

# Report & Financial Statements

for the year ended 30 June 2009

**European Equity Tranche Income  
Limited**

# European Equity Tranche Income Limited

## CONTENTS

About the Company	2
Investment Objective and Policy	2
Investment Performance	2
Directors	3
Investment Manager, Administrator and Secretary	4
Report of the Directors	5
Independent Auditors' Report	8
Audited Consolidated Income Statement	10
Audited Consolidated Balance Sheet	11
Audited Consolidated Cash Flow Statement	12
Audited Statement of Changes in Shareholders' Equity	13
Notes to the Financial Statements	14
Schedule of Investments	30
Shareholder Information	31
Directors and Service Providers	31

# European Equity Tranche Income Limited

## ABOUT THE COMPANY

European Equity Tranche Income Limited (“the Company”) was incorporated on 17 March 2006 in Guernsey as a closed-ended investment company. On 26 April 2006 the Company raised €100 million from the issue of 100,000,000 Ordinary shares of no par value in the capital of the Company (the “Shares”) at an issue price of €1 per Share. On 26 July 2007 the Company purchased for cancellation 2,000,000 Shares.

On 12 December 2008, Scribona Nordic AB (“Scribona”) purchased from Citibank all outstanding commitments, rights and obligations in relation to the debt then owed by the Company to Citibank under its existing Facility Agreement (now called the “Scribona Loan”).

On 5 February 2009, at an extraordinary general meeting held that day, shareholders approved a capital restructuring of the Company which resulted in the issue of a further 927,000,000 Shares at a large discount to net asset value, the reduction of debt owed by the Company to Scribona, a consolidation of Shares by 100 to 1 and the de-listing of Shares from the Channel Islands Stock Exchange. The total number of Shares in issue became 10,250,000.

On 29 June 2009, at a further extraordinary general meeting held that day, shareholders resolved to cancel the admission of Shares to trading on AIM and this took effect on 8 July 2009.

As at 30 June 2009 the Company had outstanding under the Scribona Loan €2,006,452 and as at 30 September 2009, being a convenient date close to the date of this report, the principal amount of the Scribona Loan amounted to €1,406,452.

As at 30 June 2009 Scribona controlled 94.14% of the Company's Shares.

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 original investment objective was to deliver stable returns to shareholders in the form of quarterly dividends and to preserve capital.

The Company sought 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.

Following the capital reorganisation of the Company mentioned above it has become the policy of the Board to manage the existing investment portfolio with a view to returning as much cash as possible to investors with no further investment being made.

## INVESTMENT PERFORMANCE

As at 30 June 2009, the net asset value per Share was €3.85 (2008: €0.3098, 2007: €0.9734, 2006: €0.9805), based on the net assets of the Group for the year of € 39,437,168 (2008: € 30,368,171. 2007: € 97,344,025, 2006: € 98,051,553) and on 10,250,000 Shares (2008: 98,000,000, 2007: 100,000,000, 2006: 100,000,000) Shares, being the number of Shares in issue at each balance sheet date.

# European Equity Tranche Income Limited

## BOARD OF DIRECTORS

The Company now has four 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 68 is resident in England.

Leslie Goodman (British) – Mr Goodman, aged 63, is resident in England.

John Le Prevost (British) – Mr Le Prevost, aged 58, is resident in Guernsey.

Lorenzo Garcia (Swedish) – Mr Garcia, aged 58, is resident in Sweden and was appointed to the Board on 18 February 2009.

As noted in the Annual Financial Report for the year ended 30 June 2008 Ms Francoise Henry retired at the Annual General Meeting of the Company on the 7 January 2009. Mr Juan de Dios Sanchez-Roselly Moreno and Mr Tanguy Boulet resigned on the 12 February 2009 and 10 September 2009 respectively.

At the General Meeting of the Company to be held on the 30 December 2009 it is proposed that Messrs Monro-Davies, Goodman and Le Prevost will cease to be directors of the Company.

Messrs Baber and Claesson, who will be appointed at a Board Meeting held prior to the General Meeting, and Mr Garcia who was appointed to the Board on 18 February 2009, will retire and, being eligible, offer themselves for re-election as directors of the Company under the provisions of Article 77 of the Company's Memorandum and Articles of Association.

# European Equity Tranche Income Limited

## INVESTMENT MANAGER, ADMINISTRATOR AND SECRETARY

### **INVESTMENT MANAGER**

The Company's Investment Manager for the year under review was Ocean Capital Associates LLP, a London based investment management partnership authorised and regulated by the Financial Services Authority of the United Kingdom. The Company served formal notice of termination on Ocean Capital Associates LLP on 1 May 2009 which will terminate the agreement on 1 May 2010.

Whilst the Company has already served protective notice on Ocean Capital of the termination of its Investment Management Agreement on 1 May 2010 the Company did during September serve immediate termination notice on Ocean Capital to take effect from 30 September 2009 on the basis of a breach of conditions required under the Investment Management Agreement. Accordingly, the last pro rata fee due to Ocean Capital to 30 September 2009 has now been paid to them and no further sums will be paid.

Cartesia S.A.S ("Cartesia") was retained as Advisor to the Company with effect from the 1 September 2009. Cartesia S.A.S. is a financial advisory company established in Paris in January 2009 specialising in debt and credit products. Cartesia received the status of Financial Investment Advisor from the French regulator for financial markets.

Cartesia is held by the Massena Group, a French multi-family office and wealth management company operating from Paris and Geneva, and Tanguy Boulet, chairman and CEO. Tanguy is a former founding partner of Ocean Capital Associates in London. He has over 22 years of experience in investment banking and financial markets. Cartesia was appointed as investment advisor by Massena for the launch of their Luxemburg-based Debt Fund, launched in April 09, and currently manages approximately € 50 million of European credit assets. Cartesia currently employs Hadrien Carré, also a former partner at Ocean Capital and Olivier Genin who used to work at Merrill Lynch London in the Structured Credit Group.

### **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 obligations under the Registered Collective Investment Scheme Rules 2008 issued by the Guernsey Financial Services Commission.

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 2009.

### Principal Activity

The principal activity of the Company is as described on page 2.

### 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 suspended until all debt has been repaid.

Thereafter the Board intends resuming 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 2009 totalling €490,329 (2008: €5,920,000).

### Financing Strategy

The Company intends to repay the balance outstanding on the Scribona Loan and thereafter incur no further borrowings for investment purposes.

### 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 the Company's website.

### Results

The results for the year are set out in the Audited Consolidated Income Statement on page 10.

### Directors

The directors' details are given on page 3. Directors' interests in shares as at 2 December 2009 are as follows:

Director	Shares	Percentage of issued shares
Robin Monro-Davies	104,591	0.01
John R Le Prevost	13,800	0.0013

Lorenzo Garcia does not have a direct interest in the Company. However, note 18 details Mr Garcia's indirect interest in the Company and the related party transactions.

### 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 each receive the sum of £15,000 p.a.

### 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:

# European Equity Tranche Income Limited

## REPORT OF THE DIRECTORS (continued)

### Statement of Directors' Responsibilities (continued)

- 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

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 its size.

During the financial year under review the Board met four times. 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.

### 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.

# European Equity Tranche Income Limited

## REPORT OF THE DIRECTORS (continued)

### Internal Controls (continued)

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.

### Going Concern

As a consequence of the restructuring the directors consider that the Company can be considered to continue to operate as a going concern.

### Post balance sheet events

On the 8 July 2009 the Company delisted from the Alternative Investment Market following the voting of shareholders at the Extraordinary General Meeting of the Company held 29 June 2009.

By order of the Board

Lorenzo Garcia  
Director

John Le Prevost  
Director

# European Equity Tranche Income Limited

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

We have audited the Group financial statements of European Equity Tranche Income Limited for the year ended 30 June 2009 which comprise the Group Income Statement, Group Balance Sheet, the Group Cash Flow Statement and the Group Statement of Changes in Shareholders' Equity and related notes 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 262 of the Companies Guernsey Law, 2008. 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**

The directors' responsibilities for preparing the financial statements in accordance with applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union are set out in the Statement of Directors' Responsibilities.

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 give a true and fair view, whether the financial statements have been properly prepared in accordance with the Companies Guernsey Law, 2008. We also report to you whether in our opinion the information given in the Directors' Report is consistent with the financial statements.

In addition we report to you if, in our opinion, 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.

We read the Directors' Report and consider the implications for our report if we become aware of any apparent misstatement.

### **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.

# European Equity Tranche Income Limited

## INDEPENDENT AUDITORS REPORT TO THE MEMBERS OF EUROPEAN EQUITY TRANCHE INCOME LIMITED (continued)

### **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 €38,850,183 at 30 June 2009.

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 balance sheet and the change in fair value of the investments reported in the consolidated income statement. It is not possible to quantify the potential effects of the resolution of this uncertainty.

### **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 affairs as at 30 June 2009 and of the Group's loss for the year then ended;
- the financial statements have been properly prepared in accordance with the Companies Guernsey Law, 2008 and
- the information given in the Directors' Report is consistent with the financial statements.

Mazars LLP  
Chartered Accountants  
and Registered Auditors  
London, UK  
Date: 2 December 2009

# European Equity Tranche Income Limited

## AUDITED CONSOLIDATED INCOME STATEMENT for the year ended 30 June 2009

	Notes	Year ended 30 June 2009 €	Year ended 30 June 2008 €
Operating income	2	11,927,964	11,038,503
Losses on fair value through profit and loss financial instruments	9	(24,968,672)	(66,033,128)
Realised gain on disposal of financial instruments		-	27,606
Operating expenses	3	(1,960,020)	(1,956,255)
Loan interest payable		(1,612,285)	(2,615,213)
Debt waiver	18	<u>15,882,639</u>	<u>-</u>
Net loss for the year		<u>(730,374)</u>	<u>(59,538,487)</u>
Retained loss transferred from reserves		<u>(730,374)</u>	<u>(59,538,487)</u>
Basic and diluted loss per share for the year	7	(0.1557)	(60.6520)

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

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

The notes on pages 14 to 30 form an integral part of these financial statements

# European Equity Tranche Income Limited

## AUDITED CONSOLIDATED BALANCE SHEET as at 30 June 2009

	Notes	30 Jun 2009 €	30 Jun 2009 €	30 Jun 2008 €	30 Jun 2008 €
<b>ASSETS</b>					
<b>Non-current assets</b>					
Investments designated as at fair value through the income statement	9		38,850,183		61,576,218
<b>Current assets</b>					
Trade and other receivables	11	1,592,120		1,120,501	
Cash and cash equivalents	12	<u>1,273,527</u>		<u>2,411,764</u>	
			<u>2,865,647</u>		<u>3,532,265</u>
<b>Total assets</b>			<u><b>41,715,830</b></u>		<u><b>65,108,483</b></u>
<b>EQUITY AND LIABILITIES</b>					
<b>Equity</b>					
Issued share capital	13	-		-	
Share premium		60,289,700		50,000,000	
Retained earnings		<u>(20,852,532)</u>		<u>(19,631,829)</u>	
			39,437,168		30,368,171
<b>Current liabilities</b>					
Loans payable	14		2,006,452		34,238,827
Trade and other payables	15		<u>272,210</u>		<u>501,485</u>
<b>Total equity and liabilities</b>			<u><b>41,715,830</b></u>		<u><b>65,108,483</b></u>

The financial statements were approved by the Board of directors on 2 December 2009 and are signed on its behalf by:

Lorenzo Garcia  
Director

John Le Prevost  
Director

The notes on pages 14 to 30 form an integral part of these financial statements

# European Equity Tranche Income Limited

## AUDITED CONSOLIDATED CASH FLOW STATEMENT for the year ended 30 June 2009

	Year ended 30 Jun 2009 €	Year ended 30 Jun 2008 €
<b>Cash flows from operating activities</b>		
Net loss for the year	(730,374)	(59,538,487)
Losses on fair value through profit and loss Financial instruments	24,968,672	66,033,128
Realised gain on disposal of investment	-	(27,606)
Less: Interest received	(63,311)	(134,270)
Less: Decrease in accrued expenses	(229,275)	(118,151)
Less: Effect of capital restructuring	(14,484,257)	-
Less: (Increase) / decrease in prepayments and accrued income	(471,619)	2,255,239
Less: Interest capitalised written back	(4,641,920)	(3,803,796)
<b>Net cash inflow from operating activities</b>	<u>4,347,916</u>	<u>4,666,057</u>
<b>Cash flows from investing activities</b>		
Interest received	63,311	134,270
Purchase of non-current assets	-	(7,354,793)
Sale of non-current assets	-	8,100,001
Capital repayments received from investments	2,399,283	4,546,386
<b>Net cash inflow from investing activities</b>	<u>2,462,594</u>	<u>5,425,864</u>
<b>Cash flows from financing activities</b>		
Redemption of share capital	-	(1,517,367)
Dividends	(490,329)	(5,920,000)
Proceeds from share issue	741,582	-
Loan repayments	(8,200,000)	(2,000,000)
<b>Net cash outflow from financing activities</b>	<u>(7,948,747)</u>	<u>(9,437,367)</u>
<b>Cash and cash equivalents at the beginning of the year</b>	2,411,764	1,757,210
Net (decrease) / increase in cash and cash equivalents	(1,138,237)	654,554
<b>Cash and cash equivalents at the end of the year</b>	<u>1,273,527</u>	<u>2,411,764</u>

The notes on pages 14 to 30 form an integral part of these financial statements

# European Equity Tranche Income Limited

## AUDITED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY for the year ended 30 June 2009

<b>Group</b>	<b>Share Capital</b>	<b>Share Premium</b>	<b>Accumulated Profits</b>	<b>Total</b>
	<b>€</b>	<b>€</b>	<b>€</b>	<b>€</b>
<b>Balance at 1 July 2007</b>	-	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)
<hr/>				
<b>Balance at 30 June 2008</b>	-	50,000,000	(19,631,829)	30,368,171
Net loss for the year	-	-	(730,374)	(730,374)
Increase in share premium	-	10,289,700	-	10,289,700
Distribution to ordinary shareholders	-	-	(490,329)	(490,329)
<hr/>				
<b>Balance at 30 June 2009</b>	-	60,289,700	(20,852,532)	39,437,168

The notes on pages 14 to 30 form an integral part of these financial statements

# European Equity Tranche Income Limited

## NOTES TO THE FINANCIAL STATEMENTS for the year ended 30 June 2009

### 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 2009. 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 following Standards of Interpretations have been issued by the International Accounting Standards Board but not yet adopted by the Company:

Amendments to IFRS 1 (revised 2008) *First-time Adoption of International Reporting Standards* effective for annual periods beginning on or after 1 January 2009.

Amendments to IFRS 2 (revised 2008) *Share-based Payment* effective for annual periods beginning on or after 1 January 2009.

Comprehensive revision to IFRS 3 (revised 2008) *Business Combinations* effective for annual periods beginning on or after 1 July 2009.

Amendments to IFRS 7 (revised 2009) *Financial Instruments Disclosures* for annual periods beginning on or after 1 January 2009.

IFRS 8 *Operating Segments* effective for annual periods beginning on or after 1 January 2009.

Comprehensive revision to IAS 23 (revised 2008) *Borrowing Costs* effective for annual periods beginning on or after 1 January 2009.

Consequential amendments to IAS 27 (revised 2008) *Consolidated and Separate Financial Statements* effective for annual periods beginning on or after 1 July 2009.

Consequential amendments to IAS 28 (revised 2008) *Investments in Associates* effective for annual periods beginning on or after 1 July 2009.

Consequential amendments to IAS 31 (revised 2008) *Interests in Joint Ventures* effective for annual periods beginning on or after 1 July 2009.

Amendments to IAS 32 and IAS 1 *Puttable Financial Instruments* effective for annual periods beginning on or after 1 January 2009.

Amendments to IAS 39 *Financial Instruments: Recognition and Measurement* effective for annual periods beginning on or after 1 July 2009.

IFRIC 15 *Agreements for the Construction of Real Estate* effective for annual periods beginning on or after 1 July 2009.

# European Equity Tranche Income Limited

## NOTES TO THE FINANCIAL STATEMENTS (continued) for the year ended 30 June 2009

### 1 ACCOUNTING POLICIES (continued)

#### (a) Basis of Preparation (continued)

IFRIC 16 *Hedges of a Net Investment in a Foreign Operation* effective for annual periods beginning on or after 1 October 2008.

IFRIC 17 *Distributions of Non-cash Assets to Owners* effective for annual periods beginning on or after 1 July 2009.

IFRIC 18 *Transfers of Assets from Customers* effective for transfers received on or after 1 July 2009.

Some of these Standards and interpretations may require additional disclosure in future financial statements.

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

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

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

On 5 February 2009, shareholders voted in favour of the resolutions to approve the capital restructuring and consolidation of shares, which included:

- (i) the conversion by Scribona of €5.6 million of debt to equity at €0.0111 per share;
- (ii) a non pre-emptive placing of new Ordinary shares ("Shares") with certain existing shareholders at a price of €0.0111 per share to raise up to €4.4 million, underwritten by Scribona, where such subscription monies will be applied by the Company in prepayment of debt owed to Scribona;
- (iii) the release by Scribona of the Company from its obligations under the Facility Agreement to repay such amount as would leave the sum outstanding under the Facility Agreement at approximately €5.7 million; and
- (iv) Scribona will be paid a commission of €299,700 in relation to its underwriting, to be satisfied by the issue to it of 27 million Shares at €0.0111 each.

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

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 (continued) for the year ended 30 June 2009

### **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 2009 incorporate the financial statements of the Company and entities where the Company is the majority economic beneficiary in such entity, even though the Company has no equity control over such an entity (the "Subsidiary") (and together the "Group"). All inter-group balances, income and expenses are eliminated on consolidation.

#### **(c) Foreign currencies**

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

#### **(d) Interest income**

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

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

#### **(e) Fair Value of Financial instruments**

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

# European Equity Tranche Income Limited

## NOTES TO THE FINANCIAL STATEMENTS (continued) for the year ended 30 June 2009

### **1 ACCOUNTING POLICIES (continued)**

#### **(e) Fair Value of Financial instruments (continued)**

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.

#### **(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.

# European Equity Tranche Income Limited

## NOTES TO THE FINANCIAL STATEMENTS (continued) for the year ended 30 June 2009

### 1 ACCOUNTING POLICIES (continued)

#### (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 consolidated financial statements.

##### ***Income recognition***

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

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

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

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

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

##### ***Valuation of investments***

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

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

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

# European Equity Tranche Income Limited

## NOTES TO THE FINANCIAL STATEMENTS (continued) for the year ended 30 June 2009

### 1 ACCOUNTING POLICIES (continued)

#### (I) Critical accounting judgements and key sources of estimation uncertainty (continued)

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.

### 2 OPERATING INCOME

	Year ended 30 Jun 2009 €	Group	Year ended 30 Jun 2008 €
Interest on investments in asset backed securities	10,302,018		10,904,233
Interest from cash and cash equivalents	63,311		134,270
Compensation received in relation to investments	1,562,635		-
	<u>11,927,964</u>		<u>11,038,503</u>

### 3 OPERATING EXPENSES

	Year ended 30 Jun 2009 €	Group	Year ended 30 Jun 2008 €
Investment manager's fees	522,555		1,085,142
Directors' remuneration	82,654		112,506
Directors' expenses	5,642		11,567
Directors' & Officers insurance	18,851		25,592
Audit fees	50,689		103,163
Administration fees	66,638		82,669
Registration fees	11,824		19,039
Legal and professional fees	682,664		337,055
Nominated Advisor fees	86,207		36,387
Commission	299,700		-
Loss on foreign exchange	16,619		9,043
Other operating expenses	115,977		134,092
	<u>1,960,020</u>		<u>1,956,255</u>

# European Equity Tranche Income Limited

## NOTES TO THE FINANCIAL STATEMENTS (continued) for the year ended 30 June 2009

### **4 INVESTMENT MANAGER'S FEES**

#### **Management Fee**

During the year ended 30 June 2009, the Investment Manager of the Company was Ocean Capital Limited. From 1 September 2009 the Investment Manager of the Company became Cartesia S.A.S. Therefore for the purpose of these financial statements, any reference to Investment Manager refers to Ocean Capital Limited.

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.

### **5 STAFF COSTS**

The Company has no employees other than the directors. During the year, Directors' expenses totalled €5,642 (2008: €11,567).

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

### **6 DIRECTORS' REMUNERATION**

Unless otherwise approved by the Company by ordinary resolution, the Company shall pay to the directors (but not alternate directors) for their services as directors out of the funds of the Company by way of fees such sums as the Board determines (not exceeding £200,000 per annum in aggregate or such larger amount as the Company may by ordinary resolution decide). The aggregate fees will be divided among the directors in such proportions as the Board decides or, if no decision is made, equally. Directors' fees for the year totalled €82,654 (2008: €112,506).

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 €730,374 (2008: €59,538,487 net loss) and on 4,688,000 (20 08: 981,639) shares, being the weighted average number of shares in issue during the year. There were no dilutive instruments in issue in the year.

The earnings per share for 30 June 2008 has been calculated using 981,639 as the weighted average number of shares. This figure has been calculated taking into account the share consolidation ("reverse share split") that occurred on 5 February 2009 (see Note 13). Under IAS 33 Earnings per share, if the number of ordinary or potential ordinary shares outstanding decreases as a result of a reverse share split, the calculation of basic and diluted earnings per share for all periods presented shall be adjusted retrospectively. In the share consolidation on 5 February 2009, shares were consolidated at a rate of one consolidated share for every 100 Ordinary shares in issue. Therefore, previous to the share consolidation the weighted average number of shares as at 30 June 2008 was 981,639,934.

### **8 DIVIDENDS**

During the year under review, dividend payments totalling €490,329 (2008: €5,920,000) were made by the Company.

# European Equity Tranche Income Limited

## NOTES TO THE FINANCIAL STATEMENTS (continued) for the year ended 30 June 2009

### 9 INVESTMENTS DESIGNATED AS AT FAIR VALUE THROUGH THE INCOME STATEMENT

Unquoted investments in RMBS and ABS	Group	
	30 Jun 2009 €	30 Jun 2008 €
Valuation brought forward	61,576,218	129,069,538
Additions – cost	-	7,354,793
Disposals – fair value	-	(8,079,707)
Capital repayments	(2,399,283)	(4,539,074)
Interest previously capitalised written back – fair value	4,641,920	3,803,796
Unrealised loss on revaluation for the year	<u>(24,968,672)</u>	<u>(66,033,128)</u>
	<u>38,850,183</u>	<u>61,576,218</u>

A schedule of the investments held by the Group is shown on page 30

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 terms of the agreement, 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 2009 was €10,515,012 (30 June 2008: €23,622,581).

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

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

# European Equity Tranche Income Limited

## NOTES TO THE FINANCIAL STATEMENTS (continued) for the year ended 30 June 2009

### 11 TRADE AND OTHER RECEIVABLES

	Group	
	30 Jun 2009	30 Jun 2008
	€	€
Prepayments	20,249	36,849
Accrued interest – Investments	1,571,871	1,061,830
Accrued interest – Cash	-	8,476
Sundry debtors	-	13,346
	<u>1,592,120</u>	<u>1,120,501</u>

A maturity analysis of trade and other receivables is shown in note 17 (e)

### 12 CASH AT BANK

	Group	
	30 Jun 2009	30 Jun 2008
	€	€
Bank balances	381,874	1,133,293
Call deposits	891,653	1,278,471
	<u>1,273,527</u>	<u>2,411,764</u>

The weighted average floating interest rate on call deposits was 3.70% (2008 : 4.06%). Call deposits are due on demand.

### 13 SHARE CAPITAL

	30 Jun 2009	30 Jun 2008
	€	€
<b>Authorised</b>		
100,000,000 ordinary shares of no par value	<u>-</u>	<u>-</u>
	30 Jun 2008	30 Jun 2007
	€	€
<b>Issued</b>		
10,250,000 (2008: 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	(2,000,000)	0.759	(1,517,367)
5 February 2009	66,809,183	0.011	741,582
5 February 2009	860,190,817	0.011	9,548,118
Consolidations 5 February 2009	(1,014,750,000)	-	-
	<u>10,250,000</u>		<u>108,772,333</u>

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

# European Equity Tranche Income Limited

## NOTES TO THE FINANCIAL STATEMENTS (continued) for the year ended 30 June 2009

### 14 LOANS AND OVERDRAFTS

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

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

The loan is interest bearing, and the interest rate applied is a margin of 5% above EURIBOR taking into account any mandatory costs. The interest periods are three months from the utilisation date and quarterly thereafter. The Group must pay accrued interest on the last day of each interest period. The annual average rate applied during the period was 8.17% (2008: 7.11%).

As at 30 June 2009 total drawdowns under the loan facility were €2,006,452 (30 June 2008: €34,238,827).

### 15 TRADE AND OTHER PAYABLES

	Group	
	30 Jun 2009	30 Jun 2008
	€	€
Accrued investment managers fee	172,982	248,125
Accrued audit fees	49,255	101,378
Accrued administration fees	4,627	5,287
Accrued registration fees	540	796
Accrued loan interest	-	83,969
Other accrued expenses	44,806	61,930
	<u>272,210</u>	<u>501,485</u>

### 16 FINANCIAL INSTRUMENTS

The Company's main financial instruments comprise:

- (a) Cash and cash equivalents that arise directly from the Company's operations;
- (b) Non-investment grade and residual income positions of RMBS and ABS originated in Europe; and
- (c) 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, credit risk, prepayment risk, default risk, liquidity risk, interest rate risk, residual interest risk, currency risk, political risk and collateral risk. Save where the Group purchases synthetic securities to gain exposure to an underlying cash asset or assets, derivative transactions are only for the purposes of hedging risks or for efficient portfolio management. The Group will not enter into derivative transactions for speculative purposes.

# European Equity Tranche Income Limited

## NOTES TO THE FINANCIAL STATEMENTS (continued) for the year ended 30 June 2009

### 17 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

#### (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.

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 2009, if the estimated yield of the non-current asset investments had been 5% higher with all the other variables held constant the net assets attributable to shareholders would have been €7,591,000 lower, arising due to the decrease in the fair value of financial assets at fair value through profit or loss.

At 30 June 2009, if the estimated yield of the non-current asset investments had been 5% lower with all the other variables held constant the net assets attributable to shareholders would have been €10,633,000 higher, arising due to the increase in the fair value of financial assets at fair value through profit or loss.

At 30 June 2009, if the estimated yield of the non-current asset investments had been 10% higher with all the other variables held constant the net assets attributable to shareholders would have been €13,190,000 lower, arising due to the decrease in the fair value of financial assets at fair value through profit or loss.

At 30 June 2009, if the estimated yield of the non-current asset investments had been 10% lower with all the other variables held constant the net assets attributable to shareholders would have been €26,034,000 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 (continued) for the year ended 30 June 2009

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

#### (c) Prepayment Risk

Prepayment risk refers to the possibility that the individual borrowers will prepay the mortgage loans that collateralise the Group's investments.

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

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

#### (d) Default Risk

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

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

# European Equity Tranche Income Limited

## NOTES TO THE FINANCIAL STATEMENTS (continued) for the year ended 30 June 2009

### 17 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

#### (d) Default Risk (continued)

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 loan from Scribona and the meeting of ongoing operational costs. These commitments are met by the cash flows received from the investments, which are monitored by the Investment Manager.

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

	Due on Demand €	Due within 3 months €	Due between 3 and 12 months €	Due between 1 and 5 years €	Due >5 Years €	Total €
<b>Assets</b>						
Investments designated at fair value	-	74,984	682,585	11,745,212	26,347,402	38,850,183
Trade and other receivables	-	594,356	115,837	812,952	68,975	1,592,120
Cash and cash equivalents	1,273,527	-	-	-	-	1,273,527
<b>Total assets</b>	<b>1,273,527</b>	<b>669,340</b>	<b>798,422</b>	<b>12,558,164</b>	<b>26,416,377</b>	<b>41,715,830</b>
<b>Liabilities</b>						
Loans and overdrafts	-	-	2,006,452	-	-	2,006,452
Trade and other payables	-	-	272,210	-	-	272,210
<b>Total liabilities</b>	<b>-</b>	<b>-</b>	<b>2,278,662</b>	<b>-</b>	<b>-</b>	<b>2,278,662</b>

# European Equity Tranche Income Limited

## NOTES TO THE FINANCIAL STATEMENTS (continued) for the year ended 30 June 2009

### 17 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

#### (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 2009 was 3.70% (2008: 4.23%).

The Subsidiary's weighted average effective interest rate for cash and bank balances as at 30 June 2009 was 1.56% (2008: 0.27%).

##### *Interest rate sensitivity*

If interest rates for cash and bank balances had been 100 basis points higher and all other variables were held constant, the Group's net loss per the consolidated income statement for the year ended 30 June 2009 would have decreased by €19,440 (2008: €54,848 decrease in net loss) due to an increase in the amount of interest receivable on the bank account.

If interest rates for cash and bank balances had been 100 basis points lower and all other variables were held constant, the Group's net loss per the consolidated income statement for the year ended 30 June 2009 would have increased by €19,440 (2008: €54,848 increase in net loss) due to a decrease in the amount of interest receivable on the bank account.

The Group's sensitivity to interest rates on cash and bank balances is lower in 2009 than in 2008 because of a decrease in the average cash balances held.

The weighted average effective interest rate on the loan facility as at 30 June 2009 was 8.17% (2008: 7.11%).

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 year ended 30 June 2009 would have increased by €341,453 (2008: €361,733 increase in net loss) due to an increase in the amount of interest payable on the loan facility.

If interest rates for the loan facility balance had been 100 basis points lower and all other variables were held constant, the Group's net loss per the consolidated income statement for the year ended 30 June 2009 would have decreased by €341,453 (2008: €361,733 decrease in net loss) due to a decrease in the amount of interest payable on the loan facility.

The Group's sensitivity to interest rates on the loan facility is lower in 2009 than in 2008 because of a decrease 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.

# European Equity Tranche Income Limited

## NOTES TO THE FINANCIAL STATEMENTS (continued) for the year ended 30 June 2009

### 17 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

#### (g) Residual Interest Risk (continued)

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

#### (h) Currency Risk

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

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

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

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

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

#### (i) Political Risk

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

#### (j) Collateral Risk

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

# European Equity Tranche Income Limited

## NOTES TO THE FINANCIAL STATEMENTS (continued) for the year ended 30 June 2009

### 17 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

#### (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:

	Group	
	30 Jun 2009	30 Jun 2008
	€	€
Share premium	60,289,700	50,000,000
Retained earnings	(20,852,532)	(19,631,829)
	<u>39,437,168</u>	<u>30,368,171</u>

### 18 RELATED PARTY TRANSACTIONS

Anson Fund Managers Limited is the Company's administrator and secretary and Anson Registrars Limited is the Company's registrar, transfer agent and paying agent. John R Le Prevost is a director and controller of Anson Fund Managers Limited and of Anson Registrars Limited. €78,462 (2008: €101,708) of fees were incurred by the Company with these related parties in the year, of which €5,167 (2008: €6,083) was due to these related parties as at 30 June 2009.

Scribona A.B. is the ultimate controlling party of the Company by virtue of its 94.14% majority shareholding. Lorenzo Garcia is a director and shareholder in Scribona A.B. The Company also has a secured loan from Scribona A.B. which is due for repayment by 15 December 2009. The loan is interest bearing, and the interest rate applied is a margin of 5% above EURIBOR taking into account any mandatory costs.

Due to the restructuring of the finance that took place during the year, the following transactions took place between the Company and Scribona A.B.

Loan transferred from Citibank to Scribona	29,738,827
Fees and interest due on original loan paid by Scribona	1,098,682
Conversion of debt to equity at EUR 0.0111 per Share	(5,550,000)
Non-pre-emptive placing of new Ordinary Shares at EUR 0.0111 per Share	(3,698,418)
Debt Waiver – the release by Scribona of the Company from its Facility Agreement	(15,882,639)
Cash repayments during the year ended 30 June 2009	(3,700,000)
	<u>2,006,452</u>

During the year £93,708 in interest payments on the loan were paid to Scribona A.B.

### 19 EVENTS AFTER THE BALANCE SHEET DATE

On 8 July 2009 the Company delisted from the AIM stock exchange. No accurate estimate of any financial effect can be made on the delisting of the Company. However, the directors are of the opinion that any financial effect would be immaterial to the accounts.

### 20 ULTIMATE CONTROLLING PARTY

The ultimate controlling part is Scribona Nordic A.B. A Company incorporated in Sweden.

# European Equity Tranche Income Limited

## SCHEDULE OF INVESTMENTS

Group NAME OF INVESTMENT	30 Jun 2009		30 Jun 2008	
	VALUATION €	TOTAL ASSETS %	VALUATION €	TOTAL ASSETS %
Lusitano Mortgages 3 plc Class E Notes	3,911,728	9.38%	3,363,731	5.17%
Lusitano Mortgages 4 plc Class E Notes	626,741	1.50%	2,040,107	3.13%
Lusitano Mortgages 5 plc Class E Notes	2,648,003	6.35%	5,379,117	8.26%
FCC Minotaure Compartiment 2004-1-296 Residual R Bonds and 1 Unit	2,305,581	5.53%	2,798,522	4.30%
Sestante 2 Class D Notes	1,607,053	3.85%	2,954,627	4.54%
Sestante 3 Class D Notes	178,082	0.43%	2,487,269	3.82%
Sestante 4 Class D Notes	-	0.00%	3,469,998	5.33%
Shield I – Class F Bonds	6,858,520	16.44%	6,871,718	10.55%
Memphis 2006-1	3,362,300	8.06%	3,432,937	5.27%
Ludgate Funding Plc Series 2006 FF1	14,304	0.03%	266,722	0.41%
Semper 2006	5,362,312	12.85%	5,356,989	8.23%
IM Pastor 2	3,899,689	9.35%	6,116,210	9.39%
IM Pastor 3	3,783,900	9.07%	7,294,995	11.20%
IM Pastor 4	1,453,390	3.48%	3,688,550	5.66%
IM Pastor 5	1,343,045	3.22%	2,236,668	3.43%
Provide Gems	2,137,763	5.12%	4,478,401	6.88%
Less: Capitalised interest included in above figures	(642,228)		(660,343)	
	<u>38,850,183</u>	<u>94.66%</u>	<u>61,576,218</u>	<u>95.57%</u>

# European Equity Tranche Income Limited

## Shareholder Information

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

Shares are no longer listed on any stock exchange.

Shareholders wishing to sell their shares are asked to contact the Secretary who maintains a list of interested purchasers. 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.

### DIRECTORY

---

---

**Registered Office of the Company:**

Anson Place  
Mill Court  
La Charroterie  
St Peter Port  
Guernsey  
GY1 1EJ

**Auditors**

Mazars LLP  
Tower Bridge House  
St Katherine's Way  
London  
EW1 1DD

---

**Administrator and Company Secretary:**

Anson Fund Managers Limited  
Anson Place  
Mill Court  
La Charroterie  
St Peter Port  
Guernsey  
GY1 1EJ

**Investment Manager**

Cartesia S.A.S  
78, Avenue Raymond Poincare  
75116 Paris  
France

---

**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:**

Anson Registrars Limited  
Anson Place  
Mill Court  
La Charroterie  
St Peter Port  
Guernsey  
GY1 3WX

---

**Custodian**

BNP Paribas Trust Company  
(Guernsey) Limited  
BNP Paribas House  
St Julians Avenue  
St Peter Port  
Guernsey  
GY1 1WA