

European Equity Tranche Income Limited (“EETI” or the “Company”)

Portfolio Update

The announcements by the Company in both May and July provided updates on the Company’s investment portfolio and debt financing and commented that the focus of the Company was on reducing borrowings. Since the last announcement there has been a general deterioration in market conditions both on the liquidity side and the credit side and, as a result, it is likely that EETI will have to make further substantial provisions against its investments.

Dealing first with the portfolio, one of the Company’s investments, Ludgate, which was to prime mortgage borrowers in the U.K., has an outstanding balance of just over Euro 5 million which will have to be written off. This write-off is not caused by any credit issues, but because the funding was linked to the London inter bank rate, and the spread between the base rate and the inter bank rate has continued at levels significantly beyond expectations.

EETI has frequently commented on its exposure in Italy to the Sestante loans and in the last announcement noted that it was assumed that pre-payments would continue at 20% for the balance of this year and then decline. The most recent figures indicate pre-payments are running at around 21% and although it is hoped that they will start to drop soon, they show no signs of doing so. If prepayment rates in the current quarter do not show a fall, then the outstanding investment of approximately Euro 17 million will require further significant provision.

The Company is also having some problems with its loan exposure in Portugal on the three Lusitano loans. There has been an increase in defaults which may require a provision, although such a provision is not expected to be significant. However, there are also some issues which our manager, Ocean, has noted with regard to payments already received, and we are in discussions with the issuing bank about this. If these discussions are not successful provisions may be necessary although it is not possible to estimate the quantum of provision at this time.

The Company expects to announce its next net asset value as at 30 September 2008 in early November.

On the financing side, the Company has previously announced that it had been in discussions with Citibank in relation to its outstanding loan, currently amounting to Euro 32 million, which is repayable at the end of 2009. These discussions have continued and whilst Citibank have been very helpful, given market conditions, it has been unable to extend the term of the loan. Furthermore, taking into account the likely level of provisions the Company expects to have to make, the Company may shortly breach certain banking covenants. As a result, the Board will be reviewing its dividend policy at its next Board Meeting in November and it is likely that the dividend will be eliminated.

In light of these developments and current market conditions, the Company has no certainty over the continued availability of its debt financing and continues to have discussions with Citibank. The Company is therefore actively examining ways to continue to reduce its debt obligations. In view of the current poor market conditions for a possible sale of assets this is most likely to require a strengthening of the Company's balance sheet equity and we will be progressing discussions with shareholders and potential investors to this end.

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E&OE – in transmission

END OF ANNOUNCEMENT