



European Capital

**European Capital Limited
Interim Consolidated Financial Statements
30 June 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 €2.1 billion (\$2.9 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 recapitalizations.

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 June 2007 ECFS had 37 investment professionals and 45 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 \$16 billion in assets 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, recapitalizations and securitizations. 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”.

Financial Highlights (unaudited)

(in thousands except per share data)

	June 2007	December 2006	June 2006	December 2005
Assets under management ¹	€1,607,020	€1,077,709	€451,518	€179,201
Balance sheet data¹:				
Total assets	€1,693,470	€1,194,585	€593,852	€190,992
Total debt outstanding	606,774	422,414	219,118	-
Total shareholders' equity	€1,063,860	€744,154	€370,789	€160,009
Operating data²:				
Net operating income (loss)	€34,391	€30,044	€2,144	€(9,967)
Realised earnings (loss) ³	39,867	31,966	205	(9,160)
Net earnings (loss)	€52,844	€38,456	€427	€(9,902)
Per share data:				
Net operating income (loss) ²	€0.41	€0.40	€0.03	€(0.13)
Realised earnings (loss) ²	€0.47	€0.43	-	€(0.12)
Net earnings (loss) ²	€0.62	€0.52	-	€(0.13)
Dividends declared ²	€0.31	€0.29	-	-
Net asset value ¹	€9.82	€9.92	€4.94	€2.13
Other data:				
Portfolio companies ¹	50	36	21	8
Earnings return (loss) on average equity	12.5%	15.7%	0.4%	(41.6)%

¹ Amounts are as at the date shown² Amounts are for the six months ending on the date shown and for the period from inception to 31 December 2005.³ Net earnings before foreign currency appreciation (depreciation) and appreciation (depreciation) of investments.

European Capital Limited

CHAIRMAN'S STATEMENT

I am pleased to announce a strong performance by European Capital for the six months to 30 June 2007. These results are European Capital's first interim results since the successful Initial Public Offering ("IPO") of the company in May 2007.

THIRD QUARTER 2007 DIVIDEND DECLARATION

European Capital's Board of Directors has declared a third quarter 2007 dividend of €0.13 per share payable on 26 October 2007 to record holders of its ordinary share on the register as of 16:30 BST on 28 September 2007. This is a 30% increase over the second quarter 2007 dividend of €0.10 per share. This is in line with the dividend target announced at the time European Capital declared its second quarter 2007 dividend. European Capital has now paid or declared a total of €24.9 million in dividends since its May 2007 IPO.

2007 DIVIDEND GUIDANCE

European Capital is reiterating its target of total 2007 dividends post IPO of €0.37 per share. This would represent a 37% increase over the total 2007 post IPO dividends targeted in the European Capital prospectus of €0.27 per share. European Capital continues to target a fourth quarter 2007 interim dividend of €0.14 per ordinary share.

2007 INTERIM RESULTS

Earnings for the first six month increased €52.4 million to €52.8 million, compared to €0.4 million for the first six months of 2006. Earnings per share increased to €0.62 from €nil in 2006. For the six months, net portfolio appreciation and gains, excluding foreign exchange translation, totalled €14.2 million compared to €1.4 million for the six months of 2006.

Earnings less appreciation (depreciation) and foreign currency appreciation (depreciation) ("Realised Earnings") increased to €0.47 per share from €nil per share for the first six months of 2006. Net operating income ("NOI") increased €0.38 to €0.41 per share from €0.03 per share for the first six months of 2006.

This is a great time to be a well capitalised financial institution. With less than 0.6:1 debt to equity, European Capital has huge competitive advantages in this new credit environment. With our One Stop Buyout™ and one stop financing, we fund transactions that are impossible for some of our competitors to close. With demonstrated access to capital, we are taking advantage of lower multiples, wider spreads and better terms to generate outstanding risk adjusted returns for our shareholders.

Second quarter 2007 dividends were €0.10 per share. For the quarter, European Capital's dividend payout ratio was 48% of Realised Earnings of €0.21 per basic share. European Capital's net asset value ("NAV") per share at 30 June 2007 was €9.82, a €0.09 increase over the 10 May 2007 IPO NAV per share of €9.73.

The advantage of our business model becomes more evident in a widening spread environment like today. As interest rate spreads widen, our interest income and our spread income generally grows, which allows us to increase our NOI and our dividends. During widening spread environments, we may experience slower growth in our equity portfolio as more expensive credit reduces valuation multiples, but our growing spread income should allow us to continue to generate excellent returns on equity, just when other companies find it difficult to produce similar results.

In May 2007, European Capital completed an IPO of 14.6 million shares, including the full exercise of the over-allotment option granted to the underwriters, at a price of €9.84 per share, for gross proceeds of approximately €144 million. The shares are traded on the London Stock Exchange under the ticker symbol "ECAS." Prior to the IPO, American Capital exercised its warrant to purchase 18.75 million shares of European Capital for an exercise price of €9.50 per share, or €178 million. As at 30 June 2007 European Capital's market capitalisation was €1.1 billion.

The current credit and economic environment is ideal for us to continue our growth. In the past few weeks, European Capital's stock price has declined along with most financial stocks. However, European Capital has a much better capitalised balance sheet than many financial institutions, CLOs and hedge funds; some of which are levered above 4:1 debt to equity. We are levered less than 0.6:1 debt to equity and are in good shape to handle continued uncertainty in the capital markets. In recent months we have opened offices in Frankfurt and Madrid to provide better coverage of middle market opportunities in these markets.

In the first six months of 2007, European Capital invested €1.0 billion of capital. European Capital had €14.2 million of net appreciation, depreciation, gains and losses, excluding foreign currency exchange translation. This comprised of net appreciation of €11.9 million and net gains of €2.3 million.

The weighted average effective interest rate on European Capital's total investments in debt securities at 30 June 2007 was 12%. At the same time, one loan totalling €20 million was on non-accrual. This is 1.6% of total loans at 30 June 2007, compared to no loans at 30 June 2006. The fair value of this loan at 30 June 2007 was €10.7 million or 0.9% of total loans at

fair value.

Our portfolio continues to perform very well, with our delinquencies and non-accruals at less than 2% of total loans. We believe the current environment, whereby many investors have lost access to capital despite very low commercial loan default rates, will result in a significant increase in our investment opportunities over and above our already outstanding deal flow. We continue to focus on developing one of the largest middle market deal flows in our industry so that we can continue to be extraordinarily selective as to which companies we invest in. We also continue to have the significant advantage of not being reliant on commercial or investment banks for financing for our One Stop Buyouts™ and one-stop-financings because we are able to fund the entire transaction. In addition, when we conclude that it is time to sell a portfolio company, we may choose to provide the buyer with the appropriate debt financing to supplement their equity to fund the transaction; a capability most of our competitors lack. Therefore, we continue to believe that our capital flexibility and our very large deal flow will provide us with excellent investment and exit opportunities going forward.

Since its inception in August 2005 up until 30 June 2007, European Capital has invested in 58 portfolio companies totalling €2.3 billion. European Capital has invested €974 million in the first six months of 2007. European Capital has earned a 19% compounded annual return, including interest, dividends, fees and net gains, on eight complete portfolio company realisations of senior debt, subordinated debt and equity investments, totalling €214 million of invested capital. These realisations represent 9% of all amounts invested by European Capital.

Our low levered balance sheet and capital markets creditability have allowed us to execute our IPO during a time when access to capital was closed to many institutions. We have no investments in sub prime residential mortgages. Zero percent of our portfolio today is in CMBS investments. Less than 0.5% of our portfolio assets are in CDOs. We have few covenant-lite loans. And, since inception our equity investments have produced a 27% IRR. We are very well capitalised and have a portfolio that is performing in a market where opportunities have just become far more profitable.

THIRD PARTY VALUATION OF PORTFOLIO INVESTMENTS

European Capital's Board of Directors is responsible for determining the fair value of European Capital's portfolio investments on a quarterly basis. In that regard, the Board retains Houlihan Lokey Howard & Zukin Financial Advisors Inc. ("Houlihan Lokey") to assist it by having Houlihan Lokey regularly review a designated percentage of fair value determinations. Houlihan Lokey is a leading valuation firm engaged in approximately 1,000 valuation assignments per year for clients worldwide. Each quarter, Houlihan Lokey reviews European Capital's determination of the fair value of all portfolio companies that have been a portfolio company at least one year and that have a fair value in excess of €10 million. In the second quarter of 2007, Houlihan Lokey reviewed valuations of 12 portfolio company investments having an aggregate €355 million in fair value as of the period end. In addition, Houlihan Lokey representatives attend European Capital's quarterly valuation meetings and provide periodic reports and recommendations to the Audit Committee of the Board of Directors.

For those portfolio company investments that Houlihan Lokey has reviewed during each applicable period, using the scope of review set forth by European Capital's Board of Directors, the Board has made a fair value determination that is within the aggregate range of fair value for such investments as determined by Houlihan Lokey.

It is an excellent time to be in the business of buyouts and mezzanine lending.

Thank you for your support.



Malon Wilkus
Chairman
21 August 2007

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

	Notes	30 June 2007 (unaudited)	31 December 2006
Assets			
Investments at fair value (Cost basis of €1,587,174 (unaudited), and €1,072,938 respectively)	3	€ 1,607,020	€ 1,077,709
Cash and cash equivalents		7,349	85,932
Restricted cash		67,938	12,913
Other		11,163	18,031
Total assets		<u>€1,693,470</u>	<u>€1,194,585</u>
Liabilities and Shareholders' Equity			
Debt (maturing within one year €2,196 (unaudited) and €nil respectively)	4	€606,774	€422,414
Due to European Capital Financial Services (Guernsey) Limited		5,352	3,568
Accrued dividends payable		10,836	21,750
Other		6,648	2,699
Total liabilities		<u>629,610</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		14,542	1,261
Net unrealised foreign currency appreciation		1,456	332
Net unrealised appreciation of investments		17,491	5,638
Other reserve	9	-	(773)
Total shareholders' equity		<u>1,063,860</u>	<u>744,154</u>
Total liabilities and shareholders' equity		<u>€1,693,470</u>	<u>€1,194,585</u>
Net asset value per share			
		<u>€ 9.82</u>	<u>€ 9.92</u>

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

	Notes	Three Months Ended		Six Months Ended	
		30 June 2007	30 June 2006	30 June 2007	30 June 2006
OPERATING INCOME:					
Interest and dividend income		€39,680	€12,557	€73,962	€19,543
Fee and Other Income		1,737	(146)	5,027	1,020
Total operating income		41,417	12,411	78,989	20,563
OPERATING EXPENSES:					
Interest		8,264	2,389	15,204	3,896
Management fee and reimbursed expenses	7	9,373	5,850	20,739	13,070
Incentive fee	7	5,115	-	5,115	-
General and administrative		1,831	489	3,361	1,453
Total operating expenses		24,583	8,728	44,419	18,419
OPERATING INCOME BEFORE INCOME TAXES		16,834	3,683	34,570	2,144
Provision for income taxes		(35)	-	(179)	-
NET OPERATING INCOME		16,799	3,683	34,391	2,144
Net foreign currency gains (losses)		869	(1,053)	3,155	(2,141)
Net gain on investments		2,321	202	2,321	202
TOTAL NET REALISED EARNINGS		19,989	2,832	39,867	205
Net foreign currency appreciation (depreciation)		4,906	(292)	1,124	(982)
Net appreciation (depreciation) of investments		840	(202)	11,853	1,204
INCREASE IN NET ASSETS RESULTING FROM OPERATIONS		€25,735	€2,338	€52,844	€427
NET OPERATING INCOME PER SHARE:					
Basic & Diluted	6	€0.18	€0.05	€0.41	€0.03
NET EARNINGS PER SHARE:					
Basic & Diluted	6	€0.27	€0.03	€0.62	€0.00
WEIGHTED AVERAGE NUMBER OF SHARES OUTSTANDING:					
Basic & Diluted		94,247	75,000	84,677	75,000
DIVIDENDS DECLARED PER SHARE		€0.10	€0.00	€0.31	€0.00

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

	Notes	Six Months Ended	
		30 June 2007	30 June 2006
Operations:			
Net operating income		€34,391	€2,144
Net foreign currency gains (losses)		3,155	(2,141)
Net gains on investments		2,321	202
Net foreign currency appreciation (depreciation)		1,124	(982)
Net appreciation of investments		11,853	1,204
Net increase in net assets resulting from operations		<u>52,844</u>	<u>427</u>
Shareholder distributions:			
Dividends		(26,586)	-
Net decrease in net assets resulting from shareholder distributions		<u>(26,586)</u>	<u>-</u>
Capital share transactions:			
Issuance of share capital	5	292,675	209,882
Loans to Investment Manager employees	9	773	470
Net increase in net assets resulting from capital share transactions		<u>293,448</u>	<u>210,352</u>
Total increase in net assets		319,706	210,779
Net assets at beginning of period		<u>744,154</u>	<u>160,009</u>
Net assets at end of period		<u>€1,063,860</u>	<u>€370,788</u>
Net asset value per share		<u>€9.82</u>	<u>€4.94</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)

	Six Months Ended	
	30 June 2007	30 June 2006
Operating activities:		
Net increase in net assets resulting from operations	€ 52,844	€ 427
Adjustment to reconcile net increase (decrease) in net assets resulting from operations to net cash used in operating activities:		
Net appreciation of investments	(11,853)	(1,204)
Net gains on investments	(2,321)	(202)
Accretion of deferred fee income	(2,009)	(39)
Collection of loan origination fees	3,469	813
Amortisation of deferred finance costs	712	254
Amortisation of prepaid management fees and contra equity	6,673	1,033
Increase in interest receivable and payment in kind interest	(4,039)	(5,798)
Payment-in-kind and dividend income	(30,480)	(6,878)
(Increase) decrease in other assets ⁽¹⁾	(56,191)	639
Increase (decrease) in other liabilities	7,395	(324)
Foreign exchange movements	(4,282)	3,125
Used in operating activities	<u>(40,082)</u>	<u>(8,154)</u>
Investing activities:		
Purchases of investments	(949,853)	(327,652)
Principal repayments	449,910	62,193
Collection of payment-in-kind interest and dividends	13,099	143
Proceeds from sale of equity instruments	9,304	2,467
Used in investing activities	<u>(477,540)</u>	<u>(262,849)</u>
Financing activities:		
Draws on revolving credit facility, net	124,497	219,118
Proceeds from senior unsecured debt issuances	57,866	-
(Repayments to) affiliates, net	1,805	(26,715)
Increase in deferred financing costs	(474)	(2,035)
Issuance of share capital	293,478	209,882
Purchase of common stock held in deferred compensation trust	(745)	(2,397)
Distributions paid	(37,500)	-
Provided by financing activities	<u>438,927</u>	<u>397,853</u>
Net (decrease) increase in cash and cash equivalents	(78,695)	126,850
Foreign exchange movements	112	137
Cash and cash equivalents at beginning of period	85,932	2,091
Cash and cash equivalents at end of period	<u>€ 7,349</u>	<u>€ 129,078</u>
Supplemental Disclosures:		
Cash paid for interest	13,499	-
Cash paid for taxes	-	-

(1) Other assets include restricted cash.

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

	Six Months Ended	
	30 June 2007	30 June 2006
Per Share Data (1):		
Net asset value at beginning of period	€ 9.92	€ 2.13
Net operating income	0.41	0.02
Net foreign currency appreciation (depreciation)	0.01	(0.01)
Net foreign currency gains (losses)	0.04	(0.03)
Net gain on investments	0.03	-
Net unrealised appreciation on investments	0.13	0.02
Net increase in net assets resulting from operations	0.62	-
Capital calls on preference shares	-	2.80
Issuance of ordinary shares	(0.08)	-
Distribution of net investment income	(0.31)	-
Other (2)	(0.33)	0.01
Net asset value at end of period	€9.82	€4.94
Ratios/Supplemental Data:		
Per share market value at end of period	€ 10.58	N/A (3)
Total return (4)	77.7%	N/A (3)
Shares outstanding at end of period	108,364	75,000
Net assets at end of period	€1,063,860	€370,788
Average net assets (5)	€904,007	€265,399
Average debt outstanding (6)	€483,196	€177,525
Average debt per share	€4.46	€2.37
Ratio of operating expenses, net of interest expense, to average net assets	3.23%	5.47%
Ratio of interest expense to average net assets	1.68%	1.47%
Ratio of operating expenses to average net assets	4.91%	6.94%
Ratio of net operating income to average net assets	3.80%	0.81%

(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. This includes costs related to the IPO.

(3) No market value is shown for 30 June 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 over the period specified or since IPO if shorter.

(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.

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

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

Company (2)	Country of incorporation	Industry	Investments	Shares	Principal €	Cost (4) €	Fair value (4) €
Acartia Limited	UK	Personal Products	Senior Debt (3)		7,434	7,438	7,438
			Subordinated Debt (3)		44,780	44,759	45,059
						52,197	52,497
Aibel Limited	Norway	Energy Equipment & Services	Subordinated Debt (3)		22,407	22,633	22,603
Amsterdamsche Beheer en consultingmaatschappij B.V. (Casema)	The Netherlands	Media	Subordinated Debt (3)		10,114	10,313	10,313
AS Equity S.A.S. (Action Sports Holding)	France	Specialty Retail	Subordinated Debt (3)		6,304	6,417	6,417
			Convertible Bonds		5,995	6,090	6,091
			Common Stock (1)	342,009		3,420	3,232
						15,927	15,740
Aster 1 S.A. (Flint Group)	Luxembourg	Chemicals	Senior Debt (3)		9,143	9,208	9,148
			Subordinated Debt (3)		12,511	12,965	12,521
						22,173	21,669
Autodis S.A.	France	Automobile	Senior Debt (3)		6,000	6,132	6,132
			Subordinated Debt (3)		20,020	20,790	20,790
						26,922	26,922
AV Acquisitionco 1 Ltd (Avery-Weigh Tronix)	UK	Machinery	Subordinated Debt (3)		11,459	11,619	11,619
			Pref. Common Stock (5)		37,688	38,653	39,570
			Common Stock (1)	1,335,931		970	993
						51,242	52,182
Bellotto Holdings Limited (Hillarys Blinds)	UK	Household Durables	Subordinated Debt (3)		33,689	33,740	33,829
			Pref. Common Stock (5)		92,883	92,207	92,922
			Common Stock (1)	479,240		705	713
						126,652	127,464
B-Fly 2 AB (Hilding Anders)	Sweden	Household Durables	Subordinated Debt (3)		29,985	30,798	30,798
Black Lion Beverage III B.V (Orangina)	France	Beverages	Subordinated Debt (3)		7,764	8,107	8,107
Blitz F06-582 GmbH (Metall Technologie Holding)	Germany	Machinery	Subordinated Debt (3)		13,603	13,302	13,302
			Pref. Common Stock (5)		9,066	9,695	9,695
			Common Stock (1)	12,400,000		12,400	21,225
						35,397	44,222
Delsey Holdings S.A.S.	France	Textiles, Apparel & Luxury Goods	Senior Debt		120,000	118,414	118,414
Dionysos Leisure Entertainment Hotels and Tourism S.A. (Hyatt Regency Entertainment)	Luxembourg	Hotels, Restaurants & Leisure	Subordinated Debt		11,255	11,346	11,346
DMWSL 462 Ltd (Fitness First)	UK	Hotels, Restaurants & Leisure	Subordinated Debt (3)		31,058	32,988	31,783
			Common stock	1,063		1	2
			Warrants (1)	28,914		-	1,015
						32,989	32,800
Eaton Vance CDO X plc	-	Diversified Financial Services	CLO		6,510	6,678	6,678
European Seafood Investments 2 S.A.S (European Sea Food)	France	Food Products	Subordinated Debt (3)		6,294	6,397	6,397
FB Raphael 1 Ltd (Farrow & Ball)	UK	Chemicals	Subordinated Debt (3)		15,201	15,346	15,493
			Pref. Common Stock (5)		69,289	72,077	73,436
			Common Stock (1)	68,500		66	5,098
			Warrants (1)	4,058		-	302
						87,489	94,329
Ferretti SpA	Italy	Leisure Equipment & Products	Senior Debt (3)		4,000	4,086	4,086
			Subordinated Debt (3)		8,000	8,251	8,251
						12,337	12,337
Financière Cegelec	France	Construction & Engineering	Subordinated Debt (3)		12,669	13,029	13,029
Financière OFIC - Onduline	France	Construction Materials	Subordinated Debt (3)		20,862	20,864	20,864
			Warrants (1)	3,450,600		-	6,491
						20,864	27,355
Financière Poinsetia S.A.S. (Alliance)	France	Automobile	Senior Debt (3)		6,000	6,131	6,131
			Subordinated Debt (3)		13,000	13,755	13,755
						19,886	19,886
Financière Robin (Sud Robinetterie)	France	Oil, Gas & Consumable Fuels	Subordinated Debt (3)		30,000	30,005	30,005
			Warrants (1)	2,167,300		-	-
						30,005	30,005

See notes to the consolidated financial statements

EUROPEAN CAPITAL LIMITED
CONSOLIDATED SCHEDULE OF INVESTMENTS (UNAUDITED)
30 JUNE 2007

(in thousands, except share data)

Company (2)	Country of incorporation	Industry	Investments	Shares	Principal €	Cost (4) €	Fair value (4) €
Financière Tarmac (Batisanté)	France	Commercial Services & Supplies	Subordinated Debt (3)		40,000	42,698	42,698
			Convertible Bonds		1,100	1,181	1,181
			Common Stock (1)	3,900,000		3,900	588
			Warrants (1)	8,314,890		-	-
						47,779	44,467
Finartex S.A.S. (Vivarte)	France	Specialty Retail	Senior Debt (3)		8,000	8,005	8,005
Fincorp S.A.S. (Panoranet)	France	Commercial Banks	Subordinated Debt (3)		25,000	26,352	26,352
			Warrants (1)	227,125		-	-
						26,352	26,352
Foodco Pastries Spain SL (Telepizza)	Spain	Hotels, Restaurants & Leisure	Subordinated Debt (3)		5,545	5,565	5,565
Foodvest Ltd (Findus)	UK	Food Products	Senior Debt (3)		21,111	21,066	21,338
			Subordinated Debt (3)		18,223	17,637	18,541
						38,703	39,879
Gondola Finance 2 Limited	UK	Hotels, Restaurants & Leisure	Senior Debt (3)		14,868	14,959	15,342
			Subordinated Debt (3)		20,815	22,789	22,008
						37,748	37,350
IDH Acquisitions Ltd (IDH Group)	UK	Health Care Providers & Servicers	Subordinated Debt (3)		14,282	14,953	14,689
Liberator Midco Ltd (Iglo Birdseye)	UK	Food Products	Subordinated Debt (3)		10,393	10,193	10,503
Lyparis SA (Go Voyages)	France	Hotels, Restaurants & Leisure	Subordinated Debt (3)		45,000	45,843	45,843
			Pref. Common Stock		8,477	8,693	8,693
			Common Stock	173,266		1,733	1,733
			Warrants (1)	124,500		-	-
						56,269	56,269
Mail Acquisitions Holdings Ltd (DX Services)	UK	Commercial Services & Supplies	Senior Debt (3)		16,354	15,664	16,365
			Subordinated Debt (3)		44,090	43,784	44,125
						59,448	60,490
Materis S.A.S (Materis)	France	Construction Materials	Senior Debt (3)		9,000	9,134	9,134
			Subordinated Debt (3)		9,411	9,627	9,627
						18,761	18,761
Matinvest 2 S.A.S (Deutsche Connectors)	France	Electronic Equipment & Instruments	Senior Debt (3)		2,226	2,278	2,242
			Subordinated Debt (3)		4,268	4,489	4,283
						6,767	6,525
Miles 33 Limited	UK	Media	Senior Debt (3)		53,524	53,425	53,862
			Pref. Common Stock (5)		28,992	29,029	29,266
			Common Stock (1)	600,000		883	892
						83,337	84,020
Mobipark S.A.S. (Parkeon)	France	Machinery	Subordinated Debt (3)		6,000	6,030	6,030
			Warrants (1)	696,000		-	-
						6,030	6,030
Moeller Holding GmbH	Germany	Electronic Equipment & Instruments	Senior Debt (3)		3,300	3,356	3,356
			Subordinated Debt (3)		3,823	3,890	3,890
						7,246	7,246
MP Equity S.A.S. (Marco Polo Foods)	France	Food Products	Subordinated Debt (3)		9,365	9,721	9,721
			Convertible Bonds		3,965	4,075	4,075
			Common Stock (1)	379,610		3,796	6,780
						17,592	20,576
Oak Luxco S.C.A. (Nybron Flooring International)	Switzerland	Construction Materials	Senior Debt (3)		9,000	9,257	9,257
			Subordinated Debt (3)		21,217	20,513	11,185
						29,770	20,442
Opica AB (Capio)	Sweden	Health Care Providers & Servicers	Senior Debt (3)		5,000	5,036	5,037
PKS Media (Netherland) II B.V. (SBS Broadcasting)	The Netherlands	Media	Senior Debt		4,250	4,252	4,252
			Subordinated Debt (3)		10,261	10,268	10,268
						14,520	14,520
Poult Holding S.A.S.	France	Food Products	Senior Debt		1,000	1,035	1,035
			Subordinated Debt		11,500	12,274	12,274
						13,309	13,309

See notes to the consolidated financial statements

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

Company (2)	Country of incorporation	Industry	Investments	Shares	Principal €	Cost (4) €	Fair value (4) €
Redwing Holdings 2 Limited (Capital Safety)	UK	Machinery	Senior Debt (3)		12,987	13,030	12,994
			Subordinated Debt		13,025	13,050	13,035
						26,080	26,029
Scaffi SAS (Entrepose)	France	Real Estate Management & Development	Subordinated Debt (3)		7,500	7,650	7,650
			Warrants (1)	197,850	-	-	-
						7,650	7,650
Spotless Group S.A.S. (Eau Ecarlate, Guaber, Punch, Eparcy)	France	Household Products	Subordinated Debt (3)		87,125	91,068	91,069
			Convertible Bonds		7,332	7,703	7,703
			Common Stock (1)	2,673,188		2,673	7,202
			Warrants (1)	1,433,922		120	814
					101,564	106,788	
Terreal Holding S.A.S.	France	Construction Materials	Subordinated Debt (3)		-	100	100
			Warrants (1)	1,679,470	-	-	-
						100	100
Thor Norway Topco AS (UPC Norway)	Norway	Media	Senior Debt (3)		24,218	24,912	24,912
			Subordinated Debt (3)		24,000	24,157	24,157
						49,069	49,069
Tokheim Holding S.A.	France	Specialty Retail	Senior Debt (3)		7,000	7,098	7,098
			Subordinated Debt (3)		7,426	7,719	7,719
						14,817	14,817
Veveo Coating B.V. (SigmaKalon)	The Netherlands	Chemicals	Senior Debt (3)		10,000	10,005	10,005
			Subordinated Debt (3)		25,161	26,169	26,169
						36,174	36,174
Whisky Hold Co Ltd (Whitworths Group)	UK	Food Products	Subordinated Debt (3)		20,815	22,612	21,383
			Pref. Common Stock (5)		54,631	58,742	58,696
			Common Stock (1)	798,107		1,188	1,186
						82,542	81,265
Total Investment Assets (151% of net assets)						1,587,174	1,607,020

(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) 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 unrealised appreciation/(depreciation) and unrealised foreign currency gains/(losses) 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 €	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
Amsterdamse 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
			Pref. 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
			Pref. 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
			Pref. 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. (Panorantet)	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 (Iglo 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 €	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 (Netherland) 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) 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 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 unrealised appreciation/(depreciation) and unrealised foreign currency gains/(losses) 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.

See notes to the consolidated financial statements

EUROPEAN CAPITAL LIMITED
NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
(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, an investment company incorporated in Luxembourg. Through this company 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 65.4% 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 accompanying interim 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 interim 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 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 specialized 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 is the beginning of the first fiscal year beginning on or after 15 December 2007, with early application encouraged. We did not early adopt SOP 07-1. Management has 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 accounting pronouncements that require or permit fair value measurements and does not require any new fair value measurements. However, it is possible that the application of this statement will change current practice with respect to the definition of fair value, the methods used to measure fair value and the expanded disclosures about fair value measurements. The fair value option established by this statement permits all entities to choose to measure eligible items at fair value at

EUROPEAN CAPITAL LIMITED
NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
(in thousands, except per share data)

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. Management has not yet assessed the impact on our financial statements of adopting SFAS No. 159.

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 recognized 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 recognizing previously unrecognized 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.

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 equity securities. Preferred equity 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 equity and are identified in the accompanying Consolidated Schedules of Investments.

As of 30 June 2007 one loan totalling €20,000 was on non-accrual status and no loans were past due (31 December 2006, nil).

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

	30 June 2007	31 December 2006
COST		
Senior debt	22.3%	17.4%
Subordinated debt	54.6%	61.9%
Convertible bonds	1.2%	1.7%
Preferred equity	19.5%	16.4%
Common equity	2.0%	2.6%
CDO/CLO securities	0.4%	-%
Equity warrants	-%	-%
	30 June 2007	31 December 2006
FAIR VALUE		
Senior debt	22.1%	17.1%
Subordinated debt	53.2%	61.7%
Convertible bonds	1.2%	1.7%
Preferred equity	19.5%	16.5%
Common equity	3.1%	2.6%
CDO/CLO securities	0.4%	-%
Equity warrants	0.5%	0.4%

EUROPEAN CAPITAL LIMITED
NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
(in thousands, except per share data)

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:

	<u>30 June 2007</u>	<u>31 December 2006</u>
COST		
Food Products	10.5%	19.5%
Media	9.9%	10.9%
Household Durables	9.9%	-%
Chemicals	9.2%	13.1%
Hotels, Restaurants & Leisure	9.1%	2.9%
Machinery	7.5%	8.6%
Textiles, Apparel & Luxury Goods	7.5%	-%
Commercial Services & Supplies	6.8%	12.2%
Household Products	6.4%	6.5%
Construction Materials	4.4%	7.8%
Personal Products	3.3%	-%
Automobile	2.9%	4.3%
Specialty Retail	2.4%	4.1%
Oil, Gas & Consumable Fuels	1.9%	-%
Commercial Banks	1.7%	2.4%
Energy Equipment & Services	1.4%	-%
Health Care Providers & Servicers	1.3%	1.3%
Electronic Equipment & Instruments	0.9%	1.3%
Construction & Engineering	0.8%	1.2%
Leisure Equipment & Products	0.8%	-%
Beverage	0.5%	0.7%
Real Estate Management & Development	0.5%	-%
Diversified Financial Services	0.4%	0.9%
Industrial Conglomerates	-%	2.3%
	<u>30 June 2007</u>	<u>31 December 2006</u>
FAIR VALUE		
Food Products	10.8%	19.4%
Media	9.8%	10.9%
Household Durables	9.8%	-%
Chemicals	9.5%	13.0%
Hotels, Restaurants & Leisure	8.9%	2.9%
Machinery	8.0%	8.7%
Textiles, Apparel & Luxury Goods	7.4%	-%
Household Products	6.6%	6.5%
Commercial Services & Supplies	6.5%	12.2%
Construction Materials	4.1%	8.2%
Personal Products	3.3%	-%
Automobile	2.9%	4.3%
Specialty Retail	2.4%	4.0%
Oil, Gas & Consumable Fuels	1.9%	-%
Commercial Banks	1.6%	2.3%
Energy Equipment & Services	1.4%	-%
Health Care Providers & Servicers	1.2%	1.3%
Electronic Equipment & Instruments	0.9%	1.3%
Construction & Engineering	0.8%	1.2%
Leisure Equipment & Products	0.8%	-%
Beverage	0.5%	0.7%
Real Estate Management & Development	0.5%	-%
Diversified Financial Services	0.4%	0.9%
Industrial Conglomerates	-%	2.2%

EUROPEAN CAPITAL LIMITED
NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
(in thousands, except per share data)

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 portfolio company's country of incorporation.

	30 June 2007	31 December 2006
COST		
United Kingdom	44.4%	42.7%
France	37.0%	37.9%
Norway	4.5%	3.4%
The Netherlands	3.9%	5.1%
Germany	2.7%	3.9%
Sweden	2.3%	-%
Luxembourg	2.1%	2.0%
Switzerland	1.9%	2.8%
Italy	0.8%	-%
Spain	0.4%	0.9%
Belgium	-%	1.3%

	30 June 2007	31 December 2006
FAIR VALUE		
United Kingdom	44.6%	42.5%
France	37.2%	38.2%
Norway	4.5%	3.4%
The Netherlands	3.8%	5.1%
Germany	3.2%	3.9%
Sweden	2.2%	-%
Luxembourg	2.1%	2.0%
Switzerland	1.3%	2.8%
Italy	0.8%	-%
Spain	0.3%	0.9%
Belgium	-%	1.2%

Note 4. Debt

Our debt obligations consisted of the following:

	30 June 2007	31 December 2006
Secured multicurrency revolving credit facility, €900,000	€ 496,919	€ 370,375
Senior unsecured debt, Series 2006-I, €52,000	52,609	52,039
Senior unsecured debt, Series 2007-I, \$37,500	28,751	-
Senior unsecured debt, Series 2007-II, \$37,500	28,495	-
Total	€ 606,774	€ 422,414

The weighted average debt balance for the six months ended 30 June 2007 and the six months ended 30 June 2006 was €541,661 and €177,525 respectively. The weighted average interest rate on all of our borrowings, excluding amortisation of deferred financing costs, for the six months ended 30 June 2007 and the six months ended 30 June 2006 was 6.03% and 3.53% respectively. We are currently 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.

EUROPEAN CAPITAL LIMITED
NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS (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 June 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 June 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. After the exercise of the warrant, issue of shares and redesignation to ordinary shares, ACAS' shareholding represents 65.4% of the total shares issued as of 30 June 2007.

EUROPEAN CAPITAL LIMITED
NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
(in thousands, except per share data)

Note 6. Earnings per Share

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

	Three Months Ended		Six Months Ended	
	30 June 2007	30 June 2006	30 June 2007	30 June 2006
Numerator for basic and diluted net operating income	€ 16,799	€ 3,683	€ 34,391	€ 2,144
Numerator for basic and diluted earnings	25,735	2,338	52,844	427
Denominator for basic and diluted weighted average shares	94,247	75,000	84,677	75,000
Basic and diluted net operating income per share	€ 0.18	€ 0.05	€ 0.41	€ 0.03
Basic and diluted earnings per share	€ 0.27	€ 0.03	€ 0.62	€ 0.00

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 was a required transaction 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 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 six months ended 30 June 2007 and 2006 are as follows:

	Three months ended		Six months ended	
	30 June 2007	30 June 2006	30 June 2007	30 June 2006
Management fee	€5,800	€2,344	€9,346	€4,688
Reimbursed expenses	3,573	3,506	11,393	8,382
Incentive fee	5,115	-	5,115	-
Total	€14,488	€5,850	€25,854	€13,070

EUROPEAN CAPITAL LIMITED
NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
(in thousands, except per share data)

Note 8. Related Parties

European Capital is managed by ECFSG, which is an indirect wholly owned affiliate of ACAS. ACAS owns 65.4% of the ordinary shares of European Capital Limited. ECFSG charged European Capital €25,854 and €13,070 for management and incentive fees and reimbursed expenses in the six months ended 30 June 2007 and 30 June 2006 respectively. The management and incentive fee payable at 30 June 2007 and 31 December 2006 was €5,352 and €3,568 respectively.

We have provided loans to certain employees of European Capital Financial Services Limited, an affiliate of the Investment Manager. The total amount outstanding at 30 June 2006 is €5,884 (31 December 2006: €5,999) and the interest earned on these loans was €143 and €120 for the six months ended 30 June 2007 and 30 June 2006 respectively.

During the six months ended 30 June 2007 and 30 June 2006 European Capital paid interest of €nil and €289 respectively to ACAS under various bridge notes issued during the year. At 30 June 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 five 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 June 2007 was €6,135 (31 December 2006: €6,199). The reduction for the fair value of this arrangement at 30 June 2007 was €252 (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 a depreciation of €49 (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.

Note 10. 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 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 was a required transaction to complete the IPO.

Independent Review Report to European Capital Limited

Introduction

We have been instructed by the company to review the financial information for the six months ended 30 June 2007 which comprises 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 1-10 to the interim consolidated financial statements. We have read the other information contained in the interim report and considered whether it contained any apparent misstatement or material inconsistencies with the financial information.

Directors' responsibilities

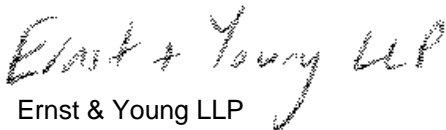
The interim report, including the financial information contained therein, is the responsibility of, and has been approved by the directors. The directors are responsible for preparing the interim report in accordance with the Listing Rules of the Financial Services Authority which require that the accounting policies and presentation applied to the interim figures should be consistent with those applied in preparing the preceding annual accounts except where any changes, and the reason for them, are disclosed.

Review work performed

We conducted our review in accordance with guidance in Bulletin 1999/4 issued by the Auditing Practices Board for use in the United Kingdom. A review consists primarily of making enquires of management and applying analytical procedures to the financial information and underlying financial data and based thereon, assessing whether the accounting policies and presentation have been consistently applied unless otherwise disclosed. A review excludes audit procedures such as test of controls and verification of assets, liabilities and transactions. It is substantially less in scope than an audit performed in accordance with United Kingdom Auditing Standards and therefore provides a lower level of assurance than an audit. Accordingly we do not express an audit opinion on the financial information.

Review conclusion

On the basis of our review we are not aware of any material modification that should be made to the financial information as presented for the six months ended 30 June 2007.



Ernst & Young LLP
Guernsey, Channel Islands
21 August 2007

Investment Portfolio and Activity

As at 30 June 2007, the overall valuation of the portfolio was €1,607,020 (31 December 2006: €1,077,709). This was made up of 50 portfolio companies (31 December 2006: 36) consisting of:

- (i) European Capital Sponsored Buyouts—providing debt and equity financing as the lead investor in the buyout of private and public companies. For One-Stop Buyouts™, European Capital provides equity, senior debt and mezzanine debt;
- (ii) Mezzanine Direct with Sponsors—providing debt and equity financing for buyouts sponsored by private equity firms where European Capital is either the sole or lead mezzanine debt investor;
- (iii) Syndicated Mezzanine and Senior Debt—providing 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; and
- (iv) Direct Investments—providing debt and equity financing directly to private and public companies, which is used for growth, acquisitions or recapitalisations, and investing in structured finance vehicles such as collateralised debt obligations and collateralised loan obligations.

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 six months ended 30 June 2007, European Capital invested a total of €876,546 in 21 new portfolio companies (30 June 2006: €327,652 in 13 companies) and €97,083 in 6 follow-on investments in four portfolio companies.

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

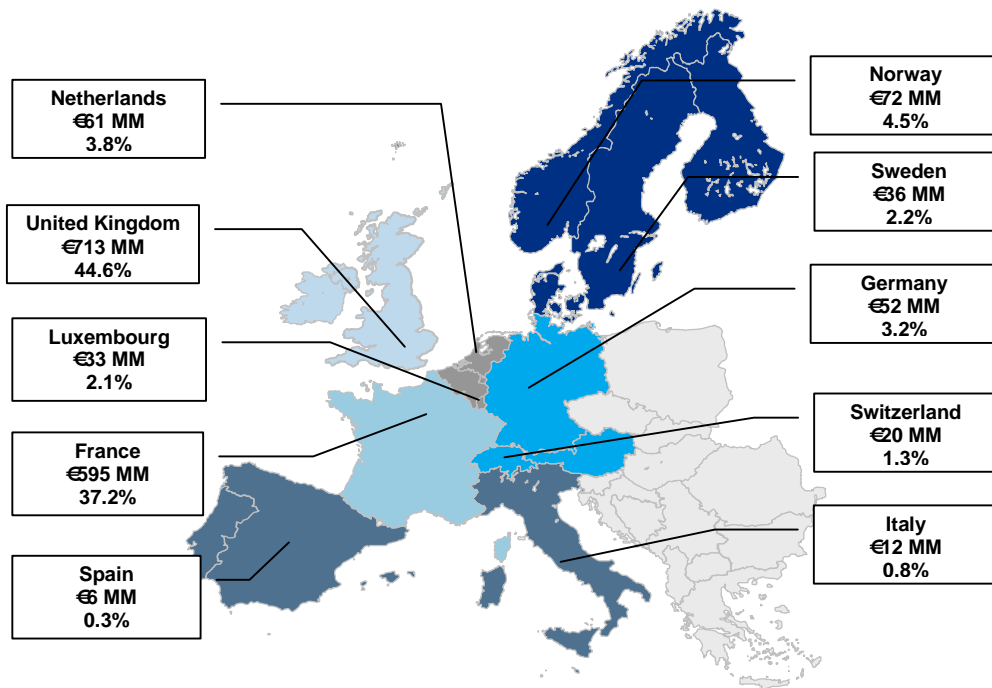
	Three months ended		Six months ended	
	30 June 2007	30 June 2006	30 June 2007	30 June 2006
European Capital Sponsored Buyouts	€420,636	€	€420,636	€28,200
Financing for Sponsored Buyouts	194,719	137,103	449,400	299,452
Add-On Financing for Acquisitions	15,471	-	27,555	-
Add-On Financing for Recapitalisations	69,528	-	69,528	-
CDO/CLO Investments	6,510	-	6,510	-
Total	€706,864	€137,103	€973,629	€327,652

See pages 15 to 16 for analysis of the portfolio and pages 9 to 13 for a schedule of all portfolio companies as at 30 June 2007 and 31 December 2006.

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

	Three months ended		Six months ended	
	30 June 2007	30 June 2006	30 June 2007	30 June 2006
Principal Repayments	€85,634	€51,306	€235,878	€51,306
Senior Loan Syndications	214,032	11,000	214,032	11,000
Repayment of Accrued PIK Interest and Dividends	5,894	-	13,099	-
Sale of Equity Instruments	2,322	2,497	9,304	2,497
Total	€307,882	€64,803	€472,313	€64,803

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 portfolio company's country of incorporation.

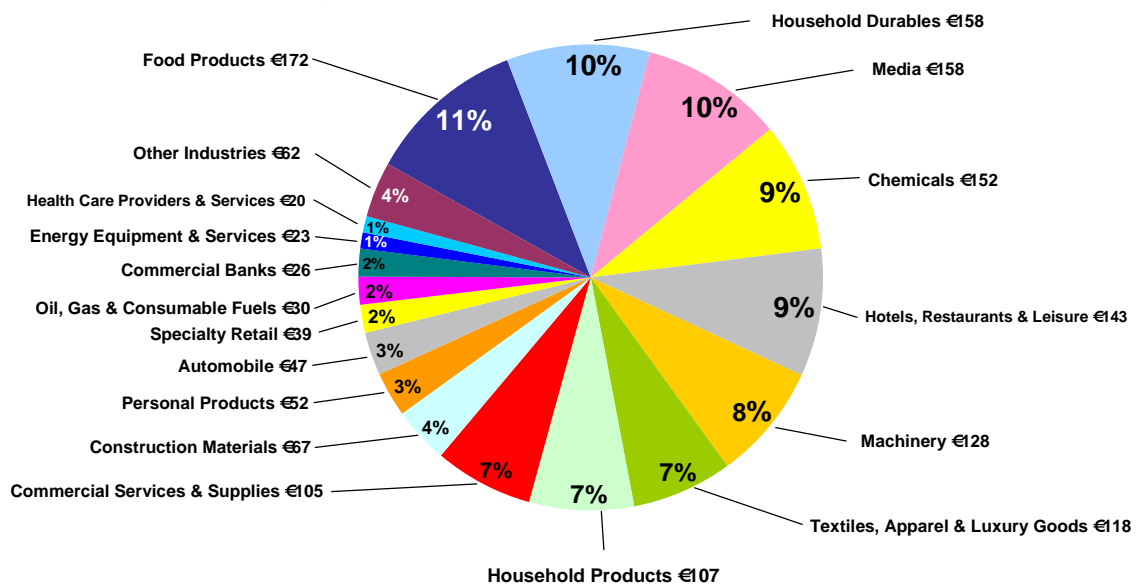


We use the Global Industry Classification Standard for classifying the industry groupings of our portfolio companies. The following chart shows the portfolio composition by industry grouping at fair value as a percentage of total investments.

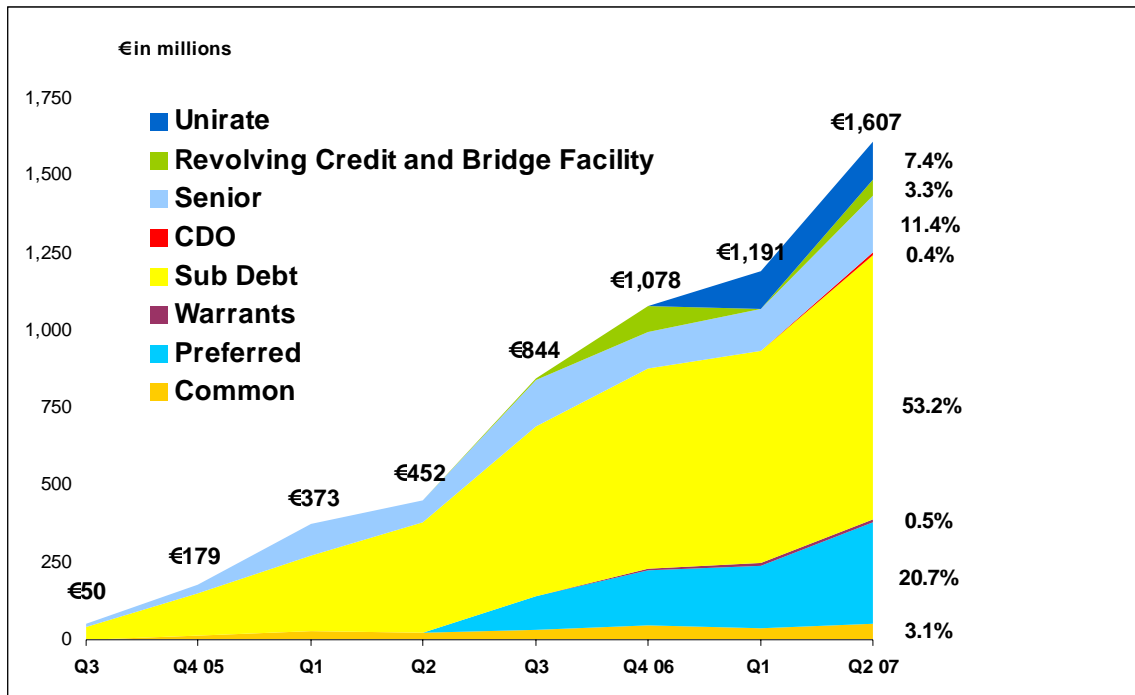
Industry Diversification

€1.6 Billion Total Assets at Fair Value

Global Industry Classification Standard (GICS)



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



Top Ten Investments

Trading Name of Company ¹	Date of investment	Type of transaction	Description	Cost ²	Directors' valuation ²
Hillarys Blinds	Jun 2007	One-Stop Buyout™	Leading provider of made-to-measure window blinds	€126,652	€127,464
Delsey	Feb 2007	Direct Mezzanine	Luggage manufacturer	118,414	118,414
Spotless Group	Nov 2005	One-Stop Buyout™	Supplier of branded fabric care products to the French market	101,564	106,788
Farrow & Ball	Jul 2006	One-Stop Buyout™	International market leader in luxury decorative paints	87,489	94,329
Miles 33	Jun 2007	One-Stop Buyout™	Leading provider of software to the publishing and financial services sectors	83,337	84,020
Whitworths	Oct 2006	One-Stop Buyout™	Dried fruit business	82,542	81,265
DX Services	Oct 2006	Syndicated Mezzanine	Independent mail network & delivery of credit cards/passports to customers	59,448	60,490
Go Voyages	March 2007	Direct Mezzanine	Travel agency	56,269	56,269
Accantia	Jun 2007	Direct/Syndicated Mezzanine	Supplier of skincare, toiletry and cosmetic products	52,197	52,497
Avery	Jul 2006	One-Stop Buyout™	Designer and manufacturer of weighing equipment and solutions to industrial and food retail customers worldwide	51,242	52,182
			Total	€19,154	€33,718
			Percentage of portfolio	51.6%	51.9%

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. 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) of investments and foreign currency appreciation/(depreciation) in the consolidated statement of operations.

Portfolio Credit Quality

Loan Performance

At 30 June 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 June 2007	Portfolio Companies	31 December 2006
Current	49	€ 1, 200,498	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	20,000	-	-
Total	50	€ 1,220,498	36	€ 849,189
Past Due and Non-accruing Loans as a Percent of Total Loans		1.6%		0.0%

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

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 June 2007.

Portfolio Information ^{(1) (9)}

	2005	2006	2007	Aggregate
Internal Rate of Return – All Investments ^{(2) (8)}	16.0 %	16.7 %	16.8 %	16.5 %
Internal Rate of Return – Equity Investments only ^{(2) (8) (10)}	38.6 %	26.1 %	14.6 %	27.4 %
Original Investments and Commitments ⁽⁸⁾	€ 237,436	€ 1,201,561	€ 876,545	€ 2,315,542
Total Exits and Prepayments of Original Investments ⁽⁸⁾	€ 42,624	€ 519,175	€ 220,147	€ 781,946
Total Interest, Dividends and Fees Collected ⁽⁸⁾	€ 23,269	€ 72,786	€ 12,239	€ 108,294
Total Net Gains on Investments	€ 202	€ 3,666	€ -	€ 3,868
Current Cost of Investments	€ 210,184	€ 716,901	€ 660,089	€ 1,587,174
Current Fair Value of Investments	€ 218,203	€ 727,409	€ 661,408	€ 1,607,020
Net Appreciation	€ 9,212	€ 7,765	€ -	€ 16,977
Non-Accruing Loans at Face	€ -	€ 20,000	€ -	€ 20,000
Non-Accruing Loans at Fair Value	€ -	€ 10,672	€ -	€ 10,672
Equity Interest at Fair Value	€ 27,590	€ 227,784	€ 134,219	€ 389,593
Debt to EBITDA ⁽³⁾⁽⁴⁾	5.4	6.2	7.7	6.7
Interest Coverage ⁽³⁾	4.6	2.8	1.8	2.6
Debt Service Coverage ⁽³⁾	2.9	1.8	1.5	1.8
Average Age of Companies	90 years	91 years	43 years	71 years
Ownership Percentage	8.2 %	31.2 %	18.8 %	23.0 %
Average Sales ⁽⁵⁾	€ 683,128	€ 439,931	€ 241,330	€ 391,385
Average EBITDA ⁽⁶⁾	€ 107,174	€ 58,404	€ 41,779	€ 58,193
Average EBITDA margin ⁽⁶⁾	15.7 %	13.3 %	17.3 %	14.9 %
Total Sales ⁽⁵⁾	€ 5,449,825	€ 15,841,798	€ 6,236,113	€ 27,527,736
Total EBITDA ⁽⁶⁾	€ 900,347	€ 2,278,421	€ 1,348,135	€ 4,526,903
% of Senior Loans ⁽⁷⁾	9 %	22 %	44 %	29 %
% of Loans with Lien ⁽⁷⁾	100 %	100 %	95 %	98 %

(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.

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 six months ended 30 June 2007.

	Three months ended		Six months ended	
	30 June 2007	30 June 2006	30 June 2007	30 June 2006
Interest and dividend income	€39,680	€12,557	€73,962	€19,543
Fee and other income	1,737	(146)	5,027	1,020
Total operating income	41,417	12,411	78,989	20,563
Interest expense	(8,264)	(2,389)	(15,204)	(3,896)
Management fee and reimbursed expenses	(9,373)	(5,850)	(20,739)	(13,070)
Incentive management fee expense	(5,115)	-	(5,115)	-
General and administrative expenses	(1,831)	(489)	(3,361)	(1,453)
Provision for income taxes	(35)	-	(179)	-
Net operating income	16,799	3,683	34,391	2,144
Net foreign currency gains (losses)	5,775	(1,345)	4,279	(3,123)
Net gains on investments	2,321	202	2,321	202
Net appreciation (depreciation) of investments	840	(202)	11,853	1,204
Net earnings	€25,735	€2,338	€52,844	€427

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		Six months ended	
	30 June 2007	30 June 2006	30 June 2007	30 June 2006
Interest income on senior debt	€8,080	€1,880	€13,493	€2,702
Interest income on subordinated debt	23,716	10,326	46,440	16,180
Total interest on debt securities	31,796	12,206	59,933	18,882
Dividend income	7,089	247	12,607	439
Bank interest income	795	104	1,422	222
Total interest and dividend income	€39,680	€12,557	€73,962	€19,543

	Three months ended		Six months ended	
	30 June 2007	30 June 2006	30 June 2007	30 June 2006
Interest income on total debt	€31,796	€12,206	€59,933	€18,882
Average debt outstanding	€1,064,193	€401,183	€986,871	€322,643
Annualised yield¹	12.0%	12.2%	12.1%	11.7%
Dividend income	€7,089	€247	€12,607	€439
Average equity outstanding	€284,052	€26,251	€259,584	€22,585
Annualised yield	10.0%	3.8%	9.7%	3.8%

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		Six months ended	
	30 June 2007	30 June 2006	30 June 2007	30 June 2006
Transaction structuring fees	€-	€-	€-	€753
Loan financing fees	150	(158)	1,725	216
Prepayment fees	1,251	-	2,479	-
Administration fees and other fees	336	12	823	51
Total fee income	€1,737	€(146)	€5,027	€1,020

In the six months ended 30 June 2007, European Capital recorded €nil in transaction structuring fees. (30 June 2006: €753 for 1 sponsored buyout totalling €28,200 of financing).

Loan financing fees arose on new debt investments totalling €227,000 (30 June 2006: €216 on €77,072 of new investments). European Capital receives loan fees that are representative of additional yield, which are deferred as a discount and accreted into interest income and not recorded as fee income.

The prepayment fees of €2,479 are the result of the prepayment by 7 portfolio companies of loans totalling €155,645. (30 June 2006: €nil).

¹ Yields are calculated using a monthly average debt balance

Interest

Interest expense has increased over the year due both to an increase in European Capital's weighted average borrowings to €541,661 for the six months ended 30 June 2007 from €177,525 for the six months ended 30 June 2006 and to an increase in European Capital's weighted average interest rate on outstanding borrowings, excluding amortisation of deferred financing costs, to 6.03 per cent. for the six months ended 30 June 2007 from 3.53 per cent. for the six months ended 30 June 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 annualised 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 six months ended 30 June 2007 and 2006 are as follows:

	Three months ended		Six months ended	
	30 June 2007	30 June 2006	30 June 2007	30 June 2006
Management fee	€5,800	€2,344	€9,346	€4,688
Reimbursed expenses	3,573	3,506	11,393	8,382
Incentive fee	5,115	-	5,115	-
Total	€14,488	€5,850	€25,854	€13,070

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 fees in the three months ended 30 June 2006 primarily related to legal fees due to the set up of European Capital. The increase between the six months ended 30 June 2006 and the comparable period in 2007 primarily relates to increases in legal fees, accounting and audit fees and non-reimbursable transaction expenses.

Net foreign currency gains (losses)

A number of investments in portfolio companies are denominated in a currency other than the euro, primarily the US dollar and the pound sterling. Upon exit of these investments, an element of the gain (loss) will be due to currency fluctuations against the euro. The main reason for the gains recognized in the period is the sale or repayment of investments denominated mainly in pound sterling that were invested when the euro was stronger against the pound sterling. There are also other assets and liabilities denominated in currencies other than the euro or pound sterling. Fluctuations in exchange rates therefore impact the financial condition and results of operations, as reported in euros.

Net gains on investments

During the six months ended 30 June 2007, European Capital sold its warrants in TSL Education Acquisition Ltd for proceeds of €2,321, realising a gain of the same amount.

During the six months ended 30 June 2006, European Capital sold a portion of its common stock investment in MP Equity S.A.S. for €740 in proceeds realising a total gain of €202 offset by a reversal of appreciation of €202.

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	Six months ended 30 June 2007	Number of companies	Six months ended 30 June 2006
Gross appreciation of portfolio company investments	6	€25,390	1	€1,204
Gross depreciation of portfolio company investments	3	(13,488)		-
Non-recourse loans		(49)		-
Total		€11,853		€1,204

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 as well as 3 series of unsecured debt.

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.

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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