



European Capital

**European Capital Limited
Quarterly Consolidated Financial
Statements
30 September 2007**

ABOUT EUROPEAN CAPITAL*

European Capital is a publicly traded investment company for pan-European equity, mezzanine and senior debt investments with capital resources of approximately €2.3 billion (\$3.3 billion). It is managed by European Capital Financial Services (Guernsey) Limited ("ECFSG" or "the Investment Manager"), a wholly-owned affiliate of American Capital Strategies, Ltd ("American Capital").

European Capital invests in and sponsors management and employee buyouts, invests in private equity buyouts and provides capital directly to private and public companies headquartered predominantly in Europe. European Capital generally invests between €5 million and €500 million per transaction in equity, mezzanine debt and senior debt to fund growth, acquisitions and recapitalisations.

The investment objective of European Capital is to provide investors with dividend income and the potential for share value appreciation by investing in debt and equity investments in private and public companies headquartered primarily in Europe. European Capital seeks to achieve this through pursuing the following types of investments:

European Capital One Stop Buyouts™

Through our One Stop Buyouts™, European Capital provides equity, mezzanine debt and senior debt as the lead investor in the buyout of private and public companies.

Mezzanine Direct with Sponsors

European Capital provides debt and equity financing for buyouts sponsored by private equity firms where European Capital is either the sole or lead mezzanine debt investor.

Syndicated Mezzanine and Senior Debt

European Capital provides mezzanine and senior financing for buyouts sponsored by private equity firms where European Capital is neither the sole nor lead mezzanine or senior debt investor.

Direct Investments

European Capital provides debt and equity financing directly to private and public companies, which is used for growth, acquisitions or recapitalisations, and investing in structured finance vehicles.

Companies interested in learning more about European Capital's flexible financing should contact Simon Henderson or Nathalie Faure Beaulieu at + 44 (0)20 7539 7000 in London, Jean Eichenlaub at + 33 (0)1 40 68 06 66 in Paris, Robert von Finckenstein at +49 (0) 69 71 71 297-0 in Frankfurt, or Luis Felipe Castellanos at +(34) 91 745 99 63 in Madrid, or visit the website at www.EuropeanCapital.com.

ABOUT AMERICAN CAPITAL

ECFSG acts as Investment Manager to European Capital. ECFSG is an indirect wholly owned affiliate of American Capital. European Capital Financial Services Limited ("ECFS"), a subsidiary of ECFSG has offices in Paris, London, Frankfurt and Madrid. As of 30 September 2007 ECFS had 38 investment professionals and 62 support staff.

American Capital is an affiliate of European Capital and the only alternative asset management company that is a member of the S&P 500. With \$19 billion in capital resources under management, American Capital is the largest U.S. publicly traded private equity fund and one of the largest publicly traded alternative asset managers. American Capital, both directly and through its global asset management business, is an investor in management and employee buyouts, private equity buyouts, and early stage and mature private and public companies. American Capital provides senior debt, mezzanine debt and equity to fund growth, acquisitions, recapitalisations and securitisations. American Capital and its affiliates invest from \$5 million to \$800 million per company in North America and €5 million to €500 million per company in Europe.

*Meaning European Capital Limited and its consolidated subsidiaries and hereafter referred to as "European Capital", "we" and "us".

EUROPEAN CAPITAL LIMITED
CONSOLIDATED BALANCE SHEETS
(in thousands, except per share data)

	<u>Notes</u>	30 September 2007 (unaudited)	31 December 2006
Assets			
Investments at fair value (Cost basis of €1,909,041 and €1,072,938 respectively)	3	€1,900,947	€1,077,709
Cash and cash equivalents		20,571	85,932
Restricted cash		17,404	12,913
Other		11,616	18,031
Total assets		<u>€1,950,538</u>	<u>€1,194,585</u>
Liabilities and Shareholders' Equity			
Debt (maturing within one year €106,951 and €nil respectively)	4	€877,246	€422,414
Due to European Capital Financial Services (Guernsey) Limited		3,776	3,568
Accrued dividends payable		14,087	21,750
Other		2,863	2,699
Total liabilities		<u>897,972</u>	<u>450,431</u>
Commitments and contingencies			
Shareholders' equity:			
Ordinary shares (nil par value, authorised to issue unlimited number of shares, 108,364 issued and outstanding)	5	1,030,371	-
Preference shares (nil par value, authorised to issue unlimited number of shares, 75,000 issued and outstanding)	5	-	737,696
Undistributed net realised earnings		22,966	1,261
Net unrealised foreign currency (depreciation) appreciation		(14,609)	332
Net unrealised appreciation of investments		13,838	5,638
Other reserve	9	-	(773)
Total shareholders' equity		<u>1,052,566</u>	<u>744,154</u>
Total liabilities and shareholders' equity		<u>€1,950,538</u>	<u>€1,194,585</u>
Net asset value per share			
Basic & Diluted		<u>€9.71</u>	<u>€9.92</u>

The financial statements were approved by the Board of Directors on 6 November 2007 and were signed on its behalf by:



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Malon Wilkus

6 November 2007

EUROPEAN CAPITAL LIMITED
CONSOLIDATED STATEMENTS OF OPERATIONS
(unaudited)
(in thousands, except per share data)

	Notes	Three Months Ended		Nine Months Ended	
		30 September 2007	30 September 2006	30 September 2007	30 September 2006
OPERATING INCOME:					
Interest and dividend income		€45,294	€20,361	€119,256	€39,904
Fee and Other Income		1,076	7,959	6,103	8,979
Total operating income		46,370	28,320	125,359	48,883
OPERATING EXPENSES:					
Interest		12,066	5,103	27,270	8,999
Management fee and reimbursed expenses	7	8,945	7,971	29,684	21,041
Incentive fee	7	-	-	5,115	-
General and administrative		2,213	898	5,573	2,351
Total operating expenses		23,224	13,972	67,642	32,391
OPERATING INCOME BEFORE INCOME TAXES		23,146	14,348	57,717	16,492
Provision for income taxes		(12)	(69)	(191)	(69)
NET OPERATING INCOME		23,134	14,279	57,526	16,423
Net foreign currency (losses) gains		(623)	1,406	2,531	(735)
Net gain on investments		-	-	2,321	202
TOTAL NET REALISED EARNINGS		22,511	15,685	62,378	15,890
Net foreign currency (depreciation) appreciation		(16,065)	237	(14,941)	(745)
Net (depreciation) appreciation of investments		(3,653)	1,158	8,200	2,362
INCREASE IN NET ASSETS RESULTING FROM OPERATIONS		€2,793	€17,080	€55,637	€17,507
NET OPERATING INCOME PER SHARE:					
Basic & Diluted	6	€0.21	€0.19	€0.62	€0.22
NET REALISED EARNINGS PER SHARE:					
Basic & Diluted	6	€0.21	€0.21	€0.67	€0.21
NET EARNINGS PER SHARE:					
Basic & Diluted	6	€0.03	€0.23	€0.60	€0.23
WEIGHTED AVERAGE NUMBER OF SHARES OUTSTANDING:					
Basic & Diluted		108,364	75,000	92,599	75,000
DIVIDENDS DECLARED PER SHARE		€0.13	€0.00	€0.44	€0.00

EUROPEAN CAPITAL LIMITED
CONSOLIDATED STATEMENTS OF CHANGES IN NET ASSETS
(unaudited)
(in thousands, except per share data)

	Notes	Nine Months Ended	
		30 September 2007	30 September 2006
Operations:			
Net operating income		€57,526	€16,423
Net foreign currency gains (losses)		2,531	(735)
Net gains on investments		2,321	202
Net foreign currency depreciation		(14,941)	(745)
Net unrealised appreciation of investments		8,200	2,362
Net increase in net assets resulting from operations		<u>55,637</u>	<u>17,507</u>
Shareholder distributions:			
Dividends		(40,673)	-
Net decrease in net assets resulting from shareholder distributions		<u>(40,673)</u>	<u>-</u>
Capital share transactions:			
Capital calls on preference shares	5	-	329,373
Issuance of share capital	5	292,675	-
Loans to Investment Manager employees	9	773	603
Net increase in net assets resulting from capital share transactions		<u>293,448</u>	<u>329,976</u>
Total increase in net assets		308,412	347,483
Net assets at beginning of period		<u>744,154</u>	<u>160,009</u>
Net assets at end of period		<u>€1,052,566</u>	<u>€507,492</u>
Net asset value per share		<u>€9.71</u>	<u>€6.77</u>
Shares outstanding at end of period		<u>108,364</u>	<u>75,000</u>

EUROPEAN CAPITAL LIMITED
CONSOLIDATED STATEMENTS OF CASH FLOWS
(unaudited)
(in thousands)

	Nine Months Ended	
	30 September 2007	30 September 2006
Operating activities:		
Net increase in net assets resulting from operations	€ 55,637	€ 17,507
Adjustment to reconcile net increase in net assets resulting from operations to net cash provided by (used in) operating activities:		
Net appreciation of investments	(8,200)	(2,362)
Net gain on investments	(2,321)	(202)
Accretion of deferred fee income	(2,214)	(388)
Collection of loan origination fees	3,465	482
Amortisation of deferred financing costs	1,120	-
Amortisation of prepaid management fees and contra equity	6,641	1,386
Increase in interest receivable and payment-in-kind interest	(7,756)	(6,265)
Payment-in-kind and dividend income	(48,258)	(16,500)
(Increase) in other assets ⁽¹⁾	(6,170)	(7,319)
Increase (decrease) in other liabilities	4,084	(28)
Foreign exchange movements	12,409	1,481
Provided by (used in) operating activities	<u>8,437</u>	<u>(12,208)</u>
Investing activities:		
Purchases of investments	(1,375,183)	(776,563)
Principal repayments	568,874	133,724
Collection of payment-in-kind interest and dividends	17,208	3,683
Proceeds from sale of equity instruments	9,304	1,662
Used in investing activities	<u>(779,797)</u>	<u>(637,494)</u>
Financing activities:		
Draws on secured revolving credit facility, net	304,795	373,458
Proceeds from senior unsecured debt issuances	158,877	-
Draws on (repayments to) affiliates, net	311	(29,127)
Increase in deferred financing costs	(1,098)	(3,192)
Issuance of share capital	293,478	329,282
Purchase of common stock held in deferred compensation trust	(745)	(3,273)
Distributions paid	(48,336)	-
Provided by financing activities	<u>707,282</u>	<u>667,148</u>
Net (decrease) increase in cash and cash equivalents	(64,078)	17,446
Foreign exchange movements	(1,283)	(2,743)
Cash and cash equivalents at beginning of period	85,932	2,091
Cash and cash equivalents at end of period	<u>€ 20,571</u>	<u>€ 16,794</u>

(1) Other assets include restricted cash.

EUROPEAN CAPITAL LIMITED
CONSOLIDATED FINANCIAL HIGHLIGHTS
(unaudited)
(in thousands, except per share data)

	Nine Months Ended	
	30 September 2007	30 September 2006
Per Share Data (1):		
Net asset value at beginning of period	€9.92	€2.13
Net operating income	0.62	0.22
Net foreign currency depreciation	(0.17)	(0.01)
Net foreign currency gains (losses)	0.03	(0.01)
Net gain on investments	0.03	-
Net appreciation on investments	0.09	0.03
Net increase in net assets resulting from operations	0.60	0.23
Capital calls on preference shares	-	4.40
Issuance of ordinary shares	(0.35)	-
Distribution of net investment income	(0.44)	-
Other (2)	(0.02)	0.01
Net asset value at end of period	<u>€9.71</u>	<u>€6.77</u>
Ratios/Supplemental Data:		
Per share market value at end of period	€ 8.66	N/A (3)
Total (loss) return (4)	(23.2)%	N/A (3)
Shares outstanding at end of period	108,364	75,000
Weighted average number of shares	92,599	75,000
Net assets at end of period	€1,052,566	€507,492
Average net assets (5)	€898,360	€333,751
Average debt outstanding (6)	€562,912	€284,014
Average debt per share	€5.19	€3.79
Ratio of operating expenses, net of interest expense, to average net assets	4.49%	7.00%
Ratio of interest expense to average net assets	3.04%	2.70%
Ratio of operating expenses, net of incentive fee, to average net assets	3.92%	-
Ratio of operating expenses to average net assets	7.52%	9.70%
Ratio of net operating income to average net assets	6.40%	4.92%

(1) Basic weighted average per share data.

(2) Represents the impact of i) other components in the changes in net assets including other capital transactions and ii) the different share amounts used in calculating per share data as a result of calculating certain per share data based upon the weighted average basic shares outstanding during the period and certain per share data based on the shares outstanding as of a period end or transaction date.

(3) No market value is shown for 30 September 2006 as the ordinary shares were first admitted to listing in May 2007

(4) Total return is based on the change in the market value of our ordinary shares and includes reinvested dividends. The change in market value is since the May 2007 IPO and the return has been annualised from that date.

(5) Average net assets are calculated based on the opening and closing positions of the period.

(6) Average debt outstanding is calculated on a daily basis for 2007; for 2006 it is calculated daily from the inception of the revolving credit facility.

The ratios and total return above are calculated for the shareholders taken as a whole for the nine months ended 30 September 2006 and 2007 and have not been annualised.

EUROPEAN CAPITAL LIMITED
CONSOLIDATED SCHEDULE OF INVESTMENTS (UNAUDITED)
30 SEPTEMBER 2007
(in thousands, except share data)

Company (2)	Country of incorporation	Industry	Investments	Shares	Principal (4) €	Cost (4) €	Fair value (4) €
Accantia Limited	UK	Personal Products	Senior Debt (3)		7,169	7,439	7,176
			Subordinated Debt (3)		43,340	46,135	44,808
						53,574	51,984
Amsterdamsche Beheer en consultingmaatschappij B.V. (Casema)	The Netherlands	Media	Subordinated Debt (3)		10,358	10,442	10,442
AS Equity S.A.S. (Action Sports Holding)	France	Specialty Retail	Subordinated Debt (3)		6,304	6,502	6,502
			Convertible Bonds		5,956	6,181	6,181
			Common Stock (1)	342,009	3,420	3,420	2,040
						16,103	14,723
Aster 1 S.A. (Flint Group)	Luxembourg	Chemicals	Senior Debt (3)		9,010	9,495	9,217
			Subordinated Debt (3)		12,086	13,372	12,494
						22,867	21,711
Autodis S.A. (Parts Holding)	France	Automobile	Senior Debt (3)		6,000	6,140	6,140
			Subordinated Debt (3)		20,020	21,082	21,082
						27,222	27,222
AV Acquisitionco 1 Ltd (Avery-Weigh Tronix)	UK	Machinery	Subordinated Debt (3)		11,574	11,487	11,487
			Pref. Common Stock (5)		36,349	39,587	39,078
			Common Stock (1)	1,335,931	970	970	18,362
						52,044	68,927
Bellotto Holdings Limited (Hillarys Blinds)	UK	Household Durables	Subordinated Debt (3)		32,859	35,002	33,862
			Pref. Common Stock (5)		92,968	95,667	93,006
			Common Stock (1)	479,240	705	705	687
						131,374	127,555
B-Fly 2 AB (Hilding Anders)	Sweden	Household Durables	Subordinated Debt (3)		29,985	30,894	30,894
Bienfaisance Holding SAS (Global Design Technologies (GDT))	France	Machinery	Senior Debt (3)		22,018	22,084	22,084
Black Lion Beverage III B.V. (Orangina)	France	Beverages	Subordinated Debt (3)		7,910	8,034	8,034
Blitz F06-582 GmbH (Metall Technologie Holding)	Germany	Machinery	Subordinated Debt (3)		13,792	13,506	13,506
			Pref. Common Stock (5)		9,066	10,015	10,015
			Common Stock (1)	12,500,000	12,500	12,500	23,894
						36,021	47,415
Blue Topco GmbH (Euro Druckservice)	Germany	Commercial Services & Supplies	Subordinated Debt (3)		10,167	10,179	10,179
Cordatus CLO II Plc (CVC Cortatus CLO II)	-	Diversified Financial Services	CLO-Equity		4,700	4,833	4,833
Delsey Holdings S.A.S.	France	Textiles, Apparel & Luxury Goods	Senior Debt (3)		120,000	121,816	121,816
Dionysos Leisure Entertainment Hotels and Tourism S.A. (Hyatt Regency Entertainment)	Luxembourg	Hotels, Restaurants & Leisure	Subordinated Debt		11,384	11,556	11,556
DMWSL 462 Ltd (Fitness First)	UK	Hotels, Restaurants & Leisure	Subordinated Debt (3)		47	51	50
			Common stock (1)	1,063	1	22	
			Warrants (1)	28,914	-	555	
						52	627
Eaton Vance CDO X plc	-	Diversified Financial Services	CLO		6,315	6,429	6,687
Euro-Galaxy II CLO B.V. (AIG Global Investment Corp Ltd)	-	Diversified Financial Services	CLO		8,395	7,914	7,914
European Seafood Investments 2 S.A.S (European Sea Food)	France	Food Products	Subordinated Debt (3)		6,294	6,474	6,474
F Jupiter S.A.S. (Selecta)	France		Senior Debt (3)		22,019	22,481	22,306
			Subordinated Debt (3)		21,951	22,639	22,347
						45,120	44,653
Fat Face World Borrowings Limited	UK	Textiles, Apparel & Luxury Goods	Senior Debt (3)		26,527	28,021	27,136
FB Raphael 1 Ltd (Farrow & Ball)	UK	Chemicals	Subordinated Debt (3)		14,917	15,139	14,737
			Pref. Common Stock (5)		66,826	74,140	72,846
			Common Stock (1)	68,500	66	66	4,916
			Warrants (1)	4,058	-	-	291
Ferretti SpA	Italy	Leisure Equipment & Products	Senior Debt (3)		4,000	4,089	4,089
			Subordinated Debt (3)		8,109	8,307	8,307
						12,396	12,396
Financière Cegelec S.A.S.	France	Construction & Engineering	Subordinated Debt (3)		12,669	13,213	13,213
Financière H S.A.S. (Audika)	France	Health Care Equipment	Subordinated Debt (3)		74,600	75,144	75,144
			Common Stock(1)	1,055,664	21,113	21,113	26,138
						96,257	101,282

See notes to the consolidated financial statements

EUROPEAN CAPITAL LIMITED
CONSOLIDATED SCHEDULE OF INVESTMENTS (UNAUDITED)
30 SEPTEMBER 2007
(in thousands, except share data)

Company (2)	Country of Incorporation	Industry	Investments	Shares	Principal (4)	Cost (4) €	Fair value (4) €	
Financière Newglass S.A.S. (Devglass)	France	Building Products	Senior Debt (3)		40,000	40,022	40,022	
			Subordinated Debt			37,362	37,362	
			Convertible Bonds			12,340	12,614	12,614
			Common Stock (1)	5,200,000		5,200	5,200	
					95,198	95,198		
Financière OFIC S.A.S. (Onduline)	France	Building Products	Subordinated Debt (3)		20,862	21,098	21,098	
			Warrants (1)	3,047,200		-	7,276	
						21,098	28,374	
Financière Poinsetia S.A.S. (Alliance)	France	Automobile	Senior Debt (3)		6,000	6,270	6,270	
			Subordinated Debt (3)			14,205	14,205	
						20,475	20,475	
Financière Robin S.A.S. (Sud Robinetterie)	France	Oil, Gas & Consumable Fuels	Subordinated Debt (3)		30,000	30,876	30,876	
			Warrants (1)	2,167,300		-	-	
						30,876	30,876	
Financière Tarmac S.A.S. (Batisanté)	France	Commercial Services & Supplies	Subordinated Debt (3)		43,143	43,962	43,962	
			Convertible Bonds			1,188	1,205	
			Common Stock (1)	3,900,000		3,900	588	
			Warrants (1)	5,741,800		-	-	
					49,067	45,755		
Finartex S.A.S. (Vivarte)	France	Specialty Retail	Senior Debt (3)		8,000	8,142	8,142	
Fincorp S.A.S. (Panoranet)	France	Commercial Banks	Subordinated Debt (3)		25,000	26,066	26,066	
			Warrants (1)	227,125		-	-	
						26,066	26,066	
Foodco Pastries Spain SL (Telepizza)	Spain	Hotels, Restaurants & Leisure	Subordinated Debt (3)		5,626	5,648	5,648	
Foodvest Ltd (Findus)	UK	Food Products	Senior Debt (3)		20,360	21,526	21,109	
			Subordinated Debt (3)			17,578	18,887	
						40,413	39,628	
Gondola Finance 2 Limited	UK	Hotels, Restaurants & Leisure	Senior Debt (3)		14,339	14,826	14,451	
			Subordinated Debt (3)			20,450	22,500	
						37,326	35,405	
Holding Saint Augustine S.A.S. (Soflog)	France	Air Freight & Logistics	Subordinated Debt (3)		25,250	25,447	25,447	
			Common Stock (1)	375,000		3,750	3,750	
						29,197	29,197	
IDH Acquisitions Ltd (IDH Group)	UK	Health Care Providers & Servicers	Subordinated Debt (3)		14,000	14,513	14,406	
Korofrance S.A.S. (Provim)	France	Food Products	Senior Debt (3)		9,178	9,373	9,293	
Lavena Holding 4 Gmbh (Pro Sieben Sat1)	Germany	Media	Senior Debt (3)		4,042	4,078	4,078	
			Subordinated Debt (3)			6,147	6,254	
						10,332	10,332	
Liberator Midco Ltd (Iglu Birdseye)	UK	Food Products	Subordinated Debt (3)		10,114	10,573	10,571	
Lyparis SA (Go Voyages)	France	Hotels, Restaurants & Leisure	Subordinated Debt (3)		40,030	41,235	41,235	
			Pref. Common Stock			8,477	8,907	
			Common Stock (1)	173,266		1,733	3,423	
			Warrants (1)	124,500		-	920	
						51,875	54,485	
Mail Acquisitions Holdings Ltd (DX Services)	UK	Commercial Services & Supplies	Senior Debt (3)		15,773	16,237	15,788	
			Subordinated Debt (3)			42,946	44,226	
						60,463	58,785	
Materis S.A.S (Materis)	France	Building Products	Senior Debt (3)		9,000	9,138	9,138	
			Subordinated Debt (3)			9,411	9,942	
						19,080	19,080	
Matinvest 2 S.A.S (Deutsche Connectors)	France	Electronic Equipment & Instruments	Senior Debt (3)		2,102	2,407	2,170	
			Subordinated Debt (3)			4,030	4,634	
						7,041	6,354	
Miles 33 Limited	UK	Media	Subordinated Debt (3)		10,754	11,155	10,868	
			Pref. Common Stock (5)			27,961	30,109	
			Common Stock (1)	600,000		883	860	
						42,147	41,010	

See notes to the consolidated financial statements

EUROPEAN CAPITAL LIMITED
CONSOLIDATED SCHEDULE OF INVESTMENTS (UNAUDITED)
30 SEPTEMBER 2007
(in thousands, except share data)

Company (2)	Country of incorporation	Industry	Investments	Shares	Principal (4)	Cost (4) €	Fair value (4) €
Mobipark S.A.S. (Parkeon)	France	Machinery	Senior Debt (3)		8,000	8,044	8,044
			Subordinated Debt (3)		6,000	6,159	6,159
			Warrants (1)	696,000	-	-	-
					14,203	14,203	14,203
Modacin France S.A.S. (Camaieu)	France	Textiles, Apparel & Luxury Goods	Senior Debt (3)		20,000	19,415	19,415
			Subordinated Debt		10,000	10,524	10,524
					29,939	29,939	29,939
Moeller Holding GmbH	Germany	Electronic Equipment & Instruments	Senior Debt (3)		3,300	3,439	3,439
			Subordinated Debt (3)		3,797	4,027	4,027
					-	7,466	7,466
MP Equity S.A.S. (Marco Polo Foods)	France	Food Products	Subordinated Debt (3)		9,365	9,822	9,822
			Convertible Bonds		3,965	4,120	4,120
			Common Stock (1)	379,610	3,796	3,796	8,758
					17,738	22,700	22,700
Oak Luxco S.C.A. (Nybron Flooring International)	Switzerland	Building Products	Senior Debt (1)		9,000	9,000	-
			Subordinated Debt (1)		21,217	20,000	-
					29,000	-	-
OCI Euro Fund I B.V. (Octagon OCI Euro Fund I)	-	Diversified Financial Services	CLO-Equity		4,510	4,656	4,656
Opica AB (Capio)	Sweden	Health Care Providers & Services	Senior Debt (3)		5,000	5,003	5,003
Poult Holding S.A.S.	France	Food Products	Senior Debt		1,000	1,014	1,014
			Subordinated Debt		12,083	12,054	12,054
					13,068	13,068	13,068
Qidnax AB (Scandic Hotel)	Sweden	Hotels, Restaurants & Leisure	Subordinated Debt		7,654	7,812	7,812
Redwing Holdings 2 Limited (Capital Safety)	UK	Machinery	Senior Debt (3)		12,262	13,242	12,477
			Subordinated Debt		12,516	13,276	12,530
					26,518	25,007	25,007
Scaffi S.A.S. (Entrepose)	France	Real Estate Management & Development	Subordinated Debt (3)		7,500	7,905	7,905
			Warrants (1)	197,850	-	-	-
					7,905	7,905	7,905
Spotless Group S.A.S. (Eau Ecarlate, Guaber, Punch, Eparcyl)	France	Household Products	Subordinated Debt (3)		87,125	91,445	91,445
			Convertible Bonds		7,432	7,864	7,864
			Common Stock (1)	2,673,188	2,673	2,673	7,202
			Warrants (1)	1,433,922	-	120	814
					102,102	107,325	107,325
Terreal Holding S.A.S.	France	Building Products	Warrants (1)	1,679,470	-	-	561
					-	-	561
Thor Norway Topco AS (UPC Norway)	Norway	Media	Senior Debt (3)		24,218	24,767	24,767
			Subordinated Debt (3)		24,717	24,981	24,981
					49,748	49,748	49,748
Tiama 2 S.A.S.	France	Machinery	Senior Debt (3)		5,000	5,058	5,058
			Subordinated Debt (3)		7,500	7,647	7,647
					12,705	12,705	12,705
Tokheim Holding S.A.	France	Specialty Retail	Senior Debt (3)		14,000	14,164	14,164
Veveo Coating B.V. (SigmaKalon)	The Netherlands	Chemicals	Senior Debt (3)		10,000	10,008	10,008
			Subordinated Debt (3)		25,997	26,112	26,112
					36,120	36,120	36,120
Whisky Hold Co Ltd (Whitworths Group)	UK	Food Products	Subordinated Debt (3)		20,672	22,164	20,963
			Pref. Common Stock (1),(5)		52,165	54,368	39,974
			Common Stock (1)	802,494	1,195	1,195	1
					77,727	60,938	60,938
Total Investment Assets (181% of net assets)						1,909,041	1,909,947

(1) Non-income producing

(2) Certain of the securities are issued by affiliate(s) of the portfolio company listed.

(3) These assets are pledged as security under the revolving credit facility.

(4) Principal represents the original principal of an investment plus any compounded PIK translated, where relevant, at the exchange rate ruling at the balance sheet date. Cost represents the cost of investments at historical exchange rates when the investment is denominated in currencies other than the Euro. Fair value is the fair market value of the investment translated, where relevant, at the exchange rate ruling at the balance sheet date. The difference between fair value and cost in the above table is a combination of the amounts shown as appreciation/(depreciation) and foreign currency appreciation/(depreciation) in the consolidated statement of operations.

(5) Preferred Common Stock includes loan stock which carries a PIK-only component and on occasion has conversion rights.

EUROPEAN CAPITAL LIMITED
CONSOLIDATED SCHEDULE OF INVESTMENTS
31 DECEMBER 2006
(in thousands, except share data)

Company (2)	Country of incorporation	Industry	Investments	Shares	Principal (4) €	Cost (4) €	Fair value (4) €
ACG Holding S.A.S (Alma Consulting Group)	France	Industrial Conglomerates	Subordinated Debt (3)		23,834	24,346	24,346
Amsterdamsche Beheer en consultingmaatschappij B.V. (Casema)	The Netherlands	Media	Subordinated Debt (3)		4,750	4,854	4,854
Aqua Finance S.A. (Amadeus Global Travel Distribution)	Spain	Diversified Financial Services	Senior Debt (3)		9,331	9,568	9,340
AS Equity (Action Sports Holding)	France	Specialty Retail	Subordinated Debt (3)		6,000	6,245	6,245
			Convertible Bonds		5,614	5,913	5,913
			Common Stock (1)	340,684		3,420	2,675
						15,578	14,833
Aster 1 S.A. (Flint Group)	Luxembourg	Chemicals	Senior Debt (3)		9,193	9,292	9,200
			Subordinated Debt (3)		12,393	12,691	12,406
						21,983	21,606
Autodis S.A.	France	Automobile	Senior Debt (3)		6,000	6,250	6,250
			Subordinated Debt (3)		19,000	20,598	20,598
						26,848	26,848
AV Acquisitionco 1 Ltd (Avery-Weigh Tronix)	UK	Machinery	Subordinated Debt (3)		13,302	13,213	13,213
			Prof. Common Stock (5)		7,725	43,885	44,527
			Common Stock (1)	790,909		1,157	1,173
						58,255	58,913
Black Lion Beverage III B.V (Orangina S.A.S)	France	Beverages	Subordinated Debt (3)		7,618	7,956	7,955
Blitz F06-582 GmbH (Metall Technologie Holding)	Germany	Machinery	Subordinated Debt (3)		13,200	12,969	12,969
			Prof. Common Stock (5)		9,060	9,063	9,063
			Common Stock (1)	12,400,000		12,400	12,400
						34,432	34,432
DMWSL 462 Ltd (Fitness First)	UK	Hotels, Restaurants & Leisure	Subordinated Debt (3)		30,402	31,098	31,087
			Warrants (1)	28,914		-	-
						31,098	31,087
European Seafood Investments 2 S.A.S (European Sea Food)	France	Food Products	Subordinated Debt (3)		6,000	6,249	6,249
FB Raphael 1 Ltd (Farrow & Ball)	UK	Chemicals	Subordinated Debt (3)		14,961	15,141	15,026
			Prof. Common Stock (5)		69,116	67,985	69,138
			Common Stock (1)	46,667		68	69
			Warrants (1)	4,058		-	-
						83,194	84,233
Financière Cegelec	France	Construction & Engineering	Subordinated Debt (3)		12,000	12,669	12,669
Financière OFIC - Onduline	France	Construction Materials	Subordinated Debt (3)		20,000	20,414	20,414
			Warrants (1)	3,450,600		-	4,616
						20,414	25,030
Financière Poinsetia S.A.S. (Alliance)	France	Automobile	Senior Debt (3)		6,000	6,040	6,040
			Subordinated Debt (3)		13,000	13,247	13,247
						19,287	19,287
Financière Tarmac (Batisanté)	France	Commercial Services & Supplies	Subordinated Debt (3)		40,000	40,977	40,977
			Convertible Bonds		1,100	1,138	1,138
			Common Stock (1)	3,900,000		3,900	3,900
						46,015	46,015
Fincorp S.A.S. (Panoranet)	France	Commercial Banks	Subordinated Debt (3)		25,000	25,317	25,317
			Warrants (1)	227,125		-	-
						25,317	25,317
Foodvest Ltd (Findus)	UK	Food Products	Senior Debt (3)		3,263	3,277	3,297
			Subordinated Debt (3)		33,690	34,165	34,368
						37,442	37,665
IDH Acquisitions Ltd (IDH Group Ltd)	UK	Health Care Providers & Servicers	Subordinated Debt (3)		13,795	14,087	14,174
Liberator Midco Ltd (Igo Birdseye)	UK	Food Products	Subordinated Debt		10,171	10,237	10,232
Lighting Group PLI Holding N.V. (Partners in Lighting)	Belgium	Specialty Retail	Subordinated Debt (3)		12,843	13,415	13,415
Mail Acquisitions Holdings Ltd (DX Services plc)	UK	Commercial Services & Supplies	Senior Debt (3)		16,313	16,480	16,328
			Subordinated Debt (3)		42,987	42,956	43,180
						59,436	59,508
Materis S.A.S (Materis)	France	Construction Materials	Senior Debt (3)		9,000	9,221	9,221
			Subordinated Debt (3)		9,000	9,409	9,409
						18,630	18,630
Matinvest 2 S.A.S (Deutsche Connectors)	France	Electronic Equipment & Instruments	Senior Debt (3)		2,272	2,352	2,289
			Subordinated Debt (3)		4,166	4,418	4,301
						6,770	6,590

See notes to the consolidated financial statements

EUROPEAN CAPITAL LIMITED
CONSOLIDATED SCHEDULE OF INVESTMENTS
31 DECEMBER 2006
(in thousands, except share data)

Company (2)	Country of incorporation	Industry	Investments	Shares	Principal (4)	Cost (4)	Fair value (4)
					€	€	€
Moeller Holding GmbH	Germany	Electronic Equipment & Instruments	Senior Debt (3)		3,300	3,354	3,354
			Subordinated Debt (3)		3,704	3,791	3,791
						7,145	7,145
MP Equity S.A.S. (Marco Polo Foods)	France	Food Products	Subordinated Debt (3)		9,000	9,524	9,524
			Convertible Bonds		3,965	3,985	4,589
			Common Stock (1)	379,610		3,798	4,398
						17,307	18,511
Oak Luxco S.C.A. (Nybron Flooring International)	Switzerland	Construction Materials	Senior Debt (3)		9,000	9,054	9,054
			Subordinated Debt (3)		20,000	21,214	21,214
						30,268	30,268
PKS Media (Netherlands) II B.V. (SBS Broadcasting)	The Netherlands	Media	Senior Debt (3)		4,250	4,300	4,300
			Subordinated Debt (3)		10,032	10,342	10,342
						14,642	14,642
Spotless Group S.A.S. (Eau Ecarlate, Guaber, Punch Ltd)	France	Household Products	Subordinated Debt (3)		60,625	60,478	60,478
			Convertible Bonds		6,844	6,913	6,913
			Common Stock (1)	475,826		2,190	2,190
			Warrants (1)	1,202,011		120	120
						69,701	69,701
Terreal Holding S.A.S.	France	Construction Materials	Subordinated Debt (3)		13,000	13,991	13,991
			Warrants (1)	1,679,470		-	-
						13,991	13,991
Thor Norway Topco AS (UPC Norway)	Norway	Media	Senior Debt (3)		14,218	14,604	14,604
			Subordinated Debt (3)		21,132	21,619	21,619
						36,223	36,223
Tokheim Holding S.A.	France	Specialty Retail	Senior Debt (3)		7,000	7,091	7,091
			Subordinated Debt (3)		7,426	7,481	7,481
						14,572	14,572
TSL Education Acquisition Ltd	UK	Commercial Services & Supplies	Senior Debt (3)		5,932	5,950	5,987
			Subordinated Debt (3)		19,685	19,737	19,946
			Warrants (1)	33,446		-	-
						25,687	25,933
Veveo Coating B.V. (SigmaKalon)	The Netherlands	Chemicals	Senior Debt (3)		10,000	10,007	10,007
			Subordinated Debt (3)		24,364	25,309	25,309
						35,316	35,316
Whisky Hold Co Ltd (Whitworths Group)	UK	Food Products	Revolving LOC (3)		3,708	3,779	3,658
			Senior Debt (3)		77,117	78,870	77,370
			Pref. Common Stock (5)		53,119	54,714	54,513
			Common Stock (1)	798,107		1,188	1,183
						138,551	136,724
YPSO Holdings S.A. (Numericable)	France	Media	Senior Debt (3)		5,000	5,060	5,060
			Subordinated Debt (3)		55,880	56,395	56,395
						61,455	61,455
Total Investment Assets (146% of net assets)						1,072,938	1,077,709

(1) Non-income producing

(2) Certain of the securities are issued by affiliate(s) of the portfolio company listed.

(3) These assets are pledged as security under the revolving credit facility.

(4) Principal represents the original principal of an investment plus any compounded PIK translated, where relevant, at the exchange rate ruling at the balance sheet date. Cost represents the cost of investments at historic exchange rates; when the investment is denominated in currencies other than the Euro. Fair value is the fair market value of the investment where relevant, at the exchange rate ruling at the balance sheet date. The difference between fair value and cost in the above table is a combination of the amounts shown as appreciation/(depreciation) and foreign currency appreciation/(depreciation) in the consolidated statement of operations

(5) Preferred Common Stock includes loan stock which carries a PIK-only component and on occasion has conversion rights.

EUROPEAN CAPITAL LIMITED

NOTES TO THE QUARTERLY CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)
(in thousands, except per share data)

Note 1. Organisation

European Capital Limited is a closed-ended investment company incorporated on 25 August 2005 in Guernsey, Channel Islands for pan-European equity, mezzanine and senior debt investment. The investment objective of European Capital is to provide investors with dividend income and the potential for share value appreciation by investing in debt and equity investments in private and public companies headquartered primarily in Europe. European Capital Limited is the parent and sole shareholder of European Capital S.A. SICAR, a company incorporated in Luxembourg as an investment company. Through this company we will invest in and sponsor management and employee buyouts, invest in private equity buyouts and provide capital directly to private and middle market companies in Europe. European Capital S.A. SICAR is the parent and sole shareholder of ECAS S.a.r.l and ECAS II S.a.r.l, investment companies incorporated in Luxembourg. Through these companies we will invest in debt instruments in transactions in management and employee buyouts, private equity buyouts and transactions that provide capital directly to private and middle market companies in Europe. European Capital S.A. SICAR is the parent and sole shareholder of ECAS Agent S.A.S., a company incorporated in France, which provides bond paying agency services to European Capital's portfolio companies incorporated in France.

American Capital Strategies, Ltd ("ACAS"), a leading United States based investor in equity and mezzanine debt securities, owns 66.0% of the ordinary shares of European Capital. ACAS reports European Capital as an investment within its financial statements. A fund management agreement is in place between European Capital and European Capital Financial Services (Guernsey) Limited ("the Investment Manager"), an indirect wholly owned affiliate of ACAS.

European Capital's fiscal year end is 31 December.

Note 2. Basis of Presentation

The quarterly consolidated financial statements have been prepared in accordance with accounting principles generally acceptable in the United States ("US GAAP") for interim financial information. Accordingly, certain disclosures accompanying annual financial statements prepared in accordance with US GAAP are omitted. In the opinion of the board, all adjustments, consisting solely of normal recurring accruals, necessary for the fair presentation of financial statements for the interim periods have been included. The current period's results of operations are not necessarily indicative of results that ultimately may be achieved for the year. The unaudited quarterly consolidated financial statements and notes thereto should be read in conjunction with the annual consolidated financial statements and notes thereto.

Under the investment company rules pursuant to the AICPA Audit and Accounting Guide for Investment Companies, an investment company is precluded from consolidating any entity other than another investment company. An exception to this general principle occurs if an investment company has an investment in a controlled operating company that provides services to the investment company. European Capital's consolidated financial statements include the accounts of European Capital S.A. SICAR, ECAS S.a.r.l, ECAS II S.a.r.l and ECAS Agent S.A.S.

Recent Accounting Pronouncements

In June 2007, the American Institute of Certified Public Accountants ("AICPA") issued Statement of Position 07-1, *Clarification of the Scope of the Audit and Accounting Guide Investment Companies and Accounting by Parent Companies and Equity Method Investors for Investments in Investment Companies* ("SOP 07-1"). SOP 07-1 provides guidance for determining whether an entity is within the scope of the AICPA Audit and Accounting Guide for Investment Companies. SOP 07-1 addresses whether the specialised industry accounting principles of the Investment Company Guide should be retained by a parent company in consolidation. In addition, SOP 07-1 includes certain disclosure requirements for parent companies and equity method investors in investment companies that retain investment company accounting in the parent company's consolidated financial statements or the financial statements of an equity method investor. The effective date for SOP 07-1 has been deferred indefinitely. We did not early adopt SOP 07-1. We have not yet assessed the impact on our financial statements of adopting SOP 07-1.

In February 2007, the FASB issued Statement No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities—Including an amendment of FASB Statement No. 115* ("SFAS No. 159"), which permits entities to choose to measure many financial instruments and certain other items at fair value. The objective of SFAS No. 159 is to improve financial reporting by providing entities with the opportunity to mitigate volatility in reported earnings caused by measuring related assets and liabilities differently without having to apply complex hedge accounting provisions. SFAS No. 159 applies under other

EUROPEAN CAPITAL LIMITED

NOTES TO THE QUARTERLY CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) (CONTINUED)
(in thousands, except per share data)

accounting pronouncements that require or permit fair value measurements and does not require any new fair value measurements. The fair value option established by this statement permits all entities to choose to measure eligible items at fair value at specified election dates. This statement is effective as of the beginning of an entity's first fiscal year that begins after 15 November 2007. Early adoption is permitted as of the beginning of a fiscal year that begins on or before 15 November 2007, provided the entity also elects to apply the provisions of FASB Statement No. 157, *Fair Value Measurements*. We did not early adopt SFAS No. 159. We do not anticipate electing the fair value option for eligible assets and liabilities not currently required to be measured as fair value at the effective date of the Statement.

We adopted FASB Interpretation No. 48, *Accounting for Uncertainty in Income Taxes—an interpretation of FASB Statement No. 109* ("FIN 48"), on 1 January 2007. FIN 48 clarifies the accounting for uncertainty in income taxes recognised in an enterprise's financial statements in accordance with FASB Statement No. 109, *Accounting for Income Taxes* and prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. This interpretation also provides guidance on derecognition, classification, interest and penalties, accounting in interim periods, disclosure, and transition. In May 2007, the FASB issued Staff Position, FIN 48-1, *Definition of Settlement in FASB Interpretation No. 48* ("FSP FIN 48-1"), which provides guidance on how an enterprise should determine whether a tax position is effectively settled for the purpose of recognising previously unrecognised tax benefits. FSP FIN 48-1 is effective with the initial adoption of FIN 48. The adoption of FIN 48 and FSP FIN 48-1 did not have a material impact on our consolidated financial statements.

In September 2006, the FASB issued Statement No. 157, *Fair Value Measurements* ("SFAS No. 157"). SFAS No. 157 provides enhanced guidance for using fair value to measure assets and liabilities. SFAS No. 157 also provides guidance regarding a fair value hierarchy that prioritises information used to measure fair value, and the effect of fair value measurements on earnings. SFAS No. 157 applies whenever other standards require (or permit) assets or liabilities to be measured at fair value but does not expand the use of fair value in any new circumstances. SFAS No. 157 is effective for fiscal years beginning after 15 November 2007, and interim periods within those fiscal years, with early adoption permitted. We intend to adopt SFAS No. 157 beginning the first quarter of 2008. SFAS No. 157 defines fair value in terms of the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date (the "exit price"). Prior to SFAS No. 157, fair value was defined as the amount at which an investment could be exchanged in a current transaction between willing parties, other than in a forced liquidation. Our current valuation practice for investments recently originated or acquired is to consider our initial cost basis or total purchase price ("entry price") in determining fair value. However, under SFAS 157 we may no longer be permitted to consider our entry price in determining fair value of recently originated or acquired investments. We are continuing to assess the impact on our financial statements of adopting SFAS No. 157. Adoption of this change in valuation guidance could have a material effect on our consolidated financial statements. However, the actual impact on our consolidated financial statements in the period of adoption and subsequent to the period of adoption cannot be determined at this time as it will be influenced by the estimates of fair value for that period and the number and amount of investments we originate, acquire or exit.

Note 3. Investments

Investments consist of securities issued by privately-held companies consisting of senior debt, subordinated debt, convertible bonds, equity warrants, preferred and common stock securities. Preferred stock includes loan stock which carries a payment-in-kind ("PIK")-only component and on occasions has conversion rights. Our debt securities are payable in instalments with final maturities generally from 5 to 10 years and are generally collateralised by assets of the borrower. We also make investments in securities that do not produce current income. These investments typically consist of equity warrants and common stock and are identified in the accompanying Consolidated Schedules of Investments.

As of 30 September 2007 one portfolio company with loans totalling €29,000 was on non-accrual status and no loans were past due (31 December 2006, nil).

EUROPEAN CAPITAL LIMITED

NOTES TO THE QUARTERLY CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) (CONTINUED)
(in thousands, except per share data)

The composition summaries of our investment portfolio as of 30 September 2007 and 31 December 2006 at cost and fair value as a percentage of total investments are shown in the following table:

	30 September 2007	31 December 2006
COST		
Senior debt	24.6 %	17.4 %
Subordinated debt	52.8 %	61.9 %
Convertible bonds	1.7 %	1.7 %
Preferred stock	16.4 %	16.4 %
Common stock	3.2 %	2.6 %
CDO/CLO securities	1.3 %	- %
Equity warrants	- %	- %
FAIR VALUE		
Senior debt	23.9 %	17.1 %
Subordinated debt	51.6 %	61.7 %
Convertible bonds	1.7 %	1.7 %
Preferred stock	15.4 %	16.5 %
Common stock	5.6 %	2.6 %
CDO/CLO securities	1.3 %	- %
Equity warrants	0.5 %	0.4 %

We use the Global Industry Classification Standard for classifying the industry groupings of our portfolio companies. The following table shows the portfolio composition by industry grouping at cost and at fair value as a percentage of total investments:

	30 September 2007	31 December 2006
COST		
Machinery	10.9 %	8.6 %
Textiles, Apparel & Luxury Goods	9.4 %	- %
Food products	9.2 %	19.5 %
Building products	8.6 %	7.8 %
Household durables	8.5 %	- %
Chemicals	7.8 %	13.1 %
Commercial services & supplies	6.3 %	12.2 %
Hotels, Restaurants & Leisure	6.0 %	2.9 %
Media	5.9 %	10.9 %
Household products	5.4 %	6.5 %
Health care equipment	5.0 %	- %
Personal products	2.8 %	- %
Automobile	2.5 %	4.3 %
Speciality retail	2.0 %	4.1 %
Oil, Gas & Consumable Fuels	1.6 %	- %
Air Freight & Logistics	1.5 %	- %
Commercial banks	1.4 %	2.4 %
Diversified financial services	1.3 %	0.9 %
Health care providers & servicers	1.0 %	1.3 %
Electronic equipment & instruments	0.8 %	1.3 %
Construction & engineering	0.7 %	1.2 %
Leisure Equipment & Products	0.6 %	- %
Beverage	0.4 %	0.7 %
Real estate management & development	0.4 %	- %
Industrial Conglomerates	- %	2.3 %

EUROPEAN CAPITAL LIMITED

NOTES TO THE QUARTERLY CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) (CONTINUED)
(in thousands, except per share data)

	30 September 2007	31 December 2006
FAIR VALUE		
Machinery	12.4 %	8.7 %
Textiles, Apparel & Luxury Goods	9.4 %	- %
Food products	8.6 %	19.4 %
Household durables	8.4 %	- %
Chemicals	7.9 %	13.0 %
Building products	7.5 %	8.2 %
Hotels, Restaurants & Leisure	6.1 %	2.9 %
Commercial services & supplies	6.0 %	12.2 %
Media	5.9 %	10.9 %
Household products	5.6 %	6.5 %
Health care equipment	5.3 %	- %
Personal products	2.7 %	- %
Automobile	2.5 %	4.3 %
Speciality retail	1.9 %	4.0 %
Oil, Gas & Consumable Fuels	1.6 %	- %
Air Freight & Logistics	1.6 %	- %
Commercial banks	1.4 %	2.3 %
Diversified financial services	1.3 %	0.9 %
Health care providers & servicers	1.0 %	1.3 %
Construction & engineering	0.7 %	1.2 %
Electronic equipment & instruments	0.7 %	1.3 %
Leisure Equipment & Products	0.7 %	- %
Beverage	0.4 %	0.7 %
Real estate management & development	0.4 %	- %
Industrial Conglomerates	- %	2.2 %

The following table shows the portfolio composition by geographic location at cost and at fair value as a percentage of total investments excluding structured products. The geographic composition is determined by the country of incorporation of the company issuing the security.

	30 September 2007	31 December 2006
COST		
France	46.0 %	37.9 %
United Kingdom	35.4 %	42.7 %
Germany	4.6 %	3.9 %
Netherlands	3.1 %	5.1 %
Norway	2.6 %	3.4 %
Sweden	2.3 %	- %
Italy	2.2 %	- %
Luxembourg	2.1 %	2.0 %
USA	0.7 %	- %
Ireland	0.7 %	- %
Spain	0.3 %	0.9 %
Switzerland	- %	2.8 %
Belgium	- %	1.3 %

EUROPEAN CAPITAL LIMITED

NOTES TO THE QUARTERLY CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) (CONTINUED)
(in thousands, except per share data)

	30 September 2007	31 December 2006
FAIR VALUE		
France	47.1 %	38.2 %
United Kingdom	35.2 %	42.5 %
Germany	5.2 %	3.9 %
Netherlands	3.0 %	5.1 %
Norway	2.7 %	3.4 %
Sweden	2.3 %	- %
Italy	2.2 %	- %
Ireland	0.7 %	- %
USA	0.7 %	- %
Luxembourg	0.6 %	2.0 %
Spain	0.3 %	0.9 %
Switzerland	- %	2.8 %
Belgium	- %	1.2 %

Note 4. Debt

Our debt obligations consisted of the following:

	30 September 2007	31 December 2006
Secured multicurrency revolving credit facility, €900,000 commitment	€ 670,175	€ 370,375
Senior unsecured debt, Series 2006-I, €52,000 (maturing 2022)	52,629	52,039
Senior unsecured debt, Series 2007-I, \$37,500 (maturing 2022)	26,788	-
Senior unsecured debt, Series 2007-II, \$37,500 (maturing 2022)	26,781	-
Unsecured multicurrency revolving credit facility, €150,000 commitment	100,873	-
Total	€ 877,246	€ 422,414

The weighted average debt balance for the nine months ended 30 September 2007 and the nine months ended 30 September 2006 was €562,912 and €284,014 respectively. The weighted average interest rate on all of our borrowings, excluding amortisation of deferred financing costs, for the nine months ended 30 September 2007 and the nine months ended 30 September 2006 was 6.19% and 4.1% respectively. As at 30 September 2007 we were in compliance with all of our debt covenants.

Senior Unsecured Debt

In January 2007, European Capital S.A. SICAR entered into a note purchase agreement to issue \$37,500 of senior unsecured notes due July 2022 to accredited investors in a private placement offering (Series 2007-I). The unsecured notes have a fixed interest rate of 8.02% until July 2012 and thereafter at a floating rate of LIBOR plus 2.75% until the maturity of the notes in July 2022. This facility contains covenants that, among other things, restrict the minimum net worth of the company and restrict the interest charge cover.

In March 2007, European Capital S.A. SICAR entered into a note purchase agreement to issue \$37,500 of senior unsecured notes due July 2022 to accredited investors in a private placement offering (Series 2007-II). The unsecured notes have a fixed interest rate of 7.62% until July 2012 and thereafter at a floating rate of LIBOR plus 2.75% until the maturity of the notes in July 2022. This facility contains covenants that, among other things, restrict the minimum net worth of the company and restrict the interest charge cover.

Unsecured Multicurrency Revolving Credit Facility

In August 2007, European Capital entered into an unsecured multicurrency revolving credit facility with a total commitment of €150,000. Interest on the borrowings under this facility is paid monthly and is charged at an appropriate inter-bank rate depending on the currency in which the borrowing is made and a margin of 1.50%. We are also charged an unused commitment fee of 0.20%. This facility matures in August 2008.

EUROPEAN CAPITAL LIMITED

NOTES TO THE QUARTERLY CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) (CONTINUED)
(in thousands, except per share data)

Note 5. Shareholders' Equity

On 10 May 2007, European Capital Limited completed an initial public offering ("IPO") of ordinary shares and the ordinary shares were admitted to the Official List of the U.K. Financial Services Authority and to trading on the main market of the London Stock Exchange under the ticker symbol "ECAS". The offering comprised 12,703 newly issued ordinary shares at a price of €9.84 per ordinary share, for gross proceeds of €125,000. The 12,703 new ordinary shares represented approximately 12% of the outstanding ordinary shares following completion of the IPO. European Capital Limited granted the underwriters an over-allotment option to purchase up to an additional 1,905 ordinary shares at a price of €9.84 per ordinary share. The underwriters exercised their option to purchase 1,905 shares, raising an additional €18,750.

In conjunction with the IPO, all existing preference shares in issue were re-designated as ordinary shares of no par value with effect from the date of the IPO. No preference shares are now in issue.

	Preference Shares	Ordinary Shares
Preference shares as at 31 December 2006	75,000	-
Exercise of warrant	18,750	-
Redesignation of preference shares as ordinary shares	(93,750)	93,750
Issue of original ordinary shares and directors' shares	-	6
Offer of ordinary shares	-	12,703
Exercise of over-allotment option	-	1,905
Ordinary shares as at 30 September 2007	0	108,364

Share capital

Balance as at 31 December 2006	€ 737,696
Exercise of warrant	178,125
Proceeds (including over-allotment option and directors' shares)	143,803
Termination fee	(10,300)
Legal & professional costs	(11,755)
Write off of prepaid management fee	(6,410)
Write off of contra equity (loans to Investment Manager employees)	(788)*
Balance as at 30 September 2007	€ 1,030,371

*This amount is different to the amount shown in reserves at 31 December 2006 due to additions to the scheme and amortisation applied in the period before the IPO.

Warrant

On 25 August 2005, European Capital issued a warrant to the Investment Manager, for the subscription of 18,750 preference shares at an exercise price equal to the called capital per share at any given point, less the cumulative dividend per share declared by European Capital Limited. This represented 20% of the diluted preference share capital of European Capital Limited. This warrant was partly in consideration for the management of European Capital by the Investment Manager under the previous investment management agreement.

ACAS exercised the warrant as designee for the Investment Manager, and European Capital Limited issued 18,750 shares at €9.50 per share for total proceeds of €178,125. There are no further warrants over the share capital in issue. As a result of the exercise of the warrant, issue of shares and redesignation to ordinary shares, ACAS' shareholding decreased to 65.4% of the total shares issued.

Prepaid Management Fees

Under the terms of the Old Investment Management Agreement, a portion of the management fees billed from the Investment Manager as reimbursable expenses represented amounts reimbursed by European Capital for prepaid contributions to an Employee Benefit Trust for the UK employees of ECFS. The benefit that European Capital would have received for these amounts under the Old Investment Management Agreement would have occurred over the period for which the benefits of the

EUROPEAN CAPITAL LIMITED

NOTES TO THE QUARTERLY CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) (CONTINUED)
(in thousands, except per share data)

Employee Benefit Trust vest to the employees of ECFS that received the grants. As a result of the IPO and termination of the Old Investment Management Agreement, the unamortised prepaid balance as of the termination date of €6,410, was treated as a cost of the IPO and recorded as a reduction of the issue proceeds of the share capital in the accompanying consolidated balance sheet since the termination of the Old Investment Management Agreement and entering into the New Investment Management Agreement were required transactions to complete the IPO.

Note 6. Earnings per Share

The following table sets forth the computation of basic and diluted earnings per share for the three and nine month periods ended 30 September 2007 and 30 September 2006:

	Three Months Ended		Nine Months Ended	
	30 September 2007	30 September 2006	30 September 2007	30 September 2006
Numerator for basic and diluted net operating income	€ 23,134	€ 14,279	€ 57,526	€ 16,423
Numerator for basic and diluted earnings	2,793	17,080	55,637	17,507
Denominator for basic and diluted weighted average shares	108,364	75,000	92,599	75,000
Basic and diluted net operating income per share	€ 0.21	€ 0.19	€ 0.62	€ 0.22
Basic and diluted net realised earnings per share	€ 0.21	€ 0.21	€ 0.67	€ 0.21
Basic and diluted earnings per share	€ 0.03	€ 0.23	€ 0.60	€ 0.23

Note 7. Management Fee and Reimbursed Expenses

European Capital and the Investment Manager entered into an investment management agreement dated 11 November 2005 under which the Investment Manager provided management and other services to European Capital. This agreement was terminated and replaced by a subsequent investment management agreement dated 18 August 2006, which took into consideration the revolving credit facility entered into on or around that date in addition to investment management services ("Old Investment Management Agreement"). Under the terms of the Old Investment Management Agreement, European Capital paid (i) a management fee equal to 1.25% per annum of the weighted average monthly gross asset value of European Capital's investments and (ii) reimbursed the Investment Manager for its mutually agreed upon expenses as defined in the Old Investment Management Agreement. In addition, under the terms of the Old Investment Management Agreement, all transaction fees from portfolio companies accrued to European Capital.

As part of the IPO, the Old Investment Management Agreement was terminated and European Capital and the Investment Manager entered into a new investment management agreement ("New Investment Management Agreement"). In consideration for the Investment Manager agreeing to terminate the Old Investment Management Agreement and its replacement with the New Investment Management Agreement, European Capital agreed to a termination fee payment to the Investment Manager of €10,300. The €10,300 termination payment was treated as a cost of the IPO and recorded as a reduction of the issue proceeds of the share capital in the accompanying consolidated balance sheet since the termination of the Old Investment Management Agreement and entering into the New Investment Management Agreement were required transactions to complete the IPO.

Under the terms of the New Investment Management Agreement, European Capital will pay the Investment Manager (i) a management fee of 2% per annum of the weighted average monthly value of European Capital's investments, (ii) an incentive fee equal to 100% per annum of the net earnings in excess of a return of 8% but less than a return of 10% and 20% of the net earnings thereafter; the return is calculated on a last twelve month basis (for periods post IPO with less than twelve months then the return is calculated using annualised post IPO net earnings to be comparable), and (iii) certain expenses incurred by

EUROPEAN CAPITAL LIMITED

NOTES TO THE QUARTERLY CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) (CONTINUED)
(in thousands, except per share data)

the Investment Manager on European Capital's behalf, which are not to exceed a cap of 0.25% per annum of the weighted average monthly value of European Capital's investments. In addition, under the terms of the New Investment Management Agreement, all of the transaction fees from portfolio companies will accrue to the Investment Manager.

The fees charged by the Investment Manager for the three and nine months ended 30 September 2007 and 2006 are as follows:

	Three months ended		Nine months ended	
	30 September 07	30 September 06	30 September 07	30 September 06
Management fee	€ 8,945	€ 2,480	€ 18,292	€ 7,168
Reimbursed expenses	-	5,491	11,392	13,873
Incentive fee	-	-	5,115	-
Total	€ 8,945	€ 7,971	€ 34,799	€ 21,041

Note 8. Related Parties

European Capital is managed by ECFSG, which is an indirect wholly owned affiliate of ACAS. Subsequent to the IPO, ACAS purchased additional ordinary shares of European Capital Limited in the open market increasing ACAS' ownership to 66.0% as at 30 September 2007. ECFSG charged European Capital €34,799 and €21,041 for management and incentive fees and reimbursed expenses in the nine months ended 30 September 2007 and 30 September 2006 respectively. The management and incentive fee payable at 30 September 2007 and 31 December 2006 was €3,776 and €3,568 respectively.

European Capital has provided loans to certain employees of European Capital Financial Services Limited, an affiliate of the Investment Manager. The total amount outstanding at 30 September 2007 is €5,682 (31 December 2006: €6,199) and the interest earned on these loans was €176 and €193 for the nine months ended 30 September 2007 and 30 September 2006 respectively.

During the nine months ended 30 September 2007 and 30 September 2006 European Capital paid interest of €nil and €2,019 respectively to ACAS under various bridge notes issued during the year. At 30 September 2007 and 31 December 2006 all bridge notes payable to ACAS had been repaid.

Note 9. Loans to Investment Manager Employees

European Capital made loans to employees of European Capital Financial Services Limited (ECFS), a wholly owned subsidiary of ECFSG, in the form of non-recourse notes to purchase the common stock of ACAS. The loans are denominated in US dollars, bear interest at the Applicable Federal Rate at the date of grant, and are repayable after nine years. Any dividends received on the ACAS common stock by the borrower are required to settle interest on the loans and any excess may, at the discretion of the employee, be used to either i) repay the principal of the loans or ii) be distributed to the employee. The common stock vests to the employees over a four year period. If an employee leaves ECFS during the vesting period any unvested ACAS common stock will be sold with the proceeds of the sale used to repay any outstanding amounts on the loan.

If the value of the common stock is lower than the outstanding amount on the loan at the end of the vesting period or at the time the employee leaves the employment of ECFS, the employee has the right to return the stock to European Capital and the outstanding loan is waived. The non-recourse nature of this arrangement was recorded as an adjustment to the fair value of these loans and a contra to a reserve recorded in equity. The initial fair value of this arrangement had been deferred in equity as it effectively represented a prepaid management fee under the Old Investment Management Agreement and would have been amortised into expenses over the vesting period of the underlying stock. The fair value was determined using a Black-Scholes option pricing model. The amount outstanding on these loans at 30 September 2007 was €5,682 (31 December 2006: €6,199). The reduction for the fair value of this arrangement at 30 September 2007 was €462 (31 December 2006: €200) relating to offsetting the value of the put option written. The net of these amounts is shown as part of other assets on the Consolidated Balance Sheets. The revaluation of the option at the balance sheet date has resulted in depreciation of €235 (2006: Nil).

As part of the IPO the outstanding balance on the reserve in equity (€788) was recorded as a reduction in share capital as the arrangement represented part of the Old Investment Management Agreement.

Independent Review Report to European Capital Limited

Introduction

We have been engaged by the company to review the quarterly consolidated financial statements in the quarterly financial report for the nine months ended 30 September 2007 which comprise Consolidated Balance Sheets, Consolidated Statements of Operations, Consolidated Statements of Changes in Net Assets, Consolidated Statements of Cash Flows, Consolidated Financial Highlights, Consolidated Schedules of Investments and the related notes 1-9 to the quarterly consolidated financial statements. We have read the other information contained in the quarterly report and considered whether it contains any apparent misstatements or material inconsistencies with the information in the quarterly consolidated financial statements.

This report is made solely to the company in accordance with guidance contained in ISRE 2410 (UK and Ireland) "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the Auditing Practices Board. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company, for our work, for this report, or for the conclusions we have formed.

Directors' Responsibilities

The quarterly financial report is the responsibility of, and has been approved by, the directors. The directors are responsible for preparing the quarterly consolidated financial statements.

As disclosed in note 2, the quarterly financial statements of the company are prepared in accordance with accounting principles generally acceptable in the United States.

Our Responsibility

Our responsibility is to express to the company a conclusion on the quarterly consolidated financial statements in the quarterly financial report based on our review.

Scope of Review

We conducted our review in accordance with International Standard on Review Engagements (UK and Ireland) 2410, "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the Auditing Practices Board for use in the United Kingdom. A review of interim financial information consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing (UK and Ireland) and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the quarterly consolidated financial statements in the quarterly financial report for the nine months ended 30 September 2007 are not prepared, in all material respects, in accordance with accounting principles generally acceptable in the United States.



Ernst & Young LLP
Guernsey, Channel Islands
Date: 6 November 2007

(in thousands except per share data)
(unaudited)

Investment Portfolio and Activity

As at 30 September 2007, the overall valuation of the portfolio was €1,900,947 (31 December 2006: €1,077,709). This was made up of 63 portfolio companies (31 December 2006: 36) consisting of:

European Capital One Stop Buyouts™

Through our One Stop Buyouts™, European Capital provides equity, mezzanine debt and senior debt as the lead investor in the buyout of private and public companies.

Mezzanine Direct with Sponsors

European Capital provides debt and equity financing for buyouts sponsored by private equity firms where European Capital is either the sole or lead mezzanine debt investor.

Syndicated Mezzanine and Senior Debt

European Capital provides mezzanine and senior financing for buyouts sponsored by private equity firms where European Capital is neither the sole nor lead mezzanine or senior debt investor.

Direct Investments

European Capital provides debt and equity financing directly to private and public companies, which is used for growth, acquisitions or recapitalisations, and investing in structured finance vehicles.

European Capital seeks to be a long-term partner with its portfolio companies. As a long-term partner, European Capital will invest capital in a portfolio company subsequent to its initial investment if the Investment Manager believes that European Capital can achieve appropriate returns for the investment. European Capital provides add-on financings for (i) strategic acquisitions by the portfolio company of either a complete business or specific lines of a business that are related to the portfolio company's business, (ii) recapitalisation at the portfolio company, (iii) growth at the portfolio company such as product development or plant expansions, or (iv) working capital for portfolio companies, sometimes in distressed situations, that need capital to fund operating costs, debt service, or growth in receivables or inventory.

In the three months ended 30 September 2007, European Capital invested a total of €419,831 in 15 new portfolio companies (30 September 2006: €458,702 in 9 companies) and €9,219 in follow-on investments in five portfolio companies.

In the nine months ended 30 September 2007, European Capital invested a total of €1,289,376 in 35 new portfolio companies (30 September 2006: €740,672 in 23 companies) and €113,302 in follow-on investments in 7 portfolio companies (30 September 2006: €30,824 in one company).

Our investments during the three and nine month periods ended 30 September 2007 and 2006 were as follows:

	Three months ended		Nine months ended	
	30 September 2007	30 September 2006	30 September 2007	30 September 2006
European Capital Sponsored Buyouts	€123,040	€259,002	€543,676	€287,202
Financing for Sponsored Buyouts	184,105	154,021	633,504	453,470
Add-On Financing for Acquisitions	9,219	30,824	36,774	30,824
Add-On Financing for Recapitalisations	-	-	69,528	-
CDO/CLO Investments	16,973	-	23,483	-
Direct Investments	95,713	-	95,713	-
Total	€429,050	€443,847	€1,402,678	€771,496

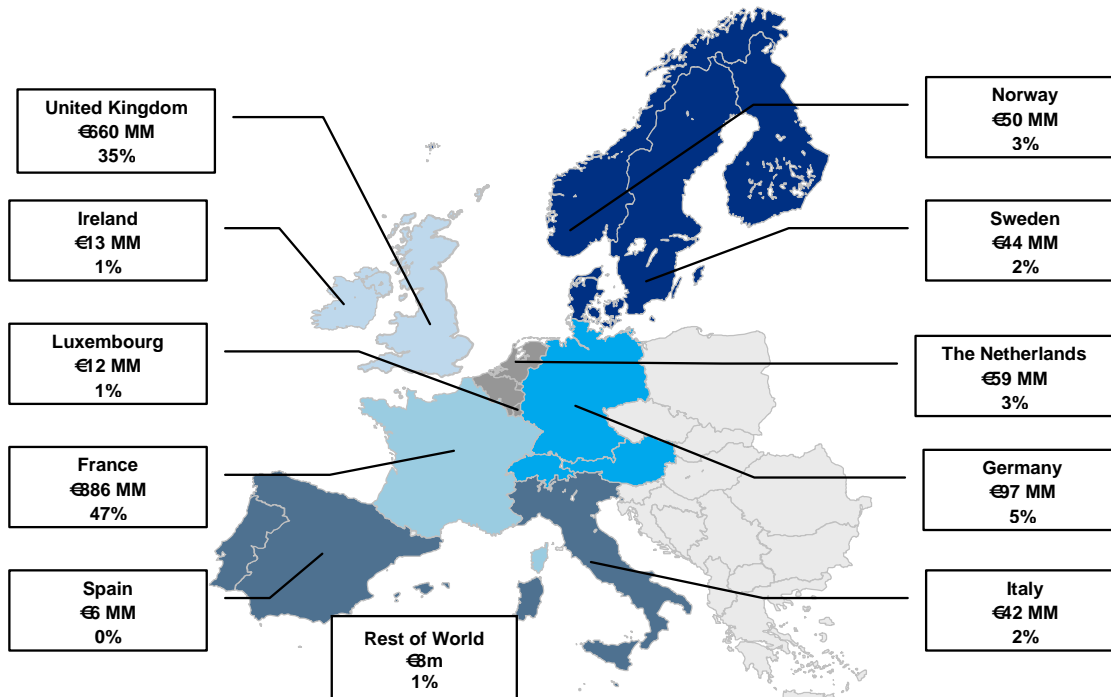
See pages 15 to 17 for analysis of the portfolio and pages 8 to 12 for a schedule of all portfolio companies as at 30 September 2007 and 31 December 2006.

(in thousands except per share data)
(unaudited)

During the three and nine month periods ended 30 September 2007 and 2006, European Capital received cash proceeds from portfolio investments as follows:

	Three months ended		Nine months ended	
	30 September 2007	30 September 2006	30 September 2007	30 September 2006
Principal Repayments	€76,916	€7,182	€312,794	€58,488
Senior Loan Syndications	42,048	62,391	256,080	73,391
Repayment of Accrued PIK Interest and Dividends	4,109	-	17,208	
Sale of Equity Instruments	-	1,206	9,304	3,703
Total	€123,073	€70,779	€595,386	€135,582

The following chart shows the portfolio composition by geographic location at fair value as a percentage of total investments excluding structured products. The geographic composition is determined by the country of incorporation of the company issuing the security.

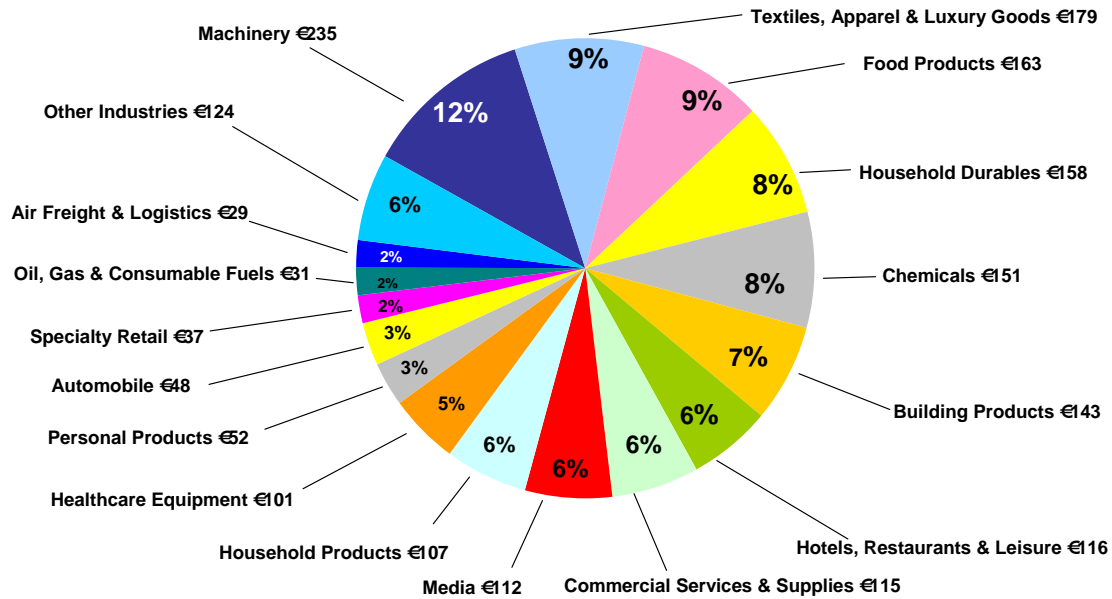


(in thousands except per share data)
(unaudited)

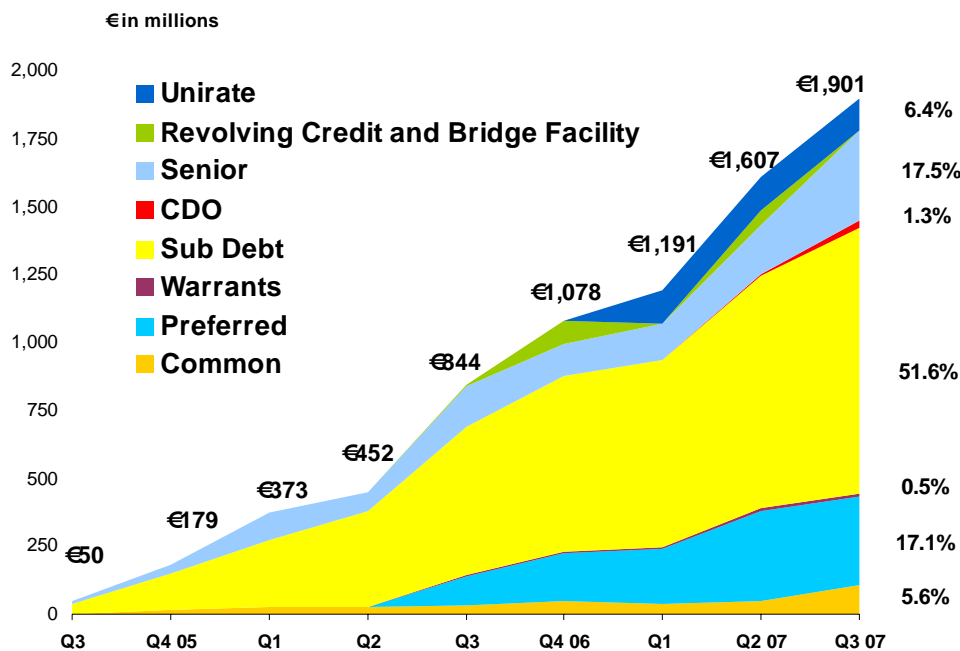
We use the Global Industry Classification Standard for classifying the industry groupings of our portfolio companies. The following chart shows the portfolio composition by industry grouping at fair value as a percentage of total investments.

Industry Diversification

€1.9 Billion Total Assets at Fair Value
Global Industry Classification Standard (GICS)



The composition summaries of our investment portfolio at fair value as a percentage of total investments are shown in the following table:



(in thousands except per share data)
(unaudited)

Top Ten Investments

Trading Name of Company ¹	Date of investment	Type of transaction	Description	Currency	Cost ²	Fair Value ³
Hillarys Blinds	Jun 2007	One Stop Buyout™	Provider of made-to-measure window blinds	GBP	131,374	127,555
Delsey	Feb 2007	Direct Mezzanine	Luggage manufacturer	EUR	121,816	121,816
Spotless Group	Nov 2005	One Stop Buyout™	Supplier of branded fabric care products to the French market	EUR	102,102	107,325
Audika	Sept 2007	Direct Investment	French distributor of hearing aids	EUR	96,257	101,282
Devglass	July 2007	One Stop Buyout™	French manufacturer and distributor of glass for windows	EUR	95,198	95,198
Farrow & Ball	Jul 2006	One Stop Buyout™	International market leader in luxury decorative paints	GBP	89,345	92,790
Avery	Jul 2006	One Stop Buyout™	Designer and manufacturer of weighing equipment and solutions to industrial and food retail customers worldwide	GBP	52,044	68,927
Whitworths	Oct 2006	One Stop Buyout™	Dried fruit business	GBP	77,727	60,938
DX Services	Oct 2006	Syndicated Mezzanine	Independent mail network & delivery of credit cards/passports to customers	GBP	60,463	58,785
Go Voyages	March 2007	Direct Mezzanine	Travel agency	EUR	51,875	54,485
			Total		€78,201	€89,101
			Percentage of portfolio		46.0%	46.8%

¹ The relevant legal entities are specified in the Consolidated Schedule of Investments

² Cost represents the cost of investments at historic exchange rates when the investment is denominated in currencies other than the euro.

³ Fair value is the fair market value of the investment translated, where relevant, at the exchange rate ruling at the balance sheet date. The difference between fair value and cost in the above table is a combination of the amounts shown as appreciation/(depreciation) and foreign currency appreciation/(depreciation) in the consolidated statement of operations.

(in thousands except per share data)
(unaudited)

Portfolio Credit Quality

Loan Performance

At 30 September 2007 and 31 December 2006, loans on accrual status, past due loans and loans on non-accrual status were as follows:

Days Past Due	Portfolio Companies	30 September 2007	Portfolio Companies	31 December 2006
Current	62	€ 1,449,408	36	€ 849,189
One Month Past Due			-	-
Two Months Past Due			-	-
Three Months Past Due			-	-
Greater than Three Months Past Due			-	-
Loans on Non-accrual Status	1	29,000	-	-
Total	63	€ 1,478,408	36	€ 849,189
Past Due and Non-accruing Loans as a Percent of Total Loans		2.0%		0.0%

The loan balances above reflect European Capital's cost of the debt plus unamortised OID.

**(in thousands except per share data)
(unaudited)**

European Capital tracks its portfolio investments on a static pool basis, including based on the statistics described above. A static pool consists of the investments made during a given period. The static pool classification is based on the period the initial investment was made. Subsequent add-on investments are included in the static pool period of the original investment. The following table contains a summary of portfolio statistics as at and for the period ended 30 September 2007.

Portfolio Information ^{(1) (9)}

	2005		2006		2007		Aggregate	
Internal Rate of Return – All Investments ^{(2) (8)}	16.3 %		13.5 %		17.0 %		14.8 %	
Internal Rate of Return – Equity Investments only ⁽²⁾ ^{(8) (10)}	38.3 %		21.3 %		29.4 %		24.5 %	
Original Investments and Commitments ⁽⁸⁾	€ 237,612	€ 1,209,653	€ 1,297,377	€ 2,744,642				
Total Exits and Prepayments of Original Investments ⁽⁸⁾	€ 86,151	€ 526,263	€ 300,711	€ 913,125				
Total Interest, Dividends and Fees Collected ⁽⁸⁾	€ 30,482	€ 79,071	€ 23,988	€ 133,541				
Total Net Gain on Investments	€ 202	€ 3,666	€ -	€ 3,868				
Current Cost of Investments	€ 163,475	€ 721,193	€ 1,024,373	€ 1,909,041				
Current Fair Value of Investments	€ 174,798	€ 705,294	€ 1,020,855	€ 1,900,947				
Net Appreciation	€ 11,347	€ (5,681)	€ 7,892	€ 13,558				
Non-Accruing Loans at Face	€ -	€ 29,000	€ -	€ 29,000				
Non-Accruing Loans at Fair Value	€ -	€ -	€ -	€ -				
Equity Interest at Fair Value	€ 29,895	€ 226,667	€ 184,788	€ 441,350				
Debt to EBITDA ⁽³⁾⁽⁴⁾	5.1		6.3		7.4		6.8	
Interest Coverage ⁽³⁾	3.5		2.8		4.1		3.6	
Debt Service Coverage ⁽³⁾	2.3		2.2		3.4		2.8	
Average Age of Companies	88 years		93 years		37 years		63 years	
Ownership Percentage	11.2 %		31.2 %		19.3 %		23.1 %	
Average Sales ⁽⁵⁾	€ 659,700	€ 442,249	€ 267,310	€ 369,549				
Average EBITDA ⁽⁶⁾	€ 87,704	€ 62,208	€ 46,164	€ 56,058				
Average EBITDA margin ⁽⁶⁾	15.5 %		14.7 %		17.1 %		15.7 %	
Total Sales ⁽⁵⁾	€ 4,554,897	€ 15,895,962	€ 13,660,229	€ 34,111,088				
Total EBITDA ⁽⁶⁾	€ 706,051	€ 2,333,138	€ 2,329,007	€ 5,368,196				
% of Senior Loans ⁽⁷⁾	10 %		23 %		38 %		30 %	
% of Loans with Lien ⁽⁷⁾	100 %		100 %		100 %		100 %	

(1) Static pool classification is based on the period the initial investment was made. Subsequent add-on investments are included in the static pool period of the original investment.

(2) Assumes investments are exited at current fair value.

(3) These amounts do not include investments in which we own only equity.

(4) For portfolio companies with a nominal EBITDA amount, the portfolio company's maximum debt leverage is limited to 15 times EBITDA.

(5) Sales of the most recent twelve months, or when appropriate, the forecasted twelve months.

(6) EBITDA of the most recent twelve months, or when appropriate, the forecasted twelve months.

(7) As a percentage of our total debt investments.

(8) Non euro-denominated amounts are retranslated at the exchange rate ruling at the date of original investment.

(9) Non euro-denominated balances, other than those referred to in (8), are retranslated at the exchange rate ruling at the balance sheet date.

(10) Excludes equity investments that are the result of conversions of debt and warrants received with the issuance of debt.

(in thousands except per share data)
(unaudited)

Results of operations

European Capital's consolidated financial performance, as reflected in its consolidated statements of operations, is composed of four primary elements. The first element is "Net operating income," which is primarily the interest, dividends, prepayment fees and transaction fees earned from investing in debt and equity securities less European Capital's operating expenses and provision for income taxes. The second element is "Net foreign currency gains (losses)," which reflects the difference arising on the settlement of monetary assets and liabilities due to changes in exchange rates (realised currency differences) and the restatement of monetary assets and liabilities at the balance sheet date due to changes in exchange rates (unrealised currency differences). The third element is "Net gains (losses) on investments," which reflects the difference between the proceeds from an exit of an investment and the cost at which the investment was carried on the consolidated balance sheets. The fourth element is "Net appreciation (depreciation) of investments," which is the net change in the estimated fair values of European Capital's investments, at the end of the period compared with their estimated fair values at the beginning of the period or their stated costs, as appropriate.

The following table sets out an overview of European Capital's financial performance for the three and nine months ended 30 September 2007.

	Three months ended		Nine months ended	
	30 September 2007	30 September 2006	30 September 2007	30 September 2006
Interest and dividend income	€45,294	€20,361	€119,256	€39,904
Fee and other income	1,076	7,959	6,103	8,979
Total operating income	46,370	€28,320	125,359	€48,883
Interest expense	(12,066)	(5,103)	(27,270)	(8,999)
Management fee and reimbursed expenses	(8,945)	(7,971)	(29,684)	(21,041)
Incentive management fee expense	-	-	(5,115)	-
General and administrative expenses	(2,213)	(898)	(5,573)	(2,351)
Provision for income taxes	(12)	(69)	(191)	(69)
Net operating income	23,134	€14,279	€7,526	€16,423
Net foreign currency (losses) gains	(16,688)	1,643	(12,410)	(1,480)
Net gains on investments	-	-	2,321	202
Net (depreciation) appreciation of investments	(3,653)	1,158	8,200	2,362
Net earnings	€2,793	€17,080	€5,637	€17,507

(in thousands except per share data)
(unaudited)

Interest and dividend income

European Capital's debt investment income is predominantly at floating rates based on an appropriate interbank rate, dependent on the currency of the investment, plus a margin. Dividend income includes the return generated on common equity, equity warrants, preferred equity, loan stock, and convertible bonds. Common equity and equity warrants generally generate little yield but generate return from appreciation in value of these instruments. Preferred equity, loan stock and convertible bonds do generate a current income that is usually a non-cash return in the form of a PIK dividend that is generally paid on exit from the investment.

	Three months ended		Nine months ended	
	30 September 2007	30 September 2006	30 September 2007	30 September 2006
Interest income on senior debt	€10,719	€2,844	€24,211	€5,546
Interest income on subordinated debt	29,757	14,931	76,032	31,111
Total interest on debt securities	€40,476	€17,775	€100,243	€36,657
Interest on CLO/CDO securities	695	-	861	-
Dividend income	3,473	2,381	16,080	2,820
Bank interest income	650	205	2,072	427
Total interest and dividend income	€45,294	€20,361	€119,256	€39,904

	Three months ended		Nine months ended	
	30 September 2007	30 September 2006	30 September 2007	30 September 2006
Interest income on total debt	€40,476	€17,775	€100,243	€36,657
Average debt outstanding	€1,325,759	€610,380	€1,098,035	€427,298
Annualised yield¹	12.2%	11.6%	12.2%	11.4%
Total investment income	€44,644	€20,156	€117,184	€39,477
Average investments outstanding	€1,756,346	€721,506	€1,421,071	€485,106
Annualised yield¹	10.2%	11.2%	11.0%	10.9%

¹ Yields are calculated using a monthly average balance

(in thousands except per share data)
(unaudited)

Fee and other income

Subsequent to the IPO, amounts shown as fee and other income (except for prepayment fees) now accrue to ECFSG under the terms of the New Investment Management Agreement. Accordingly the income shown below is not expected to recur.

	Three months ended		Nine months ended	
	30 September 2007	30 September 2006	30 September 2007	30 September 2006
Transaction structuring fees	€-	€3,320	€-	€4,073
Equity financing fees	-	2,436	-	2,436
Loan financing fees	-	1,721	1,725	1,937
Due diligence fees	-	298	-	298
Prepayment fees	168	72	2,651	72
Administration fees and other fees	908	112	1,727	163
Total fee income	€1,076	€7,959	€6,103	€8,979

Fees have reduced over the comparative period in the prior year due to the change in Investment Management Agreement. Under the new Investment Management Agreement, the majority of fees are now earned by the Manager.

Interest Expense

Interest expense has increased over the year due both to an increase in European Capital's weighted average borrowings to €541,661 for the three months ended 30 September 2007 from €177,525 for the three months ended 30 September 2006 and to an increase in European Capital's weighted average interest rate on outstanding borrowings, excluding amortisation of deferred financing costs, to 6.38% for the three months ended 30 September 2007 from 5.06% for the three months ended 30 September 2006. The increase is due to the unsecured notes first entered into in December 2006 to finance the growth in investments.

Management and incentive fee and reimbursed expenses

Under the provisions of the New Investment Management Agreement, the Investment Manager is entitled to receive an incentive fee if certain conditions are met. If a hurdle rate of return of 8% based on shareholders' equity is not reached then no incentive fee is payable; if the consolidated net earnings return is above 8% then all the net earnings in excess of 8% are paid to the manager until the threshold rate of return of 10% is reached; 20% of any return in excess of 10% is then paid to the Investment Manager. This means that if the return is in excess of 10% then the Investment Manager receives 20% of net earnings (before incentive fee) as an incentive fee. In the period post-IPO, under the New Investment Management Agreement, European Capital's consolidated net earnings return was in excess of 10% and consequently an incentive fee of €5,115 is payable to the Investment Manager.

The fees charged by the Investment Manager for the three and nine months ended 30 September 2007 and 2006 are as follows:

	Three months ended		Nine months ended	
	30 September 2007	30 September 2006	30 September 2007	30 September 2006
Management fee	€8,945	€2,480	€18,292	€7,168
Reimbursed expenses	-	5,491	11,392	13,873
Incentive fee	-	-	5,115	-
Total	€8,945	€7,971	€34,799	€21,041

(in thousands except per share data)
(unaudited)

General and administrative expenses

General and administrative fees include legal, accounting, audit and tax fees, custodian and domiciliation fees, and non-reimbursable transaction expenses. The increase between the three months ended 30 September 2006 and the comparable period in 2007 primarily relates to increases in legal fees and non-reimbursable transaction expenses.

Net foreign currency gains (losses)

A number of investments in portfolio companies are denominated in currencies other than the euro, these are US dollars, Swedish krona and pounds sterling. There are also other assets and liabilities denominated in currencies other than the euro. Fluctuations in exchange rates therefore impact the financial condition and results of operations, as reported in euros. Debt is denominated in US dollars and pounds sterling and provides a partial hedge against currency fluctuations.

When investments that are denominated in currencies other than the euro are realised, an element of the gain (loss) will be due to currency fluctuations and is shown as part of the foreign currency gain. Movements in the euro value of investments and other assets and liabilities because of the change in exchange rates is shown as foreign currency appreciation/(depreciation). The loss shown in the quarter is mainly because of the weakening of the euros against both the US dollar and pound sterling.

Appreciation and depreciation of investments

The net appreciation and depreciation of investments is based on portfolio asset valuations determined by the Investment Manager and approved by the Board of Directors.

	Number of companies	Three months ended 30 September 2007	Number of companies	Three months ended 30 September 2006
Gross appreciation of portfolio company investments	7	€31,191	2	€1,903
Gross depreciation of portfolio company investments	5	(34,609)	1	(745)
Non-recourse loans		(235)		-
Total	12	€(3,653)	3	€1,158

(in thousands except per share data)
(unaudited)

Financial Condition, Liquidity and Capital Resources

European Capital's restricted cash consists primarily of interest and principal payments on assets that are secured for the purpose of the multicurrency revolving credit facility. In accordance with the terms of the Multicurrency Revolving Facility agreement, those funds are generally distributed within 90 days to pay interest and fees on the facility. The excess is then moved to accounts that are not restricted.

Equity Capital Raising Activities

In August 2005, European Capital completed an equity capital commitment of 75,000 shares of preferred shares with private investors. The commitment has been fully called upon on a quarterly basis as required.

On 10 May 2007, European Capital listed on the London Stock Exchange under Chapter 14 of the Listing Rules of the Financial Services Authority ("FSA"). Pursuant to this, European Capital issued 12,703 ordinary share of no par value and raised €125,000 with associated costs of approximately €22,000. In addition to these costs, the outstanding balance on the reserve in equity (€788) and the unamortised balance on prepaid management fees (€6,410) were treated as costs of the IPO and recorded as a reduction of share capital. Subsequent to this share issue, a further 1,905 ordinary shares of no par value were issued and raised €18,750 as part of the over-allotment option as detailed in the Prospectus for the offer of European Capital Limited's shares.

Debt Capital Raising Activities

Debt obligations consisted of €, £ and \$ borrowings through a secured multicurrency revolving credit facility with a commitment of €900,000, three series of unsecured debt and an unsecured multicurrency revolving credit facility with a commitment of €150,000.

Unsecured Multicurrency Revolving Credit Facility

In August 2007, European Capital entered into an unsecured multicurrency revolving credit facility with a total commitment of €150,000. Interest on the borrowings under this facility is paid monthly and is charged at an appropriate inter-bank rate depending on the currency in which the borrowing is made and a margin of 1.50%. We are also charged an unused commitment fee of 0.20%. This facility matures in August 2008.

European Capital Limited Management and Administration

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Alexis Babeau
Huw Evans
Jean-Louis Gleizes
Kenneth Peterson Jr.

Company Secretary/Registrar/Administrator

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