased from Citibank all outstanding commitments, rights and obligations in relation to the debt owed by the Company to Citibank under its existing Facility Agreement. As at 31 December 2008 the Company had total drawdowns under the Scribona loan facility of €30,445,279. On 5 February 2009, as part of the capital restructuring Scribona agreed to waive such amount of the new facility as had the result that the remaining balance outstanding of the principal amount of the Scribona Loan amounted to €5,706,452.06. As at the date of this report the principal amount of the Scribona Loan amounted to €4,006,452.06

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 seeks to achieve 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 no less than 75 per cent of investments are made in RMBS with the remainder being in other ABS.

European Equity Tranche Income Limited

ABOUT THE COMPANY

INVESTMENT PERFORMANCE

As at 31 December 2008, the net asset value per Share was €0.3023 (30 June 2008: €0.3098), based on the net assets of the Group for the year of €29,631,321 (30 June 2008: €30,368,171) and on 98,000,000 (30 June 2008: 98,000,000) shares, being the number of shares in issue at the balance sheet date.

As announced by the Company on 5 February 2009, at the Extraordinary General Meeting held that day, shareholders approved the capital restructuring of the Company, which resulted in the issue of 927,000,000 Ordinary Shares at a discount to NAV, the reduction of debt owed by the Company to Scribona and the consolidation of every 100 Ordinary Shares of no par value into one Consolidated Share of no par value. Shareholders also approved the de-listing of the Ordinary Shares from the Channel Islands Stock Exchange to save the costs and expenses in relation to such a listing.

Following the consolidation, which became effective on 16 February 2009, the Company has 10,250,000 Ordinary Shares in issue.

If the net assets as at 31 December 2008 were adjusted to reflect the above capital restructuring and consolidation, with all other variables held constant, net assets as at that date would have been €55,111,730, representing a net asset value per Share of €5.3767.

European Equity Tranche Income Limited

CHAIRMAN'S STATEMENT

As noted in our 30 June 2008 year end report and in the various announcements we have made in the course of 2008, the first half of this 30 June 2009 fiscal year was dominated by our search to find satisfactory funding. The financing we had previously arranged for 2009 was an extension of our original facility agreement with Citibank. Unfortunately however, the deteriorating economy in Europe, combined with the almost total cessation in trading of our securities, meant that we would not have satisfied the existing facility's financial covenants. It was, therefore, with considerable relief that we reached agreement with the Swedish investment company, Scribona, in relation to a capital restructuring whereby Scribona made a significant investment in the Company. The net result of this investment has led to Scribona becoming interested in approximately 84 per cent. of the Company's share capital. As part of the terms of the capital restructuring, the Company's debt was significantly reduced to €5.7 million at completion and, as of the end of February 2009, debt has further reduced to approximately €4 million. Our current debt facility falls due for repayment by mid December this year and the facility's financial covenants provide the Company with greater flexibility than our previous debt facility. Although we regret the need to find such financing and the dilution it involved, it should be noted that Scribona allowed certain shareholders to participate in a non pre-emptive placing as part of the capital restructuring, which a modest number did, and without Scribona's support the Company would have been unable to meet its obligations as they fell due, leading to a likely secured lender enforcement and/or insolvency proceedings.

Whilst our balance sheet has improved immeasurably we still face many uncertainties. Economies in Europe continue to decline and the real estate crisis in Spain is worsening. As noted in the Investment Manager's report, some of our Pastor investments in Spain remain under pressure, as do our holdings in the Italian securitisation Sestante, and further provisions against the Sestante valuations may prove necessary if the Constant Prepayment Rate does not reduce in line with current assumptions as detailed in the Investment Manger's report on page 5. Having said that, we can now face the future if not with confidence, at least without the constant worry of finance being withdrawn, and if and when conditions in Europe start to improve your Company will undoubtedly benefit.

Robin Monro-Davies

Chairman

European Equity Tranche Income Limited

INVESTMENT MANAGER'S REPORT

The NAV as at 31 December 2008 is estimated at € 29,631,321 or € 0.3023 per share. The investment portfolio has not changed since July 2007. Cash flow remained strong during the fourth quarter of 2008 with €2.4 million utilised to reduce debt. From the Company's IPO on 26 April 2006 until 31 December 2008, the portfolio has generated cash of over €30.9 million.

Market Outlook

European RMBS security issuance has been at record levels in 2008 with €585.3bn issued (2007: €259.7bn). The last quarter volume has been exceptionally strong with €307.1bn issued in the fourth quarter of 2008 (Q4 2007: €47.5bn). However, transactions between banks have remained dependent on government guarantees and central bank liquidity. Consequently, 95% of ABS and RMBS papers issued in 2008 have been structured for the sole purpose of qualifying as collateral for repo financing with the central banks.

The European Central Bank has reduced interest rates to 2.0%, easing the cash flow pressure on variable rate mortgage holders. In addition, the Spanish government is considering various options to ease the plight of mortgage holders. However, deteriorating economic conditions in all European countries will certainly cause credit issues for weaker borrowers.

Portfolio Updates

Italy

Prepayment rates in Italy have remained high and continue to increase for Sestante 2 and Sestante 3 although Sestante 4 registered a modest decline. The June 2008 mark down on these three transactions assumed a 20% Constant Prepayment Rate (CPR) until April 09, with it gradually reducing to 12.5% by January 2010. It should be borne in mind that our net exposure to these transactions has, following earlier provisions, reduced to around €10 million.

<i>Annualised CPR</i>	Q1 08	Q2 08	Q3 08	Q4 08
Sestante 2	17.5%	21.0%	25.1%	27.1%
Sestante 3	18.0%	24.8%	22.5%	24.5%
Sestante 4	11.0%	19.8%	24.9%	21.0%

European Equity Tranche Income Limited

INVESTMENT MANAGER'S REPORT

Spain

The deteriorating trend of arrears and defaults in Spain continues as shown in the table:

<i>Arrears as a % of current balance</i>	Q1 08	Q2 08	Q3 08	Q4 08
Pastor 2	0.12%	0.15%	0.29%	0.40%
Pastor 3	1.37%	2.11%	3.09%	3.60%
Pastor 4	1.19%	1.67%	2.46%	2.63%
Pastor 5	0.22%	0.68%	1.18%	1.93%

<i>Defaults in € millions</i>	Q1 08	Q2 08	Q3 08	Q4 08
Pastor 2	0.1	0.2	0.1	0.1
Pastor 3	0.5	1.1	1.2	2.3
Pastor 4	1.3	1.4	1.6	2.8
Pastor 5	0.0	0.0	0.0	0.0

The Company have already taken modest provisions for its exposure to Pastor 3 and Pastor 4 as referred to in the announcement on 2 February 2009. Further provisions could be necessary if conditions do not stabilise.

Germany

Eurohypo/Commerzbank, the sponsor of the transactions Provide Gems 2002-1 announced on 2 February 2009 that they will not exercise the early termination right on the transaction. This investment has a book value of circa €3.9 million. We will be monitoring the speed at which the structure releases cash to determine whether any value impairment will be required.

Portugal

Following the circa €10 million mark down suffered in October 2008 on the three Lusitano transactions, we are following the trend in prepayments and defaults closely. Should there be further increases in these key performance indicators, additional mark downs will be necessary.

European Equity Tranche Income Limited

UNAUDITED CONSOLIDATED INCOME STATEMENT for the six month period ended 31 December 2008

	Notes	1 Jul 08 to 31 Dec 08 €	1 Jul 07 to 31 Dec 07 €
Operating income	2	7,438,205	6,656,553
Losses on fair value through profit and loss financial instruments	9	(5,350,455)	(15,105,590)
Realised gain on disposal of financial instruments		-	27,606
Operating expenses	3	(1,086,604)	(898,658)
Loan interest payable		<u>(1,247,667)</u>	<u>(1,289,474)</u>
Net loss for the period		<u>(246,521)</u>	<u>(10,609,563)</u>
Retained loss transferred to reserves		<u><u>(246,521)</u></u>	<u><u>(10,609,563)</u></u>
Basic and diluted loss per share for the period	7	(0.0025)	(0.1079)
<i>Proforma</i> basic and diluted loss per share for the period	7	(0.0025)	(0.1079)

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

There have been no gains or losses in the period that are not included in the above Income Statement.

The notes on pages 11 to 28 form an integral part of these financial statements

European Equity Tranche Income Limited

UNAUDITED CONSOLIDATED BALANCE SHEET as at 31 December 2008

	Notes	31 Dec 2008 €	31 Dec 2008 €	30 Jun 2008 €	30 Jun 2008 €
ASSETS					
Non-current assets					
Investments designated as at fair value through the income statement	9		55,940,869		61,576,218
Current assets					
Trade and other receivables	11	2,574,615		1,120,501	
Cash and cash equivalents	12	<u>2,011,811</u>		<u>2,411,764</u>	
			<u>4,586,426</u>		<u>3,532,265</u>
Total assets			<u><u>60,527,295</u></u>		<u><u>65,108,483</u></u>
EQUITY AND LIABILITIES					
Equity					
Issued share capital	13	-		-	
Share premium		50,000,000		50,000,000	
Retained earnings		<u>(20,359,679)</u>		<u>(19,631,829)</u>	
			29,631,321		30,368,171
Current liabilities					
Bank loans and overdrafts	14		30,445,279		34,238,827
Trade and other payables	15		<u>450,695</u>		<u>501,485</u>
Total equity and liabilities			<u><u>60,527,295</u></u>		<u><u>65,108,483</u></u>

The financial statements were approved by the Board of directors on 26 March 2009 and are signed on its behalf by:

Tanguy Boulet

John Le Prevost

Director

Director

The notes on pages 11 to 28 form an integral part of these financial statements

European Equity Tranche Income Limited

UNAUDITED CONSOLIDATED CASH FLOW STATEMENT for the six month period ended 31 December 2008

	1 Jul 08 to 31 Dec 08 €	1 Jul 07 31 Dec 07 €
Cash flows from operating activities		
Net profit / (loss) for the period	(246,521)	(10,609,563)
Losses on fair value through profit and loss financial instruments	5,350,455	15,105,590
Realised gain on disposal of investment	-	(27,606)
Less: Interest received	(49,725)	(57,432)
Less: Decrease in accrued expenses	(50,790)	(149,224)
Less: (Increase) / decrease in prepayments and accrued income	(1,454,114)	334,304
Less: Interest capitalised written back	(1,335,986)	(1,221,821)
Net cash inflow from operating activities	<u>2,213,319</u>	<u>3,374,248</u>
Cash flows from investing activities		
Interest received	49,725	57,432
Purchase of non-current assets	-	(7,354,795)
Sale of non-current assets	-	8,100,000
Capital repayments received from investments	1,620,880	2,939,402
Net cash inflow from investing activities	<u>1,670,605</u>	<u>3,742,039</u>
Cash flows from financing activities		
Redemption of share capital	-	(1,517,367)
Dividends	(490,329)	(3960,000)
Bank loan repayments	(3,793,548)	-
Net cash outflow from financing activities	<u>(4,283,877)</u>	<u>(5,477,367)</u>
Cash and cash equivalents at the beginning of the period	2,411,764	1,757,210
Net (decrease) / increase in cash and cash equivalents	(399,953)	1,638,920
Cash and cash equivalents at the end of the period	<u>2,011,811</u>	<u>3,396,130</u>

The notes on pages 11 to 28 form an integral part of these financial statements

European Equity Tranche Income Limited

UNAUDITED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY for the six month period ended 31 December 2008

Group	Share Capital €	Share Premium €	Accumulated Profits €	Total €
Balance at 1 July 2008	-	50,000,000	(19,631,829)	30,368,171
Net profit for the period	-	-	(246,521)	(246,521)
Distribution to ordinary shareholders	-	-	(490,329)	(490,329)
Balance at 31 December 2008	-	50,000,000	(20,368,679)	29,631,321

Group	Share Capital €	Share Premium €	Accumulated Profits €	Total €
Balance at 1 July 2007	-	50,000,000	47,344,025	97,344,025
Net Loss for the period	-	-	(10,609,563)	(10,609,563)
Redemption of share capital	-	-	(1,517,367)	(1,517,367)
Distribution to ordinary shareholders	-	-	(3,960,000)	(3,960,000)
Balance at 31 December 2007	-	50,000,000	31,257,095	81,257,095

The notes on pages 11 to 28 form an integral part of these financial statements

European Equity Tranche Income Limited

NOTES TO THE FINANCIAL STATEMENTS for the six month period ended 31 December 2008

1 ACCOUNTING POLICIES

(a) Basis of Preparation

The consolidated financial statements of European Equity Tranche Income Limited, a closed-ended investment group in Guernsey, Channel Islands have been prepared in conformity with International Financial Reporting Standards ("IFRS") issued by the International Accounting Standards Board and the Interpretations of International Financial Reporting Standards issued by the International Financial Reporting Interpretations Committee of the International Accounting Standards Board and applicable requirements of Guernsey Law.

The consolidated financial statements have been prepared on an historical cost basis except for the measurement at fair value of investments designated as at fair value through the Income Statement. The accounting policies have been applied consistently by the Group in the accounting period which is from 1 July 2008 to 31 December 2008. The consolidated financial statements have been prepared in its functional currency, Euro, as this reflects the Group's primary activity of investing in Euro financial instruments.

Up to the date of approval of these financial statements, certain new standards, interpretations and amendments to existing standards have been published but are not yet effective for the reporting period and which the Company has not adopted early, as follows:

<i>New standards</i>	<i>Effective for periods commencing</i>
IFRS 8 Operating segments	1 January 2009
<i>Amendments to standards</i>	<i>Effective for periods commencing</i>
IFRS 1 First-time Adoption of International Financial Reporting Standards	
- Amendment relating to cost of an investment on first-time adoption of International Reporting Standards	1 January 2009
IFRS 2 Share Based Payment	
- Amendment relating to vesting conditions and cancellations	1 January 2009
IFRS 3 Business Combinations	
- Comprehensive revision	1 July 2009
IFRS 7 Financial Instruments: Disclosures	
- Amendments enhancing disclosures about fair value and liquidity risk	1 January 2009
IAS 1 Presentation of Financial Statements	
- Comprehensive revision	1 January 2009
- Amendments relating to disclosure of puttable instruments and obligations arising on liquidation	1 January 2009
IAS 23 Borrowing Costs	
- Comprehensive revision	1 January 2009
IAS 27 Consolidated and Separate Financial Statements	
- Amendment relating to cost of an investment on first-time adoption	1 January 2009
IAS 32 Financial Instruments: Presentation	
- Amendments relating to disclosure of puttable instruments and obligations arising on liquidation	1 January 2009
IAS 39 Financial Instruments: Recognition and Measurement	
- Amendments for eligible hedged items	1 July 2009
IAS 39 Financial Instruments: Recognition and Measurement	
- Amendments for embedded derivatives when classifying financial instruments	30 June 2009

European Equity Tranche Income Limited

NOTES TO THE FINANCIAL STATEMENTS for the six month period ended 31 December 2008

1 ACCOUNTING POLICIES – continued

(a) Basis of Preparation - continued

<i>New interpretations</i>	<i>Effective for periods commencing</i>
IFRIC 15 Agreements for the Construction of Real Estate	1 January 2009
IFRIC 16 Hedges of a Net Investment in a Foreign Operation	1 October 2008
IFRIC 17 Distribution of Non-cash Assets to Owners	1 July 2009
IFRIC 18 Transfers of Assets from Customers	1 July 2009

The Directors believe that IFRS's and International Financial Reporting Interpretations Committee ("IFRIC") pronouncements which are in issue but not yet operative or adopted by the Group will not have a material impact on the consolidated financial statements of the Group except for the presentation of additional disclosures and changes to the presentation of components of the financial statements.

As set out in note 14, the Company previously had a loan facility with Citibank which was due to mature on 15 December 2008.

On 12 December 2008, Scribona Nordic A.B. ("Scribona") purchased from Citibank N.V. ("Citibank") all outstanding commitments, rights and obligations in relation to the debt by the Company to Citibank under its existing Facility Agreement. As a condition to the transfer of the existing debt from Citibank to Scribona, Scribona has agreed to the repayment date under the Facility Agreement being extended to 15 December 2009 and the interest payable under the terms of such agreement being EURIBOR +5% per annum.

On 12 December 2008, the Company announced proposals relating to a capital restructuring which included:

- (i) the conversion by Scribona of €5,600,000 of debt to equity at €0.0111 per share;
- (ii) a non pre-emptive placing of new Ordinary Shares ("Shares") with certain existing shareholders at a price of €0.0111 per share to raise up to €4,400,000, underwritten by Scribona, where such subscription monies would be applied by the Company in prepayment of the debt owed to Scribona;
- (iii) the release by Scribona of the Company from its obligations under the Facility Agreement to repay such amount as would leave the sum outstanding under the Facility Agreement at approximately €5,700,000; and
- (iv) Scribona would be paid a commission of €299,700 in relation to its underwriting, to be satisfied by the issue to it of 27,000,000 Shares at €0.0111 each.

As part of the arrangements, the Company also proposed a consolidation of Shares on the basis of one consolidated Share for every hundred Ordinary Shares to enable the Company's Shares to trade at a price which the Directors believe is more likely to lead to a reduction in the bid/offer spread and an improvement in liquidity.

On 5 February 2009, shareholders voted in favour of the resolutions to approve the capital restructuring and consolidation of shares. As a consequence of the restructuring, the Directors consider that the Company can be considered to continue to operate as a going concern.

The preparation of consolidated financial statements in conformity with IFRS requires the Group to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

European Equity Tranche Income Limited

NOTES TO THE FINANCIAL STATEMENTS for the six month period ended 31 December 2008

1 ACCOUNTING POLICIES – continued

(b) Basis of consolidation

The consolidated financial statements made up to 31 December 2008 incorporate the financial statements of the Company and entities where the Company is the majority economic beneficiary in such entity, even though the Company has no equity control over such an entity (the “Subsidiary”) (and together the “Group”). All inter-group balances, income and expenses are eliminated on consolidation.

(c) Foreign currencies

Transactions in foreign currencies are translated into Euros, which is deemed to be the functional currency, at the rates of exchange ruling on the date on which the transactions occur. At the balance sheet date, foreign currency monetary items are translated into Euros at the foreign exchange rate ruling at the balance sheet date. Foreign exchange differences arising on translation are recognised in the Income Statement in the period in which they arise. At the balance sheet date, non-monetary items which are carried at fair value denominated in foreign currency are reported using the exchange rates that existed at the date when the fair values were determined.

(d) Interest income

Interest income is accounted for on an accruals basis on cash and cash equivalents. Interest income is accrued based on the fair value of the Group’s investments and their contractual terms. Interest income is accrued over the projected lives of the investments using the effective interest method as defined under International Accounting Standard 39 “Financial Instruments: Recognition and Measurement” (“IAS 39”).

Where the Group adjusts expected cash flow projections to take account of any change in underlying assumptions, such adjustments are recognised in the Income Statement by reflecting changes in a revised amortised cost value of the investment and applying the original effective interest rate to this revised amortised cost value for the purposes of calculating future income. The Group’s policy for estimating prepayment speeds for calculating the effective yield is to evaluate historical performance, market consensus indicators and current market conditions. Premiums and discounts associated with the purchase of investments/assets are amortised or accreted into interest income over the projected term of the investment.

(e) Fair Value of Financial instruments

Under IAS 39, the Group’s investments are measured initially at cost, which is the fair value of whatever was paid to acquire them. Associated transaction costs are written off to the income statement. All purchases and sales of investments are recognised using trade date accounting. After initial recognition the Group’s investments are measured at fair value through the income statement. The Group’s investments are designated to this category at inception.

Investments, which principally comprise investments in residual income positions, are fair valued using financial pricing models that reflect numerous factors including the investment manager’s assessment of the nature of the investment and the collateral, security position, risk profile, historical default rates and the originator and servicer. Each of these factors involves subjective judgements and forward-looking determinations by the investment manager.

Where the fair value of the investment is written down due to changes in assumptions and expected cash flows, the change in the fair value is taken to the income statement following the reassessment of the cash flow discounted at the current market rate estimated.

European Equity Tranche Income Limited

NOTES TO THE FINANCIAL STATEMENTS for the six month period ended 31 December 2008

1 ACCOUNTING POLICIES – continued

(f) Cash and Cash Equivalents

Cash and cash equivalents are carried at cost. Cash and cash equivalents are defined as cash and deposits at bank.

(g) Trade and other receivables and payables

Trade and other receivables and payables are initially recorded at fair value and subsequently measured at amortised cost using the effective interest rate method, less a provision for impairment in respect of trade and other receivable balances (if appropriate). A provision for impairment is established where there is objective evidence that the funds will not be receivable. Impairment losses are recognised in the income statement.

(h) Bank loans and associated borrowing costs

Bank loans are raised to support funding of investments. They are recognised as current liabilities as they are due for repayment within one year. Finance charges are charged to the Income Statement on an accruals basis using the effective interest method and are added to the carrying amount of the instrument to the extent that they are not settled in the period in which they arise. Interest payable on loans is also recognised in the Income Statement on an accruals basis.

(i) Taxation

The Company has been granted exemption under the Income Tax (Exempt Bodies) (Guernsey) Ordinance, 1989 from Guernsey Income Tax, and is charged an annual fee of £600.

(j) Earnings per share

The Group calculates both basic and diluted earnings per share in accordance with International Accounting Standard 33 “Earnings per Share” (“IAS 33”). Under IAS 33 basic earnings per share is computed using the weighted average number of shares outstanding during the period under review. Diluted earnings per share is computed using the weighted average number of shares outstanding during the period under review plus the dilutive effect of any instruments outstanding during the period.

(k) Segmental reporting

In the opinion of the directors the Group has only one business segment and one geographical segment being investment in European Asset Backed Securities (“ABS”), in particular Residential Mortgage Backed Securities (“RMBS”).

European Equity Tranche Income Limited

NOTES TO THE FINANCIAL STATEMENTS for the six month period ended 31 December 2008

1 ACCOUNTING POLICIES – continued

(l) **Critical accounting judgements and key sources of estimation uncertainty**

In the process of applying the Group's accounting policies, the Group has determined that the following judgements and estimates have the most significant effect on the amounts recognised in the financial statements.

Income recognition

The Group invests primarily in a diversified portfolio of residual income positions, being the subordinated tranches of ABS, principally RMBS. Residual income positions are typically unrated or rated below investment grade and are often referred to as the "equity" or "first loss" position of securitisation structures. Unlike more conventional bonds and the more senior tranches of ABS (which generally hold the rights to fixed levels of income), the cash flow profile of a residual income position does not include a contractually established schedule of fixed payments divided between interest and principal. Instead the cash flows generally vary over time, and the periodic cash flows associated with a residual income position may include principal repayment as well as income payments which fluctuate over time.

A given cash payment received in respect of a residual income position represents a combination of the return on the investment and the repayment of some of the capital initially invested. As a result, the stream of expected cash flows associated with a particular residual income position may have an uneven payout profile, in that the cash payment expected in one period (and the proportion of that payment that represents principal repayment versus interest income) may vary significantly from the cash payments expected in other periods.

The Group follows a policy of accounting for such investments at fair value through profit or loss and has elected to recognise income on an effective interest rate ("EIR") method in accordance with Paragraph 30 of International Accounting Standard 18 "Revenue".

Interest income is recorded based on the EIR, as set out in Note 1(d) above.

Further disclosures of key assumptions and key sources of estimation uncertainty are set out in Note 17 under the headings "Residual Interest Risk" and "Liquidity Risk".

Valuation of investments

As described in Note 17 to the accounts, the market for RMBS, including residual income positions is illiquid and regular traded prices are generally not available for such investments. There is no active secondary market in residual income positions and, further, there is no industry standard agreed methodology to value residual income positions.

In accordance with the Group's accounting policies, fair value of financial assets is based on quoted bid prices where such bids are available from a third party in a liquid market. Where quoted bid prices are unavailable, the fair value of the financial asset is estimated by reference to a valuation model that incorporates discounted cash flow techniques as required by IAS 39.

The key assumptions upon which the valuation models are based are described in Note 1(e) to the accounts. Any change to assumptions surrounding the pricing models may result in different fair values being attributed to the investments.

The fair value of the Group's investments is set out in Note 9 and a further description of the risks associated with the Group's investments is provided in Note 17. The Group considers that it would be impractical to disclose the effects of changes to each assumption in respect of each investment valuation model.

European Equity Tranche Income Limited

NOTES TO THE FINANCIAL STATEMENTS for the six month period ended 31 December 2008

2 OPERATING INCOME

	Group	
	1 Jul 08 to 31 Dec 08 €	1 Jul 07 to 31 Dec 07 €
Interest on investments in asset backed securities	5,825,845	6,599,121
Interest from cash and cash equivalents	49,725	57,432
Compensation received in relation to investments	1,562,635	-
	<u>7,438,205</u>	<u>6,656,553</u>

3 OPERATING EXPENSES

	Group	
	1 Jul 08 to 31 Dec 08 €	1 Jul 07 to 31 Dec 07 €
Investment managers fees	320,304	589,044
Directors' remuneration	49,119	58,748
Directors expenses	4,949	2,253
Directors & Officers insurance	9,811	13,922
Audit fees	41,334	22,840
Administration fees	38,600	42,292
Registration fees	5,944	10,593
Legal and professional fees	450,577	75,824
Nominated advisor fees	67,583	19,186
Loss on foreign exchange	8,006	6,171
Other operating expenses	90,377	57,785
	<u>1,086,604</u>	<u>898,658</u>

4 INVESTMENT MANAGERS FEES

Management Fee

Under the terms of the Investment Management Agreement, a management fee is payable to the Investment Manager at an annual rate of 1.25 per cent of the lower of (i) the Net Asset Value of the Group immediately following Admission and (ii) the Net Asset Value of the Group on 31 March, 30 June, 30 September and 31 December (before deduction of accruals in respect of the management fee for the current year and any performance fee) (excluding current year income).

The management fee accrues daily and is payable quarterly in arrears.

Performance Fee

Under the terms of the Investment Management Agreement, the Investment Manager is entitled to receive a performance related fee in respect of each performance period (being quarterly) which will be paid quarterly in arrears.

European Equity Tranche Income Limited

NOTES TO THE FINANCIAL STATEMENTS for the six month period ended 31 December 2008

4 INVESTMENT MANAGERS FEES - continued

Performance Fee - continued

The performance fee for each performance period will be an amount equal to 20 per cent of the amount by which the Group's net income (as calculated for these purposes) after tax for the relevant period, before payment of any performance fee, exceeds an amount equal to a simple interest rate of two per cent per quarter (the "quarterly hurdle") multiplied by the weighted average number of Ordinary Shares outstanding during the relevant period multiplied by the weighted average offer price of such Ordinary Shares, subject to the Net Asset Value of an Ordinary Share at the end of the relevant performance period being no less than the Net Asset Value of an Ordinary Share immediately following Admission.

The sum of quarterly performance fees based on the quarterly hurdle payable to the Investment Manager for any full financial period will be capped at that amount which would be payable based on 20 per cent of the amount by which the Group's net income after tax for the relevant period (before payment of any performance fees) exceeds an amount equal to an annualised simple interest rate of eight per cent (the annual hurdle) multiplied by the weighted average number of Ordinary Shares outstanding during the relevant full financial period multiplied by the weighted average offer price of such Ordinary Shares.

Where the sum of quarterly performance fees paid for any financial period based on the quarterly hurdle exceeds that amount which would have been payable based on the annual hurdle, the Investment Manager shall repay to the Company any such excess.

The performance fee, if any, will be calculated on behalf of the Company by the Administrator.

Where there is a difference between the Group's net income for the relevant performance period as shown in the Group's quarterly management accounts compared to the Group's audited annual accounts, the net income for the relevant performance period as reflected in the audited accounts shall prevail. Any excess performance fee paid or any additional performance fee due in respect of any performance period attributable to any such difference will be repaid by or paid to the Investment Manager, as the case may be.

5 STAFF COSTS

The Company has no employees other than the directors. During the period, Directors' expenses totalled €4,949 (2007: €2,253).

The Subsidiary has no employees and therefore has no staff costs.

6 DIRECTORS' REMUNERATION

Unless otherwise approved by the Company by ordinary resolution, the Company shall pay to the directors (but not alternate directors) for their services as directors out of the funds of the Company by way of fees such sums as the Board determines (not exceeding £200,000 per annum in aggregate or such larger amount as the Company may by ordinary resolution decide). The aggregate fees will be divided among the directors in such proportions as the Board decides or, if no decision is made, equally. Directors' fees for the period totalled €49,119 (2007: €58,748).

The directors received no other benefits during the period under review.

European Equity Tranche Income Limited

NOTES TO THE FINANCIAL STATEMENTS for the six month period ended 31 December 2008

7 EARNINGS PER SHARE

The earnings per share is based on the net loss of the Group for the period of €246,521 (2007: €10,609,563 net loss) and on 98,000,000 (2007: 98,326,087) shares, being the weighted average number of shares in issue during the period. There were no dilutive instruments in issue in the period.

Proforma basic and diluted earnings per share is based on the same net profit and weighted average number of shares in issue i.e. the number of shares is not adjusted for the prelisting period when the Company did not trade.

8 DIVIDENDS

During the period under review, dividend payments totalling €490,329 (2007: €3,960,000) were made by the Company:

In November 2008, being cognisant of recent market conditions, the Board of directors agreed to suspend dividend payments for the foreseeable future.

9 INVESTMENTS DESIGNATED AS FAIR VALUE THROUGH THE INCOME STATEMENT

Unquoted investments in RMBS and ABS	Group	
	31 Dec 08 €	30 Jun 08 €
Valuation brought forward	61,576,218	129,069,538
Additions – cost	-	7,354,793
Disposals – cost	-	(8,079,707)
Capital repayments	(1,620,880)	(4,539,074)
Interest previously capitalised written back	1,335,986	3,803,796
Unrealised loss on revaluation for the period	<u>(5,350,455)</u>	<u>(66,033,128)</u>
	<u>55,940,869</u>	<u>61,576,218</u>

A schedule of the investments held by the Group is shown on page 29.

Income derived from these investments is based on their expected internal rate of return (IRR) over their estimated life. The IRR reflects a number of collateral performance and other assumptions, which may be adjusted over time.

The weighted average expected floating interest rate of each investment is detailed in note 17(a) to the financial statements.

In order to hedge a foreign currency exposure in respect of an investment denominated in sterling, the Company entered into a total return swap at the date of acquisition of the underlying investment. Accordingly there is no unrealised foreign exchange gain or loss at the period end.

European Equity Tranche Income Limited

NOTES TO THE FINANCIAL STATEMENTS for the six month period ended 31 December 2008

10 INVESTMENTS IN SUBSIDIARIES

On 4 July 2007, the Company purchased two Pass-Through Notes from EETI Finance Limited, ("EETIFL"), a special purpose vehicle incorporated in Ireland, and transferred in exchange five investments at a book value of €39,979,703 to EETIFL under a Purchase Agreement and a Support Deed. Under the Pass-Through Notes, the cash flow from the underlying five investments reverts to the Company.

The fair value of the two Pass-Through Notes as at 31 December 2008 was €19,501,581 (30 June 2008: €23,622,581).

As all risks and rewards of the ownership of the investments of EETIFL pass to the Company, in accordance with SIC12, EETIFL is considered to be a subsidiary of the Company even though it is not legally owned by the Company.

Under the terms of the Support Deed the Company has agreed to settle on the Subsidiary's behalf and reimburse the Subsidiary against certain liabilities, fees, costs, charges, disbursements and expenses paid or payable by the Subsidiary in relation to its business under the terms and conditions of the Deed. The running costs to be incurred by EETIFL during its life, are estimated to be in the region of €61,000 per annum. This includes audit fees of €9,000 per annum.

11 TRADE AND OTHER RECEIVABLES

	Group	
	31 Dec 08	30 Jun 08
	€	€
Prepayments	8,953	36,849
Accrued interest – Investments	2,565,189	1,061,830
Accrued interest – Cash	-	8,476
Sundry debtors	473	13,346
	<u>2,574,615</u>	<u>1,120,501</u>

12 CASH AT BANK

	Group	
	31 Dec 08	30 Jun 08
	€	€
Bank balances	1,213,354	1,133,293
Call deposits	798,457	1,278,471
	<u>2,011,811</u>	<u>2,411,764</u>

The weighted average floating interest rate on call deposits was 1.93%. Call deposits are due on demand.

European Equity Tranche Income Limited

NOTES TO THE FINANCIAL STATEMENTS for the six month period ended 31 December 2008

13 SHARE CAPITAL

	31 Dec 08 €	30 Jun 08 €
Authorised		
100,000,000 ordinary shares of no par value	-	-
	31 Dec 08 €	30 Jun 08 €
Issued		
98,000,000 ordinary shares of no par value	-	-

The issue and redemption of Ordinary Shares took place as follows:

Date of issue	Number of shares	Price per share €	Amount received €
17 March 2006	2	1.000	2
26 April 2006	99,999,998	1.000	99,999,998
Share redemption 31 July 2007	<u>(2,000,000)</u>	0.759	<u>(1,517,367)</u>
	<u>98,000,000</u>		<u>98,482,633</u>

As the Company has only one class of shares, the holders of its shares will under general law be entitled to participate in any surplus assets in a winding-up in proportion to their shareholdings.

14 BANK LOANS AND OVERDRAFTS

In December 2006, Citibank was appointed to structure and arrange a senior financing facility for the Company to be secured on the Group's investments. Prior to the closing of the senior term financing, a Warehouse financing facility was provided by Citibank. This financing facility was due to mature on 15 December 2008.

On 12 December 2008, Scribona purchased from Citibank all outstanding commitments, rights and obligations in relation to the debt owed by the Company to Citibank under its existing Facility Agreement. As a condition to the transfer of the existing debt from Citibank to Scribona, Scribona has agreed to the repayment date under the Facility Agreement being 15 December 2009. The loan facility is in the form of a secured loan agreement.

The loan is interest bearing, and the interest rate applied is a margin of 5% above EURIBOR taking into account any mandatory costs. The interest periods are three months from the utilisation date and quarterly thereafter. The Company must pay accrued interest on the last day of each interest period. The annual average rate applied during the year was 7.03% (2007: 6.82%).

As at 31 December 2008 total drawdowns under the loan facility were €30,445,279 (30 June 2008: €34,238,827).

European Equity Tranche Income Limited

NOTES TO THE FINANCIAL STATEMENTS for the six month period ended 31 December 2008

15 TRADE AND OTHER PAYABLES

	Group	
	31 Dec 2008	30 Jun 2008
	€	€
Accrued investment managers fees	102,303	248,125
Accrued audit fees	96,727	101,378
Accrued administration fees	7,371	5,287
Accrued registration fees	1,205	796
Accrued loan interest	120,690	83,969
Other accrued expenses	122,399	61,930
	<hr/>	<hr/>
	450,695	501,485

16 FINANCIAL INSTRUMENTS

The Company's main financial instruments comprise:

- (a) Cash and cash equivalents that arise directly from the Company's operations;
- (b) Non-investment grade and residual income positions of RMBS and ABS originated in Europe; and
- (c) Bank loans and overdrafts.

17 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The most important types of risk to which the Group is exposed are market price risk, discount rate risk, credit risk, prepayment risk, default risk, liquidity risk, interest rate risk, residual interest risk and currency risk. Save where the Group purchases synthetic securities to gain exposure to an underlying cash asset or assets, derivative transactions are only for the purposes of hedging risks or for efficient portfolio management. The Group will not enter into derivative transactions for speculative purposes.

(a) Market Price

The Group's exposure to market risk is comprised mainly of movements in the value of its investments and, to the extent that the Group utilises leverage, changes in interest rates that either increase its cost of borrowing or decrease any interest income. Several of the Group's investments are floating rate or backed by floating rate assets and, as such, are valued based on a market credit spread over a benchmark (such as EURIBOR). Increases in the credit spreads above such benchmarks may affect the Group's net equity or net income directly through their impact on unrealised gains or losses on investments within the portfolio, and therefore the Group's ability to make gains on such investments, or indirectly through their impact on the Group's ability to borrow and access capital.

European Equity Tranche Income Limited

NOTES TO THE FINANCIAL STATEMENTS for the six month period ended 31 December 2008

17 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES – continued

(a) Market Price - continued

The following details the weighted average expected floating interest rate of each investment:

NAME OF INVESTMENT	WEIGHTED AVERAGE EXPECTED FLOATING INTEREST RATE
Lusitano Mortgages 3 plc Class E Notes	20%
Lusitano Mortgages 4 plc Class E Notes	20%
Lusitano Mortgages 5 plc Class E Notes	20%
FCC Minotaure Compartiment 2004-1-296 Residual R Bonds and 1 Unit	20%
Sestante 2 Class D Notes	20%
Sestante 3 Class D Notes	20%
Sestante 4 Class D Notes	20%
Shield I – Class F Bonds	15%
Memphis 2006-1	15%
Ludgate Funding Plc Series 2006 FF1	20%
Semper 2006	15%
IM Pastor 2	15%
IM Pastor 3	15%
IM Pastor 4	15%
IM Pastor 5	15%
Provide Gems	15%

The following details the Group's sensitivity to an increase and decrease in the yield of its constituent financial assets and liabilities.

At 31 December 2008, if the estimated yield of the non-current asset investments had been 5% higher with all the other variables held constant the net assets attributable to shareholders would have been €10,987,151 lower, arising due to the decrease in the fair value of financial assets at fair value through profit or loss.

At 31 December 2008, if the estimated yield of the non-current asset investments had been 5% lower with all the other variables held constant the net assets attributable to shareholders would have been €14,966,395 higher, arising due to the increase in the fair value of financial assets at fair value through profit or loss.

At 31 December 2008, if the estimated yield of the non-current asset investments had been 10% higher with all the other variables held constant the net assets attributable to shareholders would have been €19,214,700 lower, arising due to the decrease in the fair value of financial assets at fair value through profit or loss.

At 31 December 2008, if the estimated yield of the non-current asset investments had been 10% lower with all the other variables held constant the net assets attributable to shareholders would have been €35,788,755 higher arising due to the decrease in the fair value of financial assets at fair value through profit or loss.

European Equity Tranche Income Limited

NOTES TO THE FINANCIAL STATEMENTS for the six month period ended 31 December 2008

17 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES – continued

(b) Credit Risk

The Group is subject to the risk that issuers of asset backed securities in which it invests may default on their obligations under such instruments and that certain events may occur which have an immediate and significant adverse effect on the value of such instruments. There can be no assurance that an issuer of an instrument in which the Group invests will not default or that an event which has an immediate and significant adverse effect will not occur, and that the Group will not sustain a loss on the transaction as a result.

A further credit risk arises from the Company's use of a Special Purpose Vehicle ("SPV") to hold title to certain investments. There is a risk that the SPV may not pass the cash flows generated by the underlying investment onwards to the Company. There is also a risk that the SPV may fail to achieve the tax savings that it was designed for.

The Group seeks to mitigate credit risk by actively monitoring its portfolio of investments and the underlying credit quality of its holdings. The Group seeks to minimise credit risk further by ensuring its investment portfolio is diversified by geography, originator, servicer and issuer. The Group does not intend to undertake any credit hedging activities other than from time to time entering into transactions to hedge its credit exposure in relation to individual investments.

(c) Prepayment Risk

Prepayment risk refers to the possibility that the individual borrowers will prepay the mortgage loans that collateralise the Group's investments. While the Group's valuations take into account expected prepayment rates of the loans that collateralise the Group's investments, the Group's investments and the assets that collateralise them may prepay more quickly than expected and have an impact on the value of the Group's portfolio. The Investment Manager reviews the prepayment assumptions each quarter and will update as required. These assumptions are considered by review of the underlying loan performance information of the securitisations.

Prepayment rates are influenced by changes in interest rates and a variety of economic, geographic and other factor beyond the Group's control and consequently cannot be predicted with certainty. The level and timings of prepayments made by borrowers in respect of the mortgage loans that collateralise certain investments may have an adverse impact on the income earned by the Group from those investments.

(d) Default Risk

Default risk refers to each individual borrower's ability to make the required interest and principal payments on the scheduled due dates.

While the Group's valuations take into account expected default rates and the expected loss given a default rate, the Group's investments may be subject to higher losses through a combination of higher default rates. Default rate risk is managed by the Investment Manager by regular review of the positions held. The Investment Manager reviews these assumptions each quarter and will update as required. These assumptions are considered by review of the underlying loan performance information of the securitisations.

Default rates are influenced by changes in interest rates and a variety of economic, geographic and other factors beyond the Group's control and consequently cannot be predicted with certainty. The level and timings of defaults made by borrowers in respect of the mortgage loans that collateralise certain investments may have an adverse impact on the income earned by the Group from those investments.

European Equity Tranche Income Limited

NOTES TO THE FINANCIAL STATEMENTS for the six month period ended 31 December 2008

17 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES – continued

(e) Liquidity Risk

Liquidity risk is the risk that the Group will encounter difficulty in realising assets or otherwise raising funds to meet financial commitments. The market for subordinated asset-backed securities, including residual income positions, is illiquid. Accordingly, many of the Group's investments are illiquid. In addition, investments that the Group purchases in privately negotiated (also called "over the counter" or "OTC") transactions may not be registered under relevant securities laws or otherwise may not be freely tradable, resulting in restrictions on their transfer, sale, pledge or other disposition except in a transaction that is exempt from the registration requirements of, or is otherwise in accordance with, those laws.

As a result of this illiquidity, the Group's ability to vary its portfolio in a timely fashion and to receive a fair price in response to changes in economic and other conditions may be limited.

Furthermore, where the Group acquires investments for which there is not a readily available market, the Group's ability to deal in any such investment or obtain reliable information about the value of such investment or risks to which such investment is exposed may be limited.

The main financial commitments of the Group are the interest on the bank loan from Citibank and the meeting of ongoing operational costs. These commitments are met by the cash flows received from the investments, which are monitored by the Investment Manager.

The following illustrates the maturity analysis of the Group's financial assets and liabilities as at the period end:

	Due on Demand €	Due within 3 months €	Due between 3 and 12 months €	Due between 1 and 5 years €	Due >5 Years €	Total €
Assets						
Investments designated at fair value	-	-	-	98,274	55,842,595	55,940,869
Trade and other receivables	-	2,565,189	9,426	-	-	2,574,615
Cash and cash equivalents	2,011,811	-	-	-	-	1,538,373
Total assets	2,011,811	2,565,189	9,426	98,274	55,842,595	60,527,295
Liabilities						
Bank loans and overdrafts	-	-	30,445,279	-	-	30,445,279
Trade and other payables	-	-	450,695	-	-	450,695
Total liabilities	-	-	30,895,974	-	-	30,895,974

European Equity Tranche Income Limited

NOTES TO THE FINANCIAL STATEMENTS for the six month period ended 31 December 2008

(f) Interest Rate Risk

Changes in interest rates, other than changes in spread between different interest rate benchmarks, do not affect the Group's ability to acquire loans and investments, the value of its investments and the Group's ability to realise gains from the settlement of such assets.

The Company's weighted average effective interest rate for cash and bank balances as at 31 December 2008 was 2.40% (2007: 1.93%).

The Subsidiary's weighted average effective interest rate for cash and bank balances as at 31 December 2008 was 1.48% (2007: 1.91%).

Interest rate sensitivity

If interest rates for cash and bank balances had been 100 basis points higher and all other variables were held constant, the Group's net loss per the consolidated income statement for the period ended 31 December 2008 would have decreased by €23,425 (2007: €24,539 decrease in net loss) due to an increase in the amount of interest receivable on the bank account.

If interest rates for cash and bank balances had been 100 basis points lower and all other variables were held constant, the Group's net loss per the consolidated income statement for the period ended 31 December 2008 would have increased by €23,425 (2007: €24,539 increase in net loss) due to a decrease in the amount of interest receivable on the bank account.

The Group's sensitivity to interest rates is lower in 2008 than in 2007 because of a decrease in the average cash balances held.

The weighted average effective interest rate on the loan facility as at 31 December 2008 was 7.03% (2007: 6.82%).

If interest rates for the loan facility balance had been 100 basis points higher and all other variables were held constant, the Group's net loss per the consolidated income statement for the period ended 31 December 2008 would have increased by €344,694 (2007: €362,388 increase in net loss) due to an increase in the amount of interest payable on the loan facility.

If interest rates for the loan facility balance had been 100 basis points lower and all other variables were held constant, the Group's net loss per the consolidated income statement for the period ended 31 December 2008 would have decreased by €344,694 (2007: €362,388 decrease in net loss) due to a decrease in the amount of interest payable on the loan facility.

The Group's sensitivity to interest rates on the loan facility is lower in 2008 than in 2007 because of a decrease in the average loan balance outstanding over the period.

European Equity Tranche Income Limited

NOTES TO THE FINANCIAL STATEMENTS for the six month period ended 31 December 2008

17 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES – continued

(g) Residual Interest Risk

The majority of the Group's investments consist of interests in and/or economic exposures to limited recourse securities that are subordinated in right of payment and ranked junior to other securities that are secured by or represent ownership in the same pool of assets. In the event of default by an issuer in relation to such investments, holders of the issuer's more senior securities are entitled to payments in priority to the Group. Some of the Group's investments also have structural features that divert payments of interest and/or principal to more senior classes of securities secured by or representing ownership in the same pool of assets when the delinquency or loss experience of the pool exceeds certain levels. This may lead to interruptions in the income stream that the Group anticipates receiving from its investment portfolio, which may lead to the Company having less income to distribute to shareholders.

Although holders of asset-backed securities generally have the benefit of first ranking security (or other priority rights) over any collateral, control of the timing and manner of the disposal of such collateral upon a default typically will devolve to the holders of the senior class of securities outstanding. There can be no assurance that the proceeds of any such sale of collateral will be adequate to repay in full the Group's investments.

(h) Currency Risk

The Group's accounts are denominated in Euros while investments may be made and realised in both Euros and Sterling. Changes in rates of exchange may have an adverse effect on the value, price or income of the investments. A change in foreign currency exchange rates may adversely impact returns on the Group's non-Euro denominated investments.

The Group seeks to reduce the currency risk by financing investments in the same currency as the relevant investment where commercially practical or enter into hedging transactions for whole or part of the currency exposure. The Investment Manager may elect, however, to have the Group bear a level of currency risk that could otherwise be hedged where it considers that bearing such risks is acceptable.

At the balance sheet date the Group has no material financial assets or liabilities not denominated in Euros, other than those covered by the hedging agreement detailed below.

On 7 December 2006, the Company entered into a QUANTO FX deal with a counterparty which was structured as a Total Return Swap and which will terminate on 31 December 2013. The purpose of the agreement is to hedge a foreign exchange transaction entered into by the Company involving £5,525,000 worth of investments secured over Mortgage-only repayment certificates due 2060 and Residual certificates due 2060.

The counterparty will own the securities through a Total Swap Return Agreement which will be cash collateralised in full by the Company. The effect of the transaction is that the Company has the right to receive all the flows from the certificates converted into Euros through the QUANTO FX trade.

(i) Political Risk

Retrospective political law changes may have an adverse effect on the value of the Group's investments. It is difficult to assess exactly how these changes will impact consumer behaviour. It is possible that prepayment rates will increase impacting the expected cash flows from investments and the ability of the Company to maintain the same level of dividend payments.

European Equity Tranche Income Limited

NOTES TO THE FINANCIAL STATEMENTS for the six month period ended 31 December 2008

17 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES – continued

(j) Collateral

Under the terms of the deed of assignment dated 15 February 2007 and the amendments dated 25 July 2007, 17 December 2007 and 12 December 2008 entered into between the Company, Citibank N.A. and Scibona Nordic A.B., the Company has assigned absolutely the unquoted investments in RMBS and ABS and all rights, title and interest, present and future, without limitation, and its right to receive monies or securities to Scibona A.B. as security for the loan facility. Where there is an event of default in respect of the Company under the loan facility, Scibona A.B. will be entitled to enforce its security over the collateral.

(k) Capital management

The Group monitors capital on the basis of the carrying amount of equity as presented on the face of the balance sheet. Capital for the reporting periods under review is summarised as follows:

(k) Capital management

	Group	
	31 Dec 08	30 Jun 08
	€	€
Share premium	50,000,000	50,000,000
Retained earnings	(20,368,679)	(19,631,829)
	<u>29,631,321</u>	<u>30,368,171</u>

18 RELATED PARTY TRANSACTIONS

Anson Fund Managers Limited is the Company's administrator and secretary and Anson Registrars Limited is the Company's registrar, transfer agent and paying agent. John R Le Prevost is a director and controller of Anson Fund Managers Limited and of Anson Registrars Limited. €44,544 (2007: €52,885) of fees were incurred by the Company with these related parties in the year, of which €8,576 (2007: €7,251) was due to these related parties as at 31 December 2008.

19 EVENTS AFTER THE REPORTING PERIOD

On 5 February 2009, shareholders voted in favour of the following resolutions relating to a capital restructuring:

- (i) the conversion by Scibona of €5,600,000 of debt to equity at €0.0111 per share;
- (ii) a non pre-emptive placing of new ordinary shares with certain existing shareholders at a price of €0.0111 per share to raise up to 4€ ,400,000, underwritten by Scibona, where such subscription monies will be applied by the Company in prepayment of the debt owed to Scibona;
- (iii) the release by Scibona of the Company from its obligations under the Facility Agreement to repay such amount as will leave the sum outstanding under the Facility Agreement at approximately €5,700,000; and
- (iv) Scibona will be paid a commission of €299,700 in relation to its underwriting, to be satisfied by the issue to it of 27,000,000 Shares at €0.0111 each.

As a consequence of the above restructuring, 927,000,000 Ordinary Shares were issued and the amount outstanding under the Facility Agreement was reduced to €5,706,452.

European Equity Tranche Income Limited

NOTES TO THE FINANCIAL STATEMENTS for the six month period ended 31 December 2008

19 EVENTS AFTER THE REPORTING PERIOD – continued

On 5 February 2009, shareholders also voted in favour of a resolution relating to a consolidation of the number of shares in issue on the basis of one consolidated share for every hundred Ordinary Shares in issue, effective on 16 February 2009.

As a consequence of the consolidation, the total number of shares in issue was reduced from 1,025,000,000 Ordinary Shares to 10,250,000 Consolidated Ordinary Shares.

If the net assets as at 31 December 2008 were adjusted to reflect the above capital restructuring and consolidation, with all other variables held constant, net assets as at that date would have been €55,111,730, representing a net asset value per Share of €5.3767.

On 5 March 2009, the Company repaid €1,700,000 of the outstanding balance of the loan facility. As at the date of this report, the outstanding balance payable to Scribona under the loan facility was €4,006,452.

20 ULTIMATE CONTROLLING PARTY

In the opinion of the directors, the Group has no ultimate controlling party.

European Equity Tranche Income Limited

SCHEDULE OF INVESTMENTS

Group NAME OF INVESTMENT	31 Dec 2008		30 Jun 2008	
	VALUATION €	TOTAL ASSETS %	VALUATION €	TOTAL ASSETS %
Lusitano Mortgages 3 plc Class E Notes	3,621,859	5.98%	3,363,731	5.17%
Lusitano Mortgages 4 plc Class E Notes	2,049,990	3.39%	2,040,107	3.13%
Lusitano Mortgages 5 plc Class E Notes	4,797,424	7.93%	5,379,117	8.26%
FCC Minotaure Compartiment 2004-1-296 Residual R Bonds and 1 Unit	2,368,416	3.91%	2,798,522	4.30%
Sestante 2 Class D Notes	3,258,326	5.38%	2,954,627	4.54%
Sestante 3 Class D Notes	2,742,929	4.53%	2,487,269	3.82%
Sestante 4 Class D Notes	3,826,671	6.32%	3,469,998	5.33%
Shield I – Class F Bonds	6,909,100	11.41%	6,871,718	10.55%
Memphis 2006-1	3,429,935	5.67%	3,432,937	5.27%
Ludgate Funding Plc Series 2006 FF1	98,274	0.16%	266,722	0.41%
Semper 2006	5,314,750	8.78%	5,356,989	8.23%
IM Pastor 2	5,721,424	9.45%	6,116,210	9.39%
IM Pastor 3	4,064,222	6.71%	7,294,995	11.20%
IM Pastor 4	2,955,651	4.88%	3,688,550	5.66%
IM Pastor 5	2,274,135	3.76%	2,236,668	3.43%
Provide Gems	3,910,728	6.46%	4,478,401	6.88%
Less: Capitalised interest included in above figures	(1,402,965)		(660,343)	
	<u>55,940,869</u>	<u>94.72%</u>	<u>61,576,218</u>	<u>95.57%</u>

European Equity Tranche Income Limited

Registered in Guernsey No. 44552

DIRECTORS AND SERVICE PROVIDERS

Directors	Anthony Robin Dominic Monro-Davies (<i>Chairman</i>) Leslie David Goodman John Reginald Le Prevost Tanguy Patrice Marie Dominique Boulet Lorenzo Garcia (Appointed on 18 February 2009) Juan de Dios Sanchez-Roselly Moreno (Resigned on 12 February 2009) Françoise Adeline Henry (Resigned on 7 January 2009)
Registered Office of the Company	Anson Place Mill Court La Charroterie St Peter Port Guernsey GY1 1EJ
Administrator and Company Secretary	Anson Fund Managers Limited Anson Place Mill Court La Charroterie St Peter Port Guernsey GY1 1EJ
Investment Manager	Ocean Capital Associates LLP 47 Curzon Street London England W1J 7UJ
Nominated Adviser and Broker	Arbuthnot Securities Limited Arbuthnot House 20 Ropemaker Street London England EC2Y 9AR
Auditors	Mazars LLP Tower Bridge House St Katherine's Way London E1W 1DD

Sponsor to CISX Listing (Ordinary Shares delisted from the CISX on 6 February 2009)

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