

Report & Financial Statements

for the year ended 30 June 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 (“Shares”) at an issue price of €1 per share. The Company purchased for cancellation 2,000,000 shares in the capital of the Company on 26 July 2007. The total number of shares in issue is now 98,000,000. 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.

INVESTMENT PERFORMANCE

As at 30 June 2008, the net asset value per Share was €0.3098 (2007: €0.9734, 2006: €0.9805), based on the net assets of the Group for the year of €30,368,171 (2007: €97,344,025, 2006: 9€051,553) and on 98,000,000 (2007: 100,000,000, 2006: 100,000,000) shares, being the number of shares in issue at the balance sheet date.

European Equity Tranche Income Limited

DIRECTORS

The Company has six directors. They are responsible for the implementation of the Company's investment policy and ongoing management.

Robin Monro-Davies (Chairman) (British) – Mr Monro-Davies, aged 67, has worked in the City for over 25 years and is a director of HSBC Bank plc and AXA UK plc. He was co-managing director of Fox-Pitt, Kelton Limited from 1976 to 1992 and chief executive of Fitch Ratings Limited from 1992 to 2002. He is currently also a director of Assured Guaranty Limited (Bermuda), AXA Asia Pacific Holdings, Ukraine Opportunity Trust plc, as well as North American Banks Fund Limited. Mr Monro-Davies is resident in England.

Leslie Goodman (British) – Mr Goodman, aged 62, has worked in the City for over 30 years. He is chairman of Chapelthorpe plc. and a director of a number of other companies. He qualified as a solicitor and subsequently became a director of Hill Samuel and of BZW. He was chief executive of ACE Global Markets Limited from 1994 to 1998 and Jardine Lloyds Advisers Limited from 1991 to 1994. Mr Goodman is resident in England.

John Le Prevost (British) – Mr Le Prevost, aged 57, is the Chairman of Anson Fund Managers Limited, the Company's administrator, and of Anson Registrars Limited, the Company's registrar and has over 35 years experience in investments during which time he was managing director of County NatWest Investment Management in Guernsey and Royal Bank of Canada's mutual fund company in Guernsey. He is currently a director of several investment companies including MW Tops Limited, Bluecrest AllBlue Fund Limited and The Close Man Hedge Fund Limited. Mr Le Prevost is resident in Guernsey.

Françoise Henry (French) – Françoise Henry, aged 67, is currently Chief Investment Officer of Alternative Leader S.A. Ms. Henry was previously the Head of alternative investment strategy for Europe at Goldman Sachs Asset Management and Head of Proprietary trading at Credit Agricole. Ms. Henry is resident in France.

European Equity Tranche Income Limited

DIRECTORS – continued

Tanguy Boulet (French) – Tanguy Boulet, aged 46, was, during the year under review, a co-founder of the Investment Manager, Ocean Capital Associates LLP. He was the Head of Debt products origination for French Corporates and Head of French Real Estate Investment Banking at Lehman Brothers from 2000 to 2004, Head of Debt products origination, French Corporates at Merrill Lynch from 1996 to 2000 and Head of French Derivative linked and structured assets marketing at Merrill Lynch from 1992 to 1996. Mr Boulet is resident in France. Mr Boulet retired as a partner and left Ocean Capital in June 2008. He now works in France as a financial adviser.

Juan de Dios Sanchez-Roselly Moreno (Spanish) – Mr Sanchez-Roselly Moreno, aged 40, is currently Global Head of Property and Commodity Derivatives at Banco Santander. Previously he was Global Chief Investment Officer at Santander Asset Management. He was previously at Ahorro Corporación and Deloitte. Mr Sanchez-Roselly Moreno is resident in Spain.

European Equity Tranche Income Limited

INVESTMENT MANAGER, ADMINISTRATOR AND SECRETARY

INVESTMENT MANAGER

The Company's Investment Manager is Ocean Capital Associates LLP, a London based investment management partnership authorised and regulated by the Financial Services Authority of the United Kingdom. This authorisation includes the provision of discretionary investment management and advisory services. The Investment Manager provides investment management services and structured finance advisory services, mainly where it can assist in sourcing new investment opportunities. The type of assignment undertaken typically involves a high level of expertise in the analysis of the cash flow generation chain of the originators.

The business of the Investment Manager is the investment in equity tranche of securitisation of European originators, financial institutions and large corporates. The size of this niche market is modest compared to the whole ABS market and this allows the Investment Manager to have a strong understanding and coverage of the European market.

The Investment Management Team comprises three partners in charge of investments, risk management and operations and is supported by a team of four people, all based in central London.

ADMINISTRATOR AND SECRETARY

Anson Fund Managers Limited ("Anson") is a Guernsey incorporated privately owned company and provides administration and secretarial services to the Company pursuant to an Administration Agreement. In such capacity, the administrator is responsible for the general secretarial functions required by The Companies (Guernsey) Law, 2008, and for ensuring that the Company complies with its continuing obligations as a company having its shares listed on the Channel Islands Stock Exchange and admitted to trading on the AIM operated by the London Stock Exchange. The administrator is also responsible for the Company's general administrative functions such as the calculation of the net asset value of shares and the maintenance of its accounting records. Anson provides such services to a number of investment schemes and companies.

European Equity Tranche Income Limited

REPORT OF THE DIRECTORS

The directors present their report and financial statements for the year ended 30 June 2008.

Principal Activity

European Equity Tranche Income Limited is a closed-ended investment company incorporated in Guernsey on 17 March 2006. On 26 April 2006 its Shares were admitted to trading on AIM and admitted to listing and trading on the Channel Islands Stock Exchange.

Pursuant to the Company's admission document the Company offered its Shares for issue by means of a placing and on 26 April 2006 raised €100 million by the issue of 100,000,000 Shares of no par value each at a price of €1 each. The Company purchased for cancellation 2,000,000 Shares in the capital of the Company on 26 July 2007. The total number of Shares in issue is now 98,000,000.

Investment Objective and Investment Policy

The investment objective and policy of the Company is as stated on page 2.

Dividends and Dividend Policy

The Company's dividend policy is to pay quarterly dividends subject to having profits or distributable reserves available for that purpose.

The Company made dividend payments for the year ended 30 June 2008 totalling €5,920,000.

Subsequent to the year end, the Board decided to eliminate the payment of the quarterly dividend

Financing Strategy

The Company has a facility agreement with Citibank of up to €70 million with the objective of enhancing returns to shareholders through the use of borrowing, subject to the discretion of the Board. Whilst the Company has an unlimited power to borrow, the directors have limited borrowing to a maximum of €40 million. At 30 June 2008 total drawdowns amounted to €34.2 million.

European Equity Tranche Income Limited

REPORT OF THE DIRECTORS – continued

Shareholder Information

The net asset value per Share is calculated by the administrator, based on information supplied to it by the Investment Manager, and announced on a quarterly basis on a regulatory information service and simultaneously announced on the Channel Islands Stock Exchange.

Results

The results for the period are set out in the Income Statement on page 22. In the course of the year, economic conditions deteriorated markedly, especially impacting the housing and banking sector. As a result total fair value losses during the year amounted to €66 million and the losses for the year totalled €59.5 million

Directors

The directors' details are given on pages 3 and 4. Directors' interests in shares as at 5 December 2008 are as follows:

<i>Director</i>	<i>Shares</i>	<i>Percentage of issued shares</i>
Robin Monro-Davies	1,000,000	1.020
Leslie Goodman	70,000	0.071
Tanguy Boulet	30,000	0.031
John R Le Prevost	30,000	0.031
Juan de Dios Sanchez-Roselly Moreno	3,000	0.003

Directors Remuneration

The directors are entitled to receive fees for their services as directors, such sums in aggregate not to exceed £200,000 per annum. Currently the Chairman receives the sum of £25,000 p.a. and the remaining directors receive the sum of £15,000 p.a. with the exception of Tanguy Boulet who waived his fee during the period under review.

European Equity Tranche Income Limited

REPORT OF THE DIRECTORS – continued

Statement of Directors' Responsibilities

The directors are required to prepare financial statements for each financial period which give a true and fair view of the state of affairs of the Company as at the end of the financial period and of the profit or loss for that period. In preparing those financial statements, the directors are required to:

- select suitable accounting policies and apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

The directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the Company and to enable them to ensure that the financial statements have been properly prepared in accordance with The Companies (Guernsey) Law, 1994, as amended. They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Corporate Governance

As a closed-ended investment company incorporated in Guernsey listed on the Channel Islands Stock Exchange and admitted to trading on AIM, the Company is not required to comply with the requirements of the Combined Code issued by the UK Listing Authority. The Board has put in place a framework for corporate governance which it believes is suitable for an investment company of its kind, taking into consideration the Channel Island Stock Exchange Listing Rules and the AIM Rules for Companies.

In addition and where practicable for a company of its size and nature, the Board endeavours to comply with the principles of the Combined Code.

European Equity Tranche Income Limited

REPORT OF THE DIRECTORS – continued

The Board meets at least four times a year and between these formal meetings there is regular contact with the secretary and investment manager. The directors are kept fully informed of investment and financial controls and other matters that are relevant to the business of the Company and should be brought to their attention. The directors also have access, where necessary in the furtherance of their duties, to professional advice at the expense of the Company.

The Board has a breadth of experience relevant to the Company, and the directors believe that any changes to the Board's composition can be managed without undue disruption. With any new director appointment to the Board, consideration will be given as to whether an induction process is appropriate.

Audit Committee

An audit committee exists consisting of Leslie Goodman, Françoise Henry and Juan de Dios Sanchez-Roselly Moreno. The function of the audit committee is to ensure that the Company maintains high standards of integrity, financial reporting and internal controls. The audit committee examines the effectiveness of the Company's internal control systems, the annual and interim reports and financial statements, the auditors' remuneration and engagement, as well as the auditors' independence and any non-audit services provided by them. The audit committee receives information from the administrator and secretary and from the external auditors as to the objectivity of their audit and their independence. The terms of reference of the audit committee are available upon request from the Secretary.

Management Committee

A management committee exists consisting of all members of the Board excluding Tanguy Bouillet and John Le Prevost. The function of the management committee is:

- (a) to ensure that the Company's contracts of engagement with the investment manager, administrator, and other service providers are operating satisfactorily so as to ensure the safe and accurate management and administration of the Company's affairs and business and are competitive and reasonable for the shareholders and to make appropriate recommendations to the Board; and

European Equity Tranche Income Limited

REPORT OF THE DIRECTORS – continued

- (b) to ensure that the Company complies to the best of its ability with applicable laws and regulations and adheres to the tenet of generally accepted codes of conduct.

In addition the chairmanship of the above two committees and each director's performance is reviewed annually by the chairman and the performance of the chairman is assessed by the remaining directors.

Internal Controls

The Board is responsible for the Company's system of internal control and for reviewing its effectiveness. The Board confirms that there is an ongoing process for identifying, evaluating and managing the significant risks faced by the Company. This process has been in place for the period under review and up to the date of approval of this annual report and financial statements, and is reviewed by the Board.

The Board has reviewed the effectiveness of the system of internal control. In particular, it has reviewed and updated the process for identifying and evaluating the significant risks affecting the Company and the policies by which these risks are managed.

The internal control systems are designed to meet the Company's particular needs and the risks to which it is exposed. Accordingly, the internal control systems are designed to manage rather than eliminate the risk of failure to achieve business objectives and by their nature can only provide reasonable and not absolute assurance against misstatement and loss.

The Company does not have an internal audit department. All the Company's management and administration functions are delegated to independent third parties and it is therefore felt that there is no need for the Company to have an internal audit facility. However, this matter is reviewed periodically.

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REPORT OF THE DIRECTORS – continued

Going Concern

At 30 June 2008 the Company had a €70 million loan facility with Citibank which was due to mature on 15 December 2008, with a “term out option” to extend until December 2009. On 12 December, the Company announced proposals relating to a capital restructuring which includes:

- (i) the purchase by Scribona Nordic AB (“Scribona”) from Citibank of all outstanding commitments, rights and obligations in relation to the €30 million debt owed by the company to Citibank under its existing facility agreement (the “Facility Agreement”);
- (ii) the conversion by Scribona of €5.6 million of debt to equity at €0.0111 per share;
- (iii) 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 €4.4 million, underwritten by Scribona, where such subscription monies will be applied by the Company in prepayment of debt owed to Scribona; and
- (iv) the release by Scribona of the Company from its obligations under the Facility Agreement to repay approximately €14.3 million of debt.

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 and the interest payable under the terms of such agreement is EURIBOR +5% per annum.

In order to implement the proposed capital restructuring it will be necessary to obtain shareholder approval. While the purchase of the Citibank debt by Scribona has already become effective, the other elements of the proposal are conditional, inter alia, upon the passing of all relevant shareholder resolutions. As a consequence of the restructuring the directors consider that the Company can be considered to continue to operate as a going concern.

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REPORT OF THE DIRECTORS – continued

Post balance sheet events

Since 30 June 2008, conditions in the credit markets and the major European economies have continued to deteriorate. This has had the effect of increasing the default risk in the asset pools that act as security for the Group's investments. In particular there have been increased arrears reported in Spain and Portugal and continuing increases in prepayment rates in Italy.

The recent increase in arrears in Spain could lead to an increase in the default rate in 2009.

These factors may lead to a further reduction in the fair value of the investments and the Group's net asset value since 30 June 2008.

By order of the Board

John R Le Prevost

Director

Juan de Dios Sanchez-Roselly Moreno

Director

European Equity Tranche Income Limited

CHAIRMAN'S STATEMENT

I am afraid my report this year holds little cheer for our shareholders. Whilst our first quarter was relatively uneventful, the start of Northern Rock's troubles in September 2007, which led to it being taken into public ownership in early 2008, was the first sign of the increasingly serious problems which were to beset the financial industry from then on. I do not need to rehearse the litany of issues which have brought some of the strongest financial institutions to their knees. Regrettably many of these issues have had their knock on effect on EETI. In particular these have been:

- Lack of liquidity. Our investments were never vigorously traded, but the crisis of confidence which has occurred during the year means that our investments have become totally illiquid. This has caused particular problems in the valuation of these investments, even though some of them are still generating cash in line with our original projections.
- The economic slow down, and especially the dramatic fall in house prices in Spain and Portugal, has resulted in an increase in the rate of default of our investments in these countries.
- The abnormal spread between base rate and LIBOR has significantly reduced the margins we received on our Ludgate investment.
- Following the introduction of retrospective legislation in Italy, which significantly reduced prepayment penalties, prepayments on our Italian investments have continued at a very high level requiring us to make further write downs.
- Most importantly our €30 million of debt outstanding at 30 June 2008, although reduced from a peak of €45 million, has meant that we do not have sufficient cash flow to repay the balance in full by the time it matures.

Our most recent announcements referred to negotiations with Citibank and potential investors seeking to reduce our debt obligations, and in the absence of a solution were likely to result in the Company no longer being viable. I am pleased to say that these negotiations have now concluded and today we have announced an underwritten issue of new shares together with a revised debt financing agreement. These arrangements are due to complete in January 2009 and will provide a more appropriate capital structure for the Company.

European Equity Tranche Income Limited

CHAIRMAN'S STATEMENT - continued

At the next Annual General Meeting Ms Francoise Henry and Juan de Dios Sanchez-Roselly Moreno will in accordance with the Company's Articles retire by rotation as directors of the Company. Juan de Dios Sanchez-Roselly Moreno will be standing for re-election as a director and a resolution to that effect is proposed. Ms Henry is taking this opportunity to leave the board and I wish to take this opportunity to thank Ms Henry for her valued contributions to the board's discussions since March 2006

Finally, I draw your attention to the detailed report on the individual investments within our portfolio prepared by our investment manager, Ocean Capital Associates LLP, which follows on the next page.

Robin Monro-Davies

Chairman

European Equity Tranche Income Limited

INVESTMENT MANAGER'S REPORT - continued

The NAV as at 30 June 2008 reported in the financial statements is estimated at €30.3 million or €0.30 cents per share. On 16 July 2007 the Group purchased Provide Gems Class C notes with a nominal value of €5 million and on 2 August 2007 the Group purchased Pastor 5 Class D Notes with a nominal value of €3.5 million. On 16 July 2007 the Group sold its investment in Fact 2006 Class C Notes. The cash flow generation remained strong over the entire year with €13.3 million received by the Group. Since July 2008 all the cash has been used to pay down the debt which stands at €29.7 million as at 1 December 2008. Since launch of the Company to 30 September 2008, the portfolio has generated cash of over € 26 million.

Market Outlook

Since June 2007, banks, regulators, central banks and governments have been caught off guard by the credit market on several occasions. Investors have lost confidence in the value of bank assets generally. As a result, private investors pulled out of financial assets and sought temporary security in cash assets. The banks were left scrambling to save their business by launching expensive but hopefully quick recapitalisations.

The deleveraging of the financial system is still in full flow, after 18 months, and we see no reasons to be optimistic for the reopening of the credit markets. The current flow of business in the credit markets is revolving around banks / central banks / governments / supra-national bodies. The price discovery mechanisms on financial assets have been slowed and/or hampered, by the vast amount of liquidity injected and other government sponsored programs. Investors will remain very cautious about structured finance assets until they feel the legal and regulatory framework has stabilised and the prices reflect long-term sustainable yields. Many trading opportunities will arise in the coming months but as long as "real fresh cash" does not enter the system we do not believe lending and asset trading can be resumed on a normal basis.

Valuation of investments

Given the absence of normal market prices and mechanisms, the Group has had to operate in a very difficult environment. The portfolio is now composed of 16 investments, 8 are structured as first loss (excess spread) and 8 are structured as bonds. In agreement with the Board we have increased the discount rate from 10% to a discount rate of 20% for residuals and a discount rate of 15% for bonds. This compares to an ECB rate of 3% at 30 June 2008.

European Equity Tranche Income Limited

INVESTMENT MANAGER'S REPORT - continued

This discount rate adjustment contributed to an immediate reduction of the NAV of c. €20 million.

Transaction	Country	Asset	New Discount rate	Position
Sestante 2	Italy	Prime RMBS	20%	Residual (Repack.)
Sestante 3	Italy	Prime RMBS	20%	Residual (Repack.)
Sestante 4	Italy	Prime RMBS	20%	Residual
Lusitano 3	Portugal	Prime RMBS	20%	Residual
Lusitano 4	Portugal	Prime RMBS	20%	Residual (Repack.)
Lusitano 5	Portugal	Prime RMBS	20%	Residual
Ludgate	UK	Niche Prime RMBS	20%	Residual & MERC
Minotaure	France	Assimilated to Prime RMBS	20%	Residual
Memphis 2006-1	Neth.	Prime RMBS	15%	B Rated (Bond)
Shield 1	Neth.	Prime RMBS	15%	B Rated (Bond)
Semper 2006-1	Germany	Multi-family CMBS	15%	Second Loss (Bond)
Pastor 2	Spain	Prime RMBS	15%	Second Loss (Bond)
Pastor 3	Spain	Prime RMBS	15%	Second Loss (Bond)
Pastor 4	Spain	Prime RMBS	15%	Second Loss (Bond)
Provide Gems	Germany	Second lien RMBS	15%	BB- Rated (Bond)
Pastor 5	Spain	Prime RMBS	15%	Second Loss (Bond)

Portfolio Updates

Italy

The prepayment rates in Italy have remained exceptionally high and continue to increase. The three Sestante transactions held in our portfolio had annualised constant prepayments rates ("CPR") as high as 25% during the year and this together with an increase in defaults has contributed to a mark down of c. €24 million. We are closely monitoring the CPR as a sustained increase in the trend might lead to further markdowns.

<i>Annualised CPR</i>	Q4 07	Q1 08	Q2 08	Q3 08
Sestante 2	14.8%	17.5%	21.0%	25.1%
Sestante 3	14.9%	18.0%	24.8%	22.5%
Sestante 4	10.0%	11.0%	19.8%	24.9%

European Equity Tranche Income Limited

INVESTMENT MANAGER'S REPORT - continued

Portugal

Arrears in Portugal have increased between January 2008 and October 2008. The defaults on the three transactions are on average 1.7 times greater than originally anticipated and we have adjusted the value of the positions accordingly; this has contributed to a mark down of c. €10 million.

<i>Arrears as a % of current balance</i>	Q1 08	Q2 08	Q3 08
Lusitano 3	1.5%	2.1%	2.5%
Lusitano 4	1.8%	2.2%	2.6%
Lusitano 5	1.2%	2.8%	3.2%

United Kingdom

The sustained widening in the BBR - £ Libor gap since September 2007 has destroyed all future value in the Ludgate residual note held by the Company and contributed to a write off of c. €5 million.

Spain

The deteriorating trend of arrears in Spain has continued beyond the year end and could lead potentially to higher defaults in the early part of 2009. For example in the Pastor 3, the amount of loans with arrears of 90 days and over as a percentage of the pool current balance has increased from 0.8 % to 3.2 % at 3 December 2008. We are monitoring this closely.

European Equity Tranche Income Limited

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF EUROPEAN EQUITY TRANCHE INCOME LIMITED

We have audited the Group and Parent Company financial statements of European Equity Tranche Income Limited for the year ended 30 June 2008 which comprise the Group and Parent Company Income Statement, the Group and Parent Company Balance Sheet, the Group and Parent Company Cash Flow Statement, the Group and Parent Company Statement of Changes in Shareholders' Equity and related notes. These financial statements have been prepared under the accounting policies set out therein.

This report is made solely to the Company's members, as a body, in accordance with Section 64 of The Companies (Guernsey) Law, 1994. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditors' report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed

Respective responsibilities of directors and auditors

As described in the Statement of Directors' Responsibilities the Company's directors are responsible for the preparation of the financial statements in accordance with applicable law and International Financial Reporting Standards (IFRS) as adopted for use in the European Union.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

We report to you our opinion as to whether the financial statements, which have been prepared in accordance with International Financial Reporting Standards, give a true and fair view and are properly prepared in accordance with The Companies (Guernsey) Law 1994. We also report to you if, in our opinion, the Report of the Directors is not consistent with the financial statements, if the Company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and transactions with the Company is not disclosed.

European Equity Tranche Income Limited

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF EUROPEAN EQUITY TRANCHE INCOME LIMITED – continued

We read other information contained in the annual report, and consider whether it is consistent with the financial statements. This other information comprises the Chairman's Statement and the Report of the Investment Manager.

We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. Our responsibilities do not extend to any other information.

Basis of audit opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

Emphasis of matter – investment values

In forming our opinion on the financial statements, which is not qualified, we have considered the adequacy of the disclosure made in note 1, 9 and 17 to the financial statements, which set out the policies adopted by the Directors for fair valuing the Group's investments. In accordance with these policies and the requirements of International Accounting Standard 39 "Financial Instruments: Recognition and Measurement", the Directors have estimated the fair value of the investments of the Group at €61,576,218 at 30 June 2008.

European Equity Tranche Income Limited

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF EUROPEAN EQUITY TRANCHE INCOME LIMITED – continued

As described in notes 1, 9 and 17 of the financial statements, the Group's investments in asset-backed securities are highly illiquid. As a result of this the assumptions used to compute the fair value estimates included in the financial statements are subject to considerable uncertainty. Different assumptions would result in changes to the fair value assessment of the investments and hence the carrying value of the investments in the consolidated and company balance sheet and the change in fair value of the investments reported in the consolidated income statements. It is not possible to quantify the potential effects of the resolution of this uncertainty.

Emphasis of matter – going concern

In forming our opinion on the financial statements, which is not qualified, we have considered the adequacy of the disclosure made in note 1 and 19 to the financial statements which sets out the basis on which the Directors consider that the going concern basis of preparation of the financial statements is appropriate. The Group has recently entered into a placing and subscription agreement with a third party that has at the same time purchased the existing rights and obligations attached to the Group's debt facilities. The Directors have assumed the successful completion of the refinancing arrangements which are subject to shareholder and certain regulatory approvals. If these assumptions are subsequently found to be inappropriate and in particular that the refinancing arrangements are not successfully concluded then the Group may not be able to continue as a going concern and meet its liabilities as they fall due. The matters set out in note 1 indicate the existence of a material uncertainty which casts doubt over the Group's ability to continue as a going concern. The financial statements do not include the adjustments that would result if the Company and Group were unable to continue as a going concern.

European Equity Tranche Income Limited

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF EUROPEAN EQUITY TRANCHE INCOME LIMITED – continued

Opinion

In our opinion:

- the financial statements give a true and fair view, in accordance with IFRS as adopted for use in the European Union, of the state of the Group's and Parent Company's affairs as at 30 June 2008 and of the Group's and the Company's loss for the year then ended;
- the financial statements have been properly prepared in accordance with The Companies (Guernsey) Law, 1994; and
- the information given in the Directors' Report is consistent with the financial statements.

Mazars LLP

Chartered Accountants
and Registered Auditors
London, UK

Date: 15 December 2008

European Equity Tranche Income Limited

CONSOLIDATED INCOME STATEMENT for the year ended 30 June 2008

	Notes	Year ended 30 June 2008 €	Year ended 30 June 2007 €
Operating income	2	11,038,503	8,779,107
Gains and losses on fair value through profit and loss financial instruments	9	(66,033,128)	(2,668,884)
Realised gain on disposal of financial instruments		27,606	-
Operating expenses	3	(1,956,255)	(1,754,493)
Loan interest payable		<u>(2,615,213)</u>	<u>(353,258)</u>
Net profit for the year		<u>(59,538,487)</u>	<u>4,002,472</u>
Retained profit / (loss) transferred to / (from) reserves		<u>(59,538,487)</u>	<u>4,002,472</u>
Basic and diluted (loss)/earnings per share for the year	7	(0.6075)	0.0400
<i>Proforma</i> basic and diluted (loss)/earnings per share for the year	7	(0.6075)	0.0400

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

The notes on pages 29 to 48 form an integral part of these financial statements

European Equity Tranche Income Limited

CONSOLIDATED BALANCE SHEET as at 30 June 2008

	Notes	30 Jun 2008 €	30 Jun 2008 €	30 Jun 2007 €	30 Jun 2007 €
ASSETS					
Non-current assets					
Investments designated at fair value through the income statement	9		61,576,218		129,069,538
Current assets					
Trade and other receivables	11	1,120,501		3,375,740	
Cash and cash equivalents	12	<u>2,411,764</u>		<u>1,757,210</u>	
			<u>3,532,265</u>		<u>5,132,950</u>
Total assets			<u>65,108,483</u>		<u>134,202,488</u>
EQUITY AND LIABILITIES					
Equity					
Issued share capital	13	-		-	
Share premium		50,000,000		50,000,000	
Retained earnings		<u>(19,631,829)</u>		<u>47,344,025</u>	
			30,368,171		97,344,025
Current liabilities					
Bank loans and overdrafts	14		34,238,827		36,238,827
Trade and other payables	15		<u>501,485</u>		<u>619,636</u>
Total equity and liabilities			<u>65,108,483</u>		<u>134,202,488</u>

The financial statements were approved by the Board of directors on 15 December 2008 and are signed on its behalf by:

John R Le Prevost

Juan de Dios Sanchez-Roselly Moreno

Director

Director

The notes on pages 29 to 48 form an integral part of these financial statements

European Equity Tranche Income Limited

INCOME STATEMENT for the year ended 30 June 2008

	Notes	Year ended 30 June 2008 €	Year ended 30 June 2007 €
Operating income	2	7,255,599	8,779,107
Gains and losses on fair value through profit and loss financial instruments	9	(48,572,511)	(2,668,884)
Impairment of subsidiary	10	(13,685,059)	-
Realised gain on disposal of financial Instruments		27,606	-
Operating expenses	3	(1,956,255)	(1,754,493)
Loan interest payable		<u>(2,615,213)</u>	<u>(353,258)</u>
Net profit for the year		<u>(59,545,833)</u>	<u>4,002,472</u>
Retained profit / (loss) transferred to / (from) reserves		<u>(59,545,833)</u>	<u>4,002,472</u>
Basic and diluted (loss)/earnings per share for the year		(0.6076)	0.0400
<i>Proforma</i> basic and diluted (loss)/earnings per share for the year		(0.6076)	0.0400

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

The notes on pages 29 to 48 form an integral part of these financial statements

European Equity Tranche Income Limited

BALANCE SHEET as at 30 June 2008

	Notes	30 Jun 2008 €	30 Jun 2008 €	30 Jun 2007 €	30 Jun 2007 €
ASSETS					
Non-current assets					
Investments designated at fair value through the income statement	9		39,301,739		129,069,538
Investment in subsidiary undertaking	10		23,622,581		-
Current assets					
Trade and other receivables	11	540,572		3,375,740	
Cash and cash equivalents	12	<u>1,636,245</u>		<u>1,757,210</u>	
			<u>2,176,817</u>		<u>5,132,950</u>
Total assets			<u>65,101,137</u>		<u>134,202,488</u>
EQUITY AND LIABILITIES					
Equity					
Issued share capital	13	-		-	
Share premium		50,000,000		50,000,000	
Retained earnings		<u>(19,639,175)</u>		<u>47,344,025</u>	
			30,360,825		97,344,025
Current liabilities					
Bank loans and overdrafts	14		34,238,827		36,238,827
Trade and other payables	15		<u>501,485</u>		<u>619,636</u>
Total equity and liabilities			<u>65,101,137</u>		<u>134,202,488</u>

The financial statements were approved by the Board of directors on 15 December 2008 and are signed on its behalf by:

John R Le Prevost

Juan de Dios Sanchez-Roselly Moreno

Director

Director

The notes on pages 29 to 48 form an integral part of these financial statements

European Equity Tranche Income Limited

CONSOLIDATED CASH FLOW STATEMENT for the year ended 30 June 2008

	Year ended 30 Jun 2008 €	Year ended 30 Jun 2007 €
Cash flows from operating activities		
Profit / (loss) for the year	(59,538,487)	4,002,472
Losses on fair value through profit and loss financial instruments	66,033,128	2,668,884
Realised gain on disposal of investment	(27,606)	-
Less: Interest received	(134,270)	(608,840)
Less: (Decrease) / increase in accrued expenses	(118,151)	295,867
Add: Decrease / (increase) in prepayments and accrued income	2,255,239	(2,767,715)
Less: Interest capitalised written back	(3,803,796)	-
Net cash inflow from operating activities	<u>4,666,057</u>	<u>3,590,668</u>
Cash flows from investing activities		
Interest received	134,270	608,840
Purchase of non-current assets	(7,354,793)	(82,027,000)
Sale of non-current assets	8,100,001	-
Capital repayments received from investments	4,546,386	5,392,861
Net cash inflow / (outflow) from investing activities	<u>5,425,864</u>	<u>(76,025,299)</u>
Cash flows from financing activities		
Redemption of share capital	(1,517,367)	-
Dividends	(5,920,000)	(4,710,000)
Bank loan (repayments) / drawdowns	(2,000,000)	36,238,827
Net cash (outflow) / inflow from financing activities	<u>(9,437,367)</u>	<u>31,528,827</u>
Cash and cash equivalents at the beginning of the year	1,757,210	42,663,014
Net increase / (decrease) in cash and cash equivalents	654,554	(40,905,804)
Cash and cash equivalents at the end of the year	<u><u>2,411,764</u></u>	<u><u>1,757,210</u></u>

The notes on pages 29 to 48 form an integral part of these financial statements

European Equity Tranche Income Limited

CASH FLOW STATEMENT for the year ended 30 June 2008

	Year ended 30 Jun 2008 €	Year ended 30 Jun 2007 €
Cash flows from operating activities		
Profit / (loss) for the year	(59,545,833)	4,002,472
Losses on fair value through profit and loss financial instruments	48,572,511	2,668,884
Impairment of subsidiary	13,685,059	-
Cash flow received from pass through notes	2,672,061	-
Realised gain on disposal of investment	(27,606)	-
Less: Interest received	(126,924)	(608,840)
Less: (Decrease) / increase in accrued expenses	(118,151)	295,867
Add: Decrease / (increase) in prepayments and accrued income	2,835,168	(2,767,715)
Less: Interest capitalised written back	(3,531,091)	-
Net cash inflow from operating activities	<u>4,415,194</u>	<u>3,590,668</u>
Cash flows from investing activities		
Interest received	126,924	608,840
Purchase of non-current assets	(7,383,333)	(82,027,000)
Sale of non-current assets	8,100,001	-
Capital repayments received from investments	4,057,616	5,392,861
Net cash inflow / (outflow) from investing activities	<u>4,901,208</u>	<u>(76,025,299)</u>
Cash flows from financing activities		
Redemption of share capital	(1,517,367)	-
Dividends	(5,920,000)	(4,710,000)
Bank loan (repayments) / drawdowns	(2,000,000)	36,238,827
Net cash (outflow) / inflow from financing activities	<u>(9,437,367)</u>	<u>31,528,827</u>
Cash and cash equivalents at the beginning of the year	1,757,210	42,663,014
Net decrease in cash and cash equivalents	(120,965)	(40,905,804)
Cash and cash equivalents at the end of the year	<u><u>1,636,245</u></u>	<u><u>1,757,210</u></u>

The notes on pages 29 to 48 form an integral part of these financial statements

European Equity Tranche Income Limited

STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY for the year ended 30 June 2008

Group	Share Capital	Share Premium	Accumulated Profits	Year ended Total
	€	€	€	€
Balance at 1 July 2006	-	50,000,000	48,051,553	98,051,553
Net profit for the year	-	-	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
Net Loss for the year	-	-	(59,538,487)	(59,538,487)
Redemption of share capital	-	-	(1,517,367)	(1,517,367)
Distribution to ordinary shareholders	-	-	(5,920,000)	(5,920,000)
Balance at 30 June 2008	-	50,000,000	(19,631,829)	30,368,171

Company	Share Capital	Share Premium	Accumulated Profits	Year ended Total
	€	€	€	€
Balance at 1 July 2006	-	50,000,000	48,051,553	98,051,553
Net profit for the year	-	-	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
Net Loss for the year	-	-	(59,545,833)	(59,545,833)
Redemption of share capital	-	-	(1,517,367)	(1,517,367)
Distribution to ordinary shareholders	-	-	(5,920,000)	(5,920,000)
Balance at 30 June 2008	-	50,000,000	(19,639,175)	30,360,825

The notes on pages 29 to 48 form an integral part of these financial statements

European Equity Tranche Income Limited

NOTES TO THE FINANCIAL STATEMENTS for the year ended 30 June 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 at fair value through the Income Statement. The accounting policies have been applied consistently by the Group in the accounting period which is for the year ended 30 June 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. 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.

As set out in note 14, as at 30 June 2008 the Company had a €70 million loan facility with Citibank which was due to mature on 15 December 2008, with a "term out option" to extend until December 2009. On 12 December, the Company announced proposals relating to a capital restructuring which includes:

- (i) the purchase by Scribona Nordic AB ("Scribona") from Citibank of all outstanding commitments, rights and obligations in relation to the €30 million debt owed by the company to Citibank under its existing facility agreement (the "Facility Agreement");
- (ii) the conversion by Scribona of €5.6 million of debt to equity at €0.0111 per share;
- (iii) 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 ~~€~~4.4 million, underwritten by Scribona, where such subscription monies will be applied by the Company in prepayment of debt owed to Scribona; and
- (iv) the release by Scribona of the Company from its obligations under the Facility Agreement to repay approximately €14.3 million of debt.

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 and the interest payable under the terms of such agreement is EURIBOR +5% per annum.

In order to implement the proposed capital restructuring it will be necessary to obtain shareholder approval. While the purchase of the Citibank debt by Scribona has already become effective, the other elements of the proposal are conditional, inter alia, upon the passing of all relevant shareholder resolutions. As a consequence of the restructuring the directors consider that the Company can be considered to continue to operate as a going concern.

If shareholders do not vote in favour of the resolutions to approve the capital restructuring, the proposed waiver of debt, conversion of debt to equity and issue of Shares will not take place and the Company will continue to owe approximately €30 million under the new facility entered into with Scribona. Accordingly, the Company will be unlikely to be able to meet its obligations as they fall due, leading to a likely immediate secured lender enforcement or insolvency.

European Equity Tranche Income Limited

NOTES TO THE FINANCIAL STATEMENTS for the year ended 30 June 2008 - continued

1 ACCOUNTING POLICIES – continued

(a) Basis of Preparation - continued

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.

(b) Basis of consolidation

The consolidated financial statements made up to 30 June 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.

In the separate financial statements of the Company, investments in subsidiaries are recorded at cost net of impairment losses.

(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.

European Equity Tranche Income Limited

NOTES TO THE FINANCIAL STATEMENTS for the year ended 30 June 2008 - continued

1 ACCOUNTING POLICIES – continued

(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.

(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.

European Equity Tranche Income Limited

NOTES TO THE FINANCIAL STATEMENTS for the year ended 30 June 2008 - continued

1 ACCOUNTING POLICIES – continued

(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 year. Diluted earnings per share is computed using the weighted average number of shares outstanding during the year plus the dilutive effect of any instruments outstanding during the year.

(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”).

(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”.

European Equity Tranche Income Limited

NOTES TO THE FINANCIAL STATEMENTS for the year ended 30 June 2008 - continued

1 ACCOUNTING POLICIES – continued

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

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 year ended 30 June 2008 - continued

2 OPERATING INCOME

	Company		Group	
	30 Jun 2008	30 Jun 2007	30 Jun 2008	30 Jun 2007
	€	€	€	€
Interest on investments in asset backed securities	7,128,675	8,170,267	10,904,233	8,170,267
Interest from cash and cash equivalents	126,924	608,840	134,270	608,840
	<u>7,255,599</u>	<u>8,779,107</u>	<u>11,038,503</u>	<u>8,779,107</u>

3 OPERATING EXPENSES

	Company		Group	
	30 Jun 2008	30 Jun 2007	30 Jun 2008	30 Jun 2007
	€	€	€	€
Investment managers fees	1,085,142	1,220,954	1,085,142	1,220,954
Directors' remuneration	112,506	125,449	112,506	125,449
Directors expenses	11,567	1,736	11,567	1,736
Directors & Officers insurance	25,592	31,773	25,592	31,773
Audit fees	103,163	96,224	103,163	96,224
Investment transaction costs	-	152	-	152
Administration fees	82,669	56,014	82,669	56,014
Registration fees	19,039	17,905	19,039	17,905
Legal and professional fees	263,418	34,668	263,418	34,668
Other operating expenses	253,159	169,618	253,159	169,618
	<u>1,956,255</u>	<u>1,754,493</u>	<u>1,956,255</u>	<u>1,754,493</u>

European Equity Tranche Income Limited

NOTES TO THE FINANCIAL STATEMENTS for the year ended 30 June 2008 - continued

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 period 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.

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 year, Directors' expenses totalled €11,567 (2007: €1,736).

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

European Equity Tranche Income Limited

NOTES TO THE FINANCIAL STATEMENTS for the year ended 30 June 2008 - continued

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 year totalled €112,506 (2007: €125,449).

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

7 EARNINGS PER SHARE

The earnings per share is based on the net loss of the Group for the year of €59,538,487 (2007: €4,002,472) and on 98,163,934 (2007: 100,000,000) shares, being the weighted average number of shares in issue during the year. There were no dilutive instruments in issue in the year.

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 year, the following dividend payments were made by the Company:

Date	Amount per share €	Total dividend distribution €
10 August 2007	0.020	2,000,000
23 November 2007	0.020	1,960,000
29 February 2008	0.015	1,470,000
6 June 2008	0.005	490,000
		<u>5,920,000</u>

During the previous year, dividend payments totalling €4,710,000 were made by the Company.

9 INVESTMENTS DESIGNATED AS FAIR VALUE THROUGH THE INCOME STATEMENT

Unquoted investments in RMBS and ABS	Company		Group	
	30 Jun 2008 €	30 Jun 2007 €	30 Jun 2008 €	30 Jun 2007 €
Valuation brought forward	129,069,538	55,104,283	129,069,538	55,104,283
Additions – cost	7,383,333	82,027,000	7,354,793	82,027,000
Disposals – cost	(48,054,365)	-	(8,079,707)	-
Capital repayments	(4,055,347)	(5,392,861)	(4,539,074)	(5,392,861)
Interest previously capitalised written back	3,531,091	-	3,803,796	-
Unrealised loss on revaluation for the year	(48,572,511)	(2,668,884)	(66,033,128)	(2,668,884)
	<u>39,301,739</u>	<u>129,069,538</u>	<u>61,576,218</u>	<u>129,069,538</u>

European Equity Tranche Income Limited

NOTES TO THE FINANCIAL STATEMENTS for the year ended 30 June 2008 - continued

9 INVESTMENTS DESIGNATED AS FAIR VALUE THROUGH THE INCOME STATEMENT - continued

On 16 July 2007 the Group purchased Provide Gems Class C notes with a nominal value of €5,000,000 and on 2 August 2007 the Group purchased Pastor 5 Class D Notes with a nominal value of €3,500,000. On 16 July 2007 the Group sold its investment in Fact 2006 Class C Notes. A profit of €27,606 was realised on the disposal.

A schedule of the investments held by the Group and Company respectively is shown on pages 49 and 50.

Income derived from the 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 year end.

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 30 June 2008 was €23,622,581 (2007: €Nil).

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 €30,000 per annum. This includes audit fees for year of €9,000.

European Equity Tranche Income Limited

NOTES TO THE FINANCIAL STATEMENTS for the year ended 30 June 2008 - continued

11 TRADE AND OTHER RECEIVABLES

	Company		Group	
	30 Jun 2008	30 Jun 2007	30 Jun 2008	30 Jun 2007
	€	€	€	€
Prepayments	36,849	116,429	36,849	116,429
Accrued interest – Investments	481,901	3,241,158	1,061,830	3,241,158
Accrued interest – Cash	8,476	4,807	8,476	4,807
Sundry debtors	13,346	13,346	13,346	13,346
	<u>540,572</u>	<u>3,375,740</u>	<u>1,120,501</u>	<u>3,375,740</u>

12 CASH AT BANK

	Company		Group	
	30 Jun 2008	30 Jun 2007	30 Jun 2008	30 Jun 2007
	€	€	€	€
Bank balances	357,774	83,657	1,133,293	83,657
Call deposits	1,278,471	1,673,553	1,278,471	1,673,553
	<u>1,636,245</u>	<u>1,757,210</u>	<u>2,411,764</u>	<u>1,757,210</u>

The weighted average floating interest rate on call deposits was 4.06%. Call deposits are due on demand.

13 SHARE CAPITAL

	30 Jun 2008	30 Jun 2007
	€	€
Authorised		
100,000,000 ordinary shares of no par value	<u>-</u>	<u>-</u>
	30 Jun 2008	30 Jun 2007
	€	€
Issued		
98,000,000 ordinary shares of no par value	<u>-</u>	<u>-</u>

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>

European Equity Tranche Income Limited

NOTES TO THE FINANCIAL STATEMENTS for the year ended 30 June 2008 - continued

13 SHARE CAPITAL (continued)

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.

The Company has passed a special resolution reducing the amount standing to the credit of the share premium account to €50,000,000, and that the surplus created form a distributable reserve. In accordance with The Companies (Guernsey) Law, 1994 (as amended) (the "Companies Law"), the Directors applied to the Royal Court of Guernsey for an order confirming such reduction of the share premium account following admission. The distributable reserve created on cancellation is available as distributable profits to be used for all purposes permitted by the Companies Law, including the buy back of Ordinary Shares and the payment of dividends.

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. The loan facility was increased from €40 million to €70 million on 26 July 2007.

The loan facility is in the form of a secured loan agreement. As at 30 June 2008 total drawdowns under the loan facility were €34,238,827 (2007: €36,238,827).

The loan is interest bearing, and the interest rate applied is a margin of 2.5% 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 7.11% (2007: 6.37%).

The loan facility is due to mature on 15 December 2008. Details of the impact of the loan reaching maturity are set out in note 19 to the financial statements.

European Equity Tranche Income Limited

NOTES TO THE FINANCIAL STATEMENTS for the year ended 30 June 2008 - continued

15 TRADE AND OTHER PAYABLES

	Company		Group	
	30 Jun 2008	30 Jun 2007	30 Jun 2008	30 Jun 2007
	€	€	€	€
Accrued investment managers fee	248,125	304,402	248,125	304,402
Accrued audit fees	101,378	59,990	101,378	59,990
Accrued administration fees	5,287	5,972	5,287	5,972
Accrued registration fees	796	1,572	796	1,572
Accrued loan interest	83,969	204,262	83,969	204,262
Other accrued expenses	61,930	43,438	61,930	43,438
	<u>501,485</u>	<u>619,636</u>	<u>501,485</u>	<u>619,636</u>

16 FINANCIAL INSTRUMENTS

The Company's main financial instruments comprise:

- (a) Cash and cash equivalents that arise directly from the Company's operations; and
- (b) Non-investment grade and residual income positions of RMBS and ABS originated in Europe.
- (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 Company will not enter into derivative transactions for speculative purposes.

(a) Market Price Risk

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 year ended 30 June 2008 - continued

17 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES – continued

(a) Market Price Risk - 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 30 June 2008, if the estimated yield of the non-current asset investments had been 5% higher with all the other variables held constant the loss transferred to reserves for the period would have been €10,838,820 higher, arising due to the decrease in the fair value of financial assets at fair value through profit or loss.

At 30 June 2008, if the estimated yield of the non-current asset investments had been 5% lower with all the other variables held constant the loss transferred to reserves for the period would have been €14,528,680 lower, arising due to the increase in the fair value of financial assets at fair value through profit or loss.

At 30 June 2008, if the estimated yield of the non-current asset investments had been 10% higher with all the other variables held constant the loss transferred to reserves for the period would have been c €19,096,560 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 year ended 30 June 2008 - continued

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.

European Equity Tranche Income Limited

NOTES TO THE FINANCIAL STATEMENTS for the year ended 30 June 2008 - continued

17 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES – continued

(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.

(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.

European Equity Tranche Income Limited

NOTES TO THE FINANCIAL STATEMENTS for the year ended 30 June 2008 - continued

17 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES – continued

(e) Liquidity Risk - continued

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	-	-	-	7,138,440	54,437,778	61,576,218
Trade and other receivables	-	1,070,306	50,195	-	-	1,120,501
Cash and cash equivalents	2,411,764	-	-	-	-	2,411,764
Total assets	2,411,764	1,070,306	50,195	7,138,440	54,437,778	65,108,483
Liabilities						
Bank loans and overdrafts	-	-	34,238,827	-	-	34,238,827
Trade and other payables	-	-	501,485	-	-	501,485
Total liabilities	-	-	34,740,312	-	-	34,740,312

(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 30 June 2008 was 4.06% (2007: 3.46%).

The Subsidiary's weighted average effective interest rate for cash and bank balances as at 30 June 2008 was 0.27% (2007: Nil).

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 30 June 2008 would have decreased by €54,848 (2007: €181,695) 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 30 June 2008 would have increased by €54,848 (2007: €181,695) due to a decrease in the amount of interest receivable on the bank account.

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

European Equity Tranche Income Limited

NOTES TO THE FINANCIAL STATEMENTS for the year ended 30 June 2008 - continued

17 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES – continued

(f) Interest Rate Risk - continued

The weighted average effective interest rate on the loan facility as at 30 June 2008 was 7.11% (2007: 6.37%).

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 30 June 2008 would have increased by €361,733 (2007: €53,752) 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 30 June 2008 would have decreased by €361,733 (2007: €53,752) 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 higher in 2008 than in 2007 because of an increase in the average loan balance outstanding over the year.

(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.

European Equity Tranche Income Limited

NOTES TO THE FINANCIAL STATEMENTS for the year ended 30 June 2008 - continued

17 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES – continued

(h) Currency Risk - continued

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.

(j) Collateral

Under the terms of the deed of assignment dated 15 February 2007 and the amendments dated 25 July 2007 and 17 December 2007 entered into between the Company and Citibank N.A., 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 Citibank N.A. as security for the loan facility. Where there is an event of default in respect of the Company under the loan facility, Citibank N.A. will be entitled to enforce its security over the collateral. The details of a potential default event are set out in note 19 to the financial statements.

(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:

	Company		Group	
	30 Jun 2008	30 Jun 2007	30 Jun 2008	30 Jun 2007
	€	€	€	€
Share premium	50,000,000	50,000,000	50,000,000	50,000,000
Retained earnings	(19,639,175)	47,344,025	(19,631,829)	47,344,025
	<u>30,360,825</u>	<u>97,344,025</u>	<u>30,368,171</u>	<u>97,344,025</u>

European Equity Tranche Income Limited

NOTES TO THE FINANCIAL STATEMENTS for the year ended 30 June 2008 - continued

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. €101,708 (2007: €73,919) of fees were incurred by the Company with these related parties in the year, of which €6,083 (2007: €7,544) was due to these related parties as at 30 June 2008.

During the year under review, Tanguy Boulet was a partner in the investment manager, Ocean Capital Associates LLP. €1,085,142 (2007: €1,220,954) in fees was incurred by the Company with the investment manager in the year, of which €248,125 (2007: €304,402) was due to the investment manager as at 30 June 2008.

19 POST BALANCE SHEET EVENTS

a) Going concern

As set out in note 14, at 30 June 2008 the Company had a €70 million loan facility with Citibank which was due to mature on 15 December 2008.

On 18 September 2008, the Company repaid €1.5 million of the outstanding balance of the loan facility and on 31 October 2008, the Company repaid a further €3 million of the outstanding balance of the loan facility.

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

- (i) the purchase by Scribona Nordic AB ("Scribona") from Citibank of all outstanding commitments, rights and obligations in relation to the €30 million debt owed by the company to Citibank under its existing facility agreement (the "Facility Agreement");
- (ii) the conversion by Scribona of €5.6 million of debt to equity at €0.0111 per share;
- (iii) 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 million, underwritten by Scribona, where such subscription monies will be applied by the Company in prepayment of debt owed to Scribona; and
- (iv) the release by Scribona of the Company from its obligations under the Facility Agreement to repay approximately €14.3 million of debt.

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 and the interest payable under the terms of such agreement is EURIBOR +5% per annum.

In order to implement the proposed capital restructuring it will be necessary to obtain shareholder approval. While the purchase of the Citibank debt by Scribona has already become effective, the other elements of the proposal are conditional, inter alia, upon the passing of all relevant shareholder resolutions. As a consequence of the restructuring the directors consider that the Company can be considered to continue to operate as a going concern.

European Equity Tranche Income Limited

NOTES TO THE FINANCIAL STATEMENTS for the year ended 30 June 2008 - continued

19 POST BALANCE SHEET EVENTS - continued

a) Going concern - continued

If the transaction set out above is not approved by the shareholders, such approval being the only outstanding condition to completion, then further negotiation with Scribona would be required and this may have an impact on the carrying value of the investments as a forced sale basis, would result in a significant reduction in the carrying value and corresponding reduction in the net asset value of the Group.

b) Other matters

Since 30 June 2008, conditions in the credit markets and the major European economies have continued to deteriorate. This has had the effect of increasing the default risk in the asset pools that act as the security for the Group's investments. In particular there have been increased arrears reported in Spain and Portugal and continuing increases in prepayment rates in Italy. The recent increase in arrears witnessed in Spain could lead to an increase in the default rate in 2009.

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	30 Jun 2008		30 Jun 2007	
	VALUATION €	TOTAL ASSETS %	VALUATION €	TOTAL ASSETS %
Lusitano Mortgages 3 plc Class E Notes	3,363,731	5.17%	9,046,317	6.74%
Lusitano Mortgages 4 plc Class E Notes	2,040,107	3.13%	6,333,133	4.72%
Lusitano Mortgages 5 plc Class E Notes	5,379,117	8.26%	12,660,144	9.43%
FCC Minotaure Compartiment 2004-1-296 Residual R Bonds and 1 Unit	2,798,522	4.30%	4,085,999	3.04%
Sestante 2 Class D Notes	2,954,627	4.54%	10,922,013	8.14%
Sestante 3 Class D Notes	2,487,269	3.82%	15,153,403	11.29%
Sestante 4 Class D Notes	3,469,998	5.33%	17,286,370	12.88%
Shield I – Class F Bonds	6,871,718	10.55%	8,231,779	6.13%
Memphis 2006-1	3,432,937	5.27%	4,215,722	3.14%
Fact 2006 Ltd Class C Notes	-	-	8,079,707	6.02%
Ludgate Funding Plc Series 2006 FF1	266,722	0.41%	7,703,203	5.74%
Semper 2006	5,356,989	8.23%	6,700,000	4.99%
IM Pastor 2	6,116,210	9.39%	7,300,000	5.44%
IM Pastor 3	7,294,995	11.20%	7,885,000	5.88%
IM Pastor 4	3,688,550	5.66%	4,475,000	3.33%
IM Pastor 5	2,236,668	3.43%	-	-
Provide Gems	4,478,401	6.88%	-	-
Less: Capitalised interest included in above figures	(660,343)		(1,008,252)	
	<u>61,576,218</u>	<u>85.26%</u>	<u>129,069,538</u>	<u>96.91%</u>

European Equity Tranche Income Limited

SCHEDULE OF INVESTMENTS

Company NAME OF INVESTMENT	30 Jun 2008		30 Jun 2007	
	VALUATION €	TOTAL ASSETS %	VALUATION €	TOTAL ASSETS %
Lusitano Mortgages 3 plc Class E Notes	3,363,731	5.17%	9,046,317	6.74%
Lusitano Mortgages 4 plc Class E Notes	2,040,107	3.13%	6,333,133	4.72%
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Sestante 3 Class D Notes	2,487,269	3.82%	15,153,403	11.29%
Sestante 4 Class D Notes	-	-	17,286,370	12.88%
Shield I – Class F Bonds	6,871,718	10.55%	8,231,779	6.13%
Memphis 2006-1	3,432,937	5.27%	4,215,722	3.14%
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Ludgate Funding Plc Series 2006 FF1	266,722	0.41%	7,703,203	5.74%
Semper 2006	5,356,989	8.23%	6,700,000	4.99%
IM Pastor 2	-	-	7,300,000	5.44%
IM Pastor 3	-	-	7,885,000	5.88%
IM Pastor 4	-	-	4,475,000	3.33%
Provide Gems	4,478,401	6.88%	-	-
Less: Capitalised interest included in above figures	(128,401)		(1,008,252)	
	<u>39,301,739</u>	<u>53.68%</u>	<u>129,069,538</u>	<u>96.91%</u>
NAME OF SUBSIDIARY	VALUATION €	TOTAL ASSETS %		
EETI Finance Limited	<u>26,253,142</u>	<u>19.56%</u>		

European Equity Tranche Income Limited

SHAREHOLDER INFORMATION

The Company announces the estimated net asset value per share on a quarterly basis.

Shares are listed on the Channel Islands Stock Exchange and traded through AIM. Shares may be dealt directly through a stockbroker or professional adviser acting on an investor's behalf. The buying and selling of shares may be settled through CREST.

The Company's register of shareholders is maintained by Anson Registrars Limited in Guernsey and they can be contacted on (44) 01481 711301.

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 Françoise Adeline Henry Tanguy Patrice Marie Dominique Boulet Juan de Dios Sanchez-Roselly Moreno
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 29 Ropemaker Street London England EC2Y 9AR
Auditors	Mazars LLP Tower Bridge House St Katherine's Way London EW1 1DD

Sponsor to CISX Listing	Ogier Corporate Finance Limited Whiteley Chambers Don Street St Helier Jersey JE4 9WG
Principal Bankers	Royal Bank of Scotland International Limited Guernsey Branch PO Box 62 Royal Bank Place 1 Gategny Esplanade St Peter Port Guernsey GY1 4BQ
Registrar, Transfer Agent, Paying Agent and Receiving Agent	Anson Registrars Limited Anson Place Mill Court La Charroterie St Peter Port Guernsey GY1 3WX
UK Transfer Agent and Paying Agent	Anson Administration (UK) Limited 3500 Parkway Whiteley Fareham Hampshire England PO15 7AL
Custodian	BNP Paribas Trust Company (Guernsey) Limited BNP Paribas House St Julians Avenue St Peter Port Guernsey GY1 1WA