Reconstruction Capital II Ltd

("RC2" or the "Fund")

Quarterly Report

December 31st, 2010

neweuropecapital

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Statistics

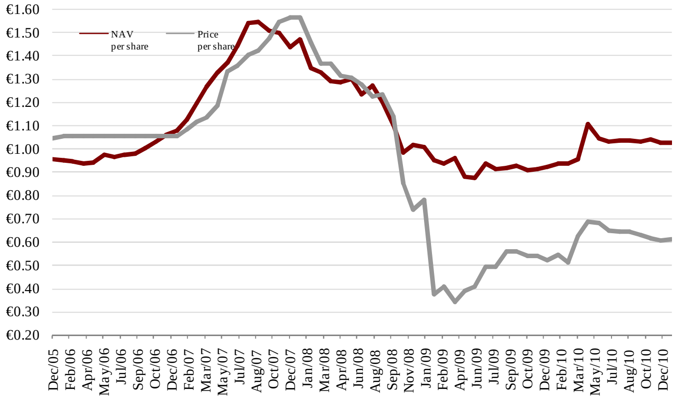
NAV per share (€)	1.0264
Share price (€)	0.6125
Total NAV (€ m)	102.6
Mk Cap (€ m)	61.3
# of shares (m)	100.0
NAV return since inception	7.31%
12-month NAV CAGR	11.07%
NAV annualized Return*	1.42%
NAV annualized Volatility*	14.39%
Best month (NAV)	15.60%
Worst month (NAV)	-10.52%
# of months up (NAV)	34
# of months down (NAV)	26

** since inception*

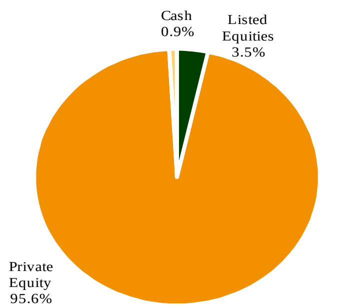
RC2 NAV returns

	2007	2008	2009	2010
Jan	4.70%	-8.27%	-5.65%	1.36%
Feb	6.17%	-1.48%	-1.51%	0.03%
Mar	5.90%	-3.03%	2.39%	2.07%
Apr	5.05%	-0.26%	-8.40%	15.60%
May	3.08%	0.93%	-0.26%	-5.42%
Jun	5.19%	-4.75%	3.08%	-1.57%
Jul	6.93%	2.85%	1.08%	0.53%
Aug	0.22%	-5.55%	0.23%	0.07%
Sep	-2.50%	-8.34%	1.20%	-0.62%
Oct	-0.69%	-10.52%	-1.79%	0.96%
Nov	-4.09%	3.03%	0.46%	-1.15%
Dec	2.46%	-0.60%	1.08%	-0.06%
YTD	36.74%	-31.43%	-8.38%	11.07%

Share price / NAV per share (€)

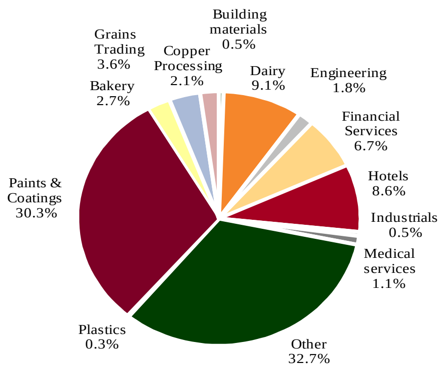


Portfolio Structure by Asset Class



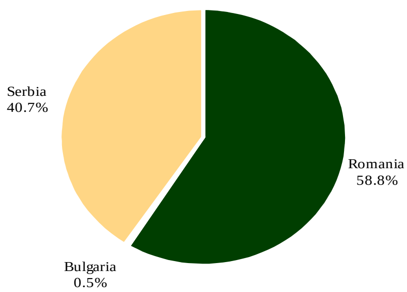
Note: Cash equivalents included under Cash

Equity Portfolio Structure by Sector



Note: EPH investment included under Other

Portfolio Structure by Geography



Note: EPH investment included under Serbia

Message from the Investment Manager and Advisers

Dear Shareholders

RC2's NAV per share was almost unchanged over the last quarter of 2010, ending the year at €1.0264, whilst the share price fell by 2.8%, resulting in the discount to NAV widening from 38.8% to 40.3%.

During the fourth quarter, important milestones were achieved in the turnaround of East Point Holdings ("EPH"):

1. After lengthy negotiations between EPH, the lenders to its distressed River Shipping business and Ferrexpo, the largest user of its services, an agreement governing the disposal of this business was signed on December 15. The deal, which closed in early January 2011, removed approximately €68m of senior debt from EPH's balance sheet.
2. In December, an agreement with CHS Inc., a US-based agricultural commodities and energy company, was signed to dispose of EPH's Agribusiness for a total consideration of €45m. This deal also closed in January 2011.

On completion of these transactions, EPH's non-trade related bank borrowings fell from €135m to €68m.

Operating in a difficult environment due to the 5% VAT increase in Romania, and decreased construction activity in both Romania and Bulgaria, Policolor generated €70.6m of operating revenues, a year-on-year decrease of only 4%, but its gross margin suffered due to a general increase in raw material prices which it was not fully able to pass on to its customers. Consequently, the EBITDA margin fell from 12.3% in 2009 to 7.7% in 2010.

In January 2011, Albalact announced the sale of its dairy farm to a Dutch company for €4.7m., with completion expected to take place by the end of March 2011. We view this as a positive development, as the dairy farm is not a core business for Albalact and the sale will allow it to improve its cash position and pay down debt.

Top Factoring continued to experience strong growth, with revenues increasing from €1.6m in 2009 to €2.7m in 2010, and the EBITDA increasing fourfold from €97,000 to €381,000, helped by the lower cost of receivables packages, a more efficient collection process, and better cost controls.

Mamaia Resort Hotels' sales were slightly higher at €1.6m, with the Hotel's new conference centre, finalized in April, generating €0.5m of revenues in 2010. However, the bottom line improved only slightly compared to the previous year, mainly due to the recession in Romania hitting the local tourism industry particularly badly.

At the end of December, the Fund, which has no gearing, had cash and cash equivalent balances of approximately €0.9m, compared to €2.1m on 30 September.

Yours truly,

New Europe Capital

East Point Holdings Ltd

Background

East Point Holdings Ltd ("EPH" or the "Group") is a Cyprus-based holding company with significant business interests across South East Europe in which RC2 acquired a 21.3% shareholding in 2008. In April 2010, RC2 increased its shareholding to 42% in exchange for waiving certain claims against EPH's other shareholders for zero consideration. At the same time, Darby, the private equity arm of Franklin Templeton Investments, exchanged a mezzanine loan for 24.7% of EPH's equity. EPH operates along the following main business lines: Copper Processing, Cable Production, Bakeries, Milling, Real Estate and Other. In March 2010, RC2 acquired an 11.1% shareholding in Klas DOO ("Klas"), the holding company for EPH's Bakeries business, for €2.7m. In June 2010, RC2 acquired 3.9% of the share capital of Agri Point Ltd ("Agri Point") for €1.6m and a further 5.5% in December 2010 for €2.2m. In November 2010, RC2 acquired a 49.9% shareholding in East Point Metals Ltd ("EPM") for a total consideration of €2.2m. Both the Agri Point and EPM sales were used to provide bridge financing to EPH and EPH's subsidiaries, and EPH has retained the right to buy the shareholdings back.

Recent Developments

As announced previously, an agreement governing the sale of EPH's distressed and highly indebted River Shipping business was signed in December, with the sale closing in January 2011. The sale reduces EPH's consolidated senior debt by €68m. As part of the transaction, EPH had to pay a "top-up" amount of €8m to the division's creditors, and a further €6.8m is payable over five years.

EPH also sold its Agribusiness (Cereals Trading and Storage) to CHS Inc., a US agricultural commodities and energy group, for a total consideration of €45m. The proceeds of this sale are being used to (1) continue deleveraging the Group, (2) improve the working capital position of the remaining businesses, and (3) meet the CAPEX needs and obligations of Novkabel, EPH's recently-acquired cable manufacturing business.

Prior to the two disposals, RC2 and Darby had provided bridge financing to the Group by buying shares in the Agribusiness and Copper Processing divisions, pro rata to their shareholdings in the Group. Accordingly, RC2 had acquired 9.4% of the Agribusiness for €3.8m and 49.9% of the Copper Processing Business for €2.2m. Both the transactions were governed by put and call arrangements with EPH, and in order to enable the sale of the Agribusiness, RC2 sold its shares in that business back to EPH in January 2011, thereby recovering €3.8m.

Financial Results

(EURm)	2008A	2009A*	11m2010 **
Income Statement (according to IFRS)			
Net Sales	**462.1**	**414.1**	**403.8**
Cost of Sales	(398.6)	(346.2)	(346.3)
Gross Profit	63.5	67.9	57.6
EBITDA	**17.5**	**14.2**	**9.0**
EBITDA margin (%)	*3.8%*	*3.4%*	*2.2%*
EBIT	**2.6**	**(1.5)**	**23.6**
EBIT margin (%)	*0.6%*	*-0.4%*	*5.8%*
Net interest (expenses)	(14.5)	(13.3)	(10.7)
FX gain (loss)	(6.4)	(6.1)	(8.3)
Share of profit (loss) of associates	0.2	(0.9)	(0.3)
Income/(loss) before taxes	**(18.1)**	**(21.8)**	**4.3**
Income tax (expense)/benefit	(0.5)	(1.3)	(1.0)
Net income/(loss)	**(18.6)**	**(23.1)**	**3.4**
Minority interest	0.4	1.7	2.4
Net income after minority interest	**(18.2)**	**(21.4)**	**5.7**

*Note: 2008 audited accounts; * unaudited management accounts;*
*** unaudited management accounts adjusted for Agribusiness and River Shipping disposal*

EPH's eleven months results reflect a substantial improvement over October and November 2010, with the EBITDA reaching €3.9m, compared to the €1.5m and €2.9m generated in the second and third quarters of 2010, respectively. However, the eleven month results show a considerable year-on-year fall, with the EBITDA reaching €9m, compared to €14.2m in 2009, mainly as a result of strong falls in the profitability of the Bakery and Copper Processing divisions.

The above results have been adjusted to reflect the sales of the Agribusiness and River Shipping divisions, but do not reflect the sale of shares in the Copper Processing division to RC2 and Darby, as EPH has an option to buy the shareholdings back, and the sale was primarily a means of providing a bridge loan to EPH prior to the inflow of funds from the successful exit from the Agribusiness.

Copper Processing

Driven by increased copper prices and a 5% year-on-year increase in volumes over the first eleven months of 2010, EPH's copper division achieved sales of €219m, a substantial increase over the €163m generated in 2009. The rise in copper prices during the second half of 2010 did not fully compensate for the accounting losses registered due to the fall in prices in the first half. The eleven month EBITDA amounted to €7.7m, compared to €8.4m generated over the full year 2009.

Cable Production

EPH's Cable Producer Novkabel experienced a strong pick-up in sales during October and November 2010, reaching a monthly average of €2.9m, compared to the €2.0m and €2.4m generated in the second and third quarters, respectively. 11 month sales reached €22.5m, compared to €19.5 for the whole of 2009, mostly due to increased sales on the Russian market and the copper price increase over the second half the year. The 11 month EBITDA, excluding a €1m one-off redundancy programme expense, was a negative €0.6m, a slight improvement over the negative €0.9m achieved in 2009. Out of the Agribusiness proceeds, €5.8m have been earmarked to be invested in the modernization of Novkabel's equipment, as part of an investment programme aimed at boosting output threefold to 20,000 tons. Most of the new equipment is expected to be installed in August 2011.

Bakeries

In spite of two price increases for its standard bread in August and November 2010 (of 15% and 8%, respectively, in dinar terms), this was not enough to offset the 90% increase in flour prices during the second half of 2010, and resulted in volumes falling by 12% year-on-year. The net result was a sharp fall in the EBITDA, from €2.8m in 2009 to practically breakeven at €65,000 over the first 11 months of 2010. In addition to its headcount reduction from 935 to 840 in 2010, management is preparing lay-offs of around 30 employees in the first quarter of 2011.

Milling

Despite a 6% fall in the eleven month volumes compared to the same period last year, EPH's milling division achieved a substantial increase in revenues, primarily due to a sharp increase in wheat and flour prices. The average monthly revenues rose from €0.8m and €1.3m during the second and third quarters, respectively, to €1.9m during October and November.

The Milling division achieved an impressive EBITDA margin of 20.3% in October and November, compared to 10.6% and 14.5% during the second and third quarters, respectively. Overall, the eleven month revenues reached €12.3m, compared to €11.3m in 2009, while the YTD EBITDA reached €1.9m, compared to €1.6m in 2009.

Policolor Group

Background

RC2 has a 40% shareholding in Policolor, the parent company of the Policolor Group ("Policolor" or the "Group"), the largest producer of coatings (architectural, automotive and industrial) in Romania and Bulgaria, as well as a producer of insulation materials, resins and specialty chemicals. The Group comprises Policolor SA, an unlisted Romanian company, and Orgachim AD, its 71.1%-owned Bulgarian subsidiary which is quoted on the Bulgarian Stock Exchange.

Financial results

(EUR '000)	2008A*	2009A*	2010A**	2011B
Income statement (according to IFRS)				
Sales revenues	**100,632**	**71,792**	**67,027**	**79,170**
Other operating revenues	2,002	2,030	3,570	1,499
Total operating revenues	**102,634**	**73,822**	**70,597**	**80,669**
Total Operating Expenses	(105,678)	(70,609)	(68,652)	(74,914)
Operating profit	**(3,044)**	**3,213**	**1,945**	**5,755**
Operating margin	*-3.0%*	*4.4%*	*2.8%*	*7.1%*
EBITDA	**2,619**	**9,078**	**5,411**	**9,091**
EBITDA margin	*2.6%*	*12.3%*	*7.7%*	*11.3%*
Financial Profit/(Loss)	(1,773)	(1,023)	(816)	(1,355)
Other extraordinary items			(2,420)	(100)
Profit before tax	**(4,818)**	**2,190**	**(1,290)**	**4,300**
Income tax	443	282	(1,045)	(570)
Profit after tax	**(4,375)**	**2,472**	**(2,335)**	**3,730**
Avg exchange rate (RON/EUR)	*3.683*	*4.237*	*4.210*	*4.200*

*Note: * IFRS (audited), ** IFRS (unaudited)*

Despite the difficult market conditions due to decreased activity in the construction sector, a change in consumers' preferences towards low-cost products, and the VAT rate rising by 5 percentage points over the summer in Romania, all contributing to an estimated 20% fall in the Romanian paints market (according to declarations by the Romanian Paint Producers' Association President), the Policolor Group achieved consolidated operating revenues of €70.6m, only 4% lower year-on-year. Nevertheless, the gross margin fell from 30% to 23%, mainly due to a generalised increase in raw material prices. Consequently, even though the Group decreased its headcount from 850 to 739 over the year, resulting in lower staff costs by 21%, and generally kept costs under tight control, the operating profit and EBITDA levels fell by 40% compared to the previous year.

Extraordinary costs below the EBITDA level amounted to €2.4m, made up of restructuring costs (€282,000), the write-down of the value of Orgachim's fixed assets (€764,000) and the write-off of buildings on the Policolor site which were demolished over the year (-€1.4m, including the demolition costs). The demolition of buildings on the site is necessary in order to offer the unused land for sale.

For 2011 the Group is budgeting an 18% increase in sales to €79m, with the increase coming mainly from the launch of new low-cost products, and a 68% increase in the EBITDA level from €5.4m to €9.1m. Investments in new equipment and marketing are budgeted at €3.5m for 2011.

Operations

Over the year, the Architectural business unit ("SBU") slightly improved its market share although its consolidated sales slid 11% from €31m the year before to €27.7m. In spite of this, the SBU managed to almost double its EBITDA from €2.3m to €4.3m. Over the year the SBU developed a new showroom concept and launched new paints with silver ions and a new range of paints for children. In 2011 the SBU aims to achieve a 15% increase in sales and a 14% increase in its EBITDA level.

The Industrial paints SBU achieved consolidated sales of €6.1m, down 5% compared to the previous year. The EBITDA margin fell from 9% to 7%. The SBU's budget for 2011 targets consolidated sales of €6.7m, and an EBITDA margin of 8%. In 2010 the Automotive SBU's sales fell from €8.4m to €5.6m (-33%), and the EBITDA turned negative (-€300,000). The SBU plans to achieve consolidated sales of €7.4m and an EBITDA of €1.3m in 2011.

Although the leader in wet plasters in both countries, the Thermo-Insulation SBU recorded net sales of €6.4m in 2010, 31% below the previous year's sales of €9.3m. Policolor has appointed a new manager and plans to increase sales in 2011 to €8.9m and to generate positive EBITDA.

The two chemicals divisions of the Group performed very well during the year. The Resins SBU achieved consolidated sales of €6m (41% higher than last year) and managed to increase its EBITDA from €736,000m to €1.1m. Meanwhile, the Specialty Chemicals (Anhydrides) SBU achieved annual sales of €14.9m (39% higher than last year) and reported an EBITDA of €581,000 compared to €355,000 in 2009. Both divisions are budgeting higher sales in 2011 of €6.3m and €17.6m, respectively.

The Group is preparing the further sale of non-core assets, including surplus real estate in Bucharest and Sofia. Policolor owns a 14 hectare site in the eastern periphery of Bucharest, which was valued by Colliers at €21.9m in February 2011. Only a small part of the site is used for its operations. The site is adjacent to a retail centre with "Metro" and "Real" hypermarkets as anchor tenants, and is located in front of an underground station, representing one of the best locations for the further expansion of large-scale retailers in Bucharest. As practically all the unused buildings on the site were demolished over 2010, the site is now being marketed to retailers and developers.

Albalact

Background

Albalact SA ("Albalact") is a Romanian dairy producer quoted on the RASDAQ section of the Bucharest Stock Exchange in which RC2 has acquired a 25.4% stake under its Private Equity Programme. A local entrepreneur and his family own 46.6%, with the remaining 28% representing the free float. With Albalact's market capitalization increasing by 2.4% over the quarter, RC2's shareholding in Albalact had a market value of €9.6m as at 31 December, compared to €9.4m at the end of the previous quarter.

Financial results

(EUR '000)	2008A*	2009A**	9M09***	9M10***
Income Statement				
Sales Revenues	**51,741**	**53,330**	**39,706**	**43,808**
Other operating revenues	2,496	1,557	1,434	1,964
Total Operating Revenues	**54,236**	**54,887**	**41,140**	**45,772**
Total Operating Expenses	(52,163)	(52,422)	(39,663)	(44,519)
Operating Profit	**2,074**	**2,465**	**1,478**	**1,253**
Operating margin	*3.8%*	*4.5%*	*3.6%*	*2.7%*
EBITDA	**4,856**	**5,489**	**4,534**	**3,643**
EBITDA margin	*9.0%*	*10.0%*	*11.0%*	*8.0%*
Financial Profit/(Loss)	(1,860)	(1,803)	(906)	(551)
Profit before Tax	**214**	**662**	**572**	**701**
Income Tax	(52)	(48)	(165)	(128)
Profit after Tax	**162**	**614**	**407**	**574**
Net margin	*0.3%*	*1.1%*	*1.0%*	*1.3%*
Avg exchange rate (RON/EUR)	*3.683*	*4.237*	*4.228*	*4.184*

*Note: * IFRS (audited), ** RAS (audited), *** RAS (unaudited)*

Albalact has not yet released its full 2010 results. An analysis of its nine month results was included in the September quarterly report.

Operations

In December, Albalact decided at a shareholder meeting not to merge with its 96%-owned subsidiary Raraul, as both companies would have had to refund grants they had received from the EU for making investments under the EU "SAPARD" programme. Under SAPARD rules, the merger can only take place towards the end of 2012 if the funding received to date is not to be jeopardized.

In January 2011, Albalact announced the sale of its dairy farm to a Dutch company for €4.7m. The transaction was approved by the company's shareholders in February, and completion is expected to take place by the end of March 2011. The new owner intends to double the farm's milk production in the next six months, and has entered into an exclusive supply agreement with Albalact.

We view this as a positive development, as the dairy farm is not a core business for Albalact, and the sale will allow it to improve its cash position and pay down its debts.

Market developments

According to a press statement by Muller Romania, the Romanian dairy market declined by 8.1% in value terms, and by 5.3% in volume terms, over 2010. Yoghurt was the only dairy product category which reported an increase in 2010, with consumption going up by 6.3% in volume terms, compared to 2009. Other categories such as milk, sour cream and butter, where Albalact is a leading player, went down both in terms of volumes and values.

In 2010, the marketplace was dominated by the fight between the main players to capture as much as possible consumers' diminished spending budgets, with the latter becoming increasingly price-sensitive, putting pressure on processors' profit margins.

Prospects

The main players expect the diary market to either stagnate or to increase slightly in 2011, while consumers will continue to focus on price as their main acquisition criteria. In 2011, Albalact intends to focus on strengthening its leadership position in milk, as well as on gaining market share in yoghurts and cheese. Albalact expects to continue to outperform the market in terms of overall sales in 2011.

Top Factoring

Background

Top Factoring ("Top Factoring" or the "Group") is a Romanian receivables collection company in which RC2 owns a 93% shareholding. The remaining 7% is owned by the Company's CEO. The debt acquisition part of the business is now being undertaken by an SPV owned by RC2 (Glasro Holdings Ltd) which sub-contracts the debt collection process to Top Factoring. Top Factoring and Glasro Holdings Ltd are together referred to as the "Group".

Group Financial results

The Group is continuing to grow at a high rate, with revenues increasing from €1.6m to €2.7m year-on-year in 2010 (+70.3%). In addition, the lower cost of receivables packages, a more efficient collection process, and better cost controls helped generate a 3.3-times increase in the EBITDA level from €0.1m to €0.4m.

(EUR '000)	2008A*	2009A**	2010A**	2011B**
Combined Group Income Statement				
Total Operating Revenues	**1,205**	**1,587**	**2,702**	**4,724**
Debt portfolios	993	1,064	1,681	3,863
Agency contracts	212	523	1,021	861
B2C	139	370	928	861
B2B	73	153	93	-
Total Operating Expenses	**(1,883)**	**(1,490)**	**(2,320)**	**(3,047)**
Amortization of debt portfolios	(774)	(388)	(510)	(1,022)
Other operating expenses	(1,109)	(1,102)	(1,810)	(2,025)
Operating Profit	**(678)**	**97**	**381**	**1,677**
EBITDA	**(641)**	**132**	**435**	**1,748**
EBITDA margin	*neg.*	*8.3%*	*16.1%*	*37.0%*
Financial Profit/(Loss)	(15)	(5)	13	(25)
Profit before Tax	**(693)**	**92**	**394**	**1,652**
Income Tax	-	(0)	(2)	(1)
Profit after Tax	**(693)**	**91**	**392**	**1,652**
Net margin	*neg.*	*5.8%*	*14.5%*	*35.0%*
Avg exchange rate (RON/EUR)	*3.683*	*4.237*	*4.210*	*4.220*

*Note: * IFRS (audited), ** IFRS (unaudited, combined accounts)*

Operations

The debt purchase division accounted for 62% of total revenues, generating €1.7m in 2010. Of this, 74% was generated by the two portfolios which were acquired in 2009. Agency contracts generated €1m in 2010, far better than the €0.5m achieved in 2009. Top Factoring continued to work for leading banks, telecoms and consumer finance companies.

The field collection department set up in early 2010 generated revenues of €217,000, of which 83% was generated from the Group's proprietary debt packages. At the end of the year, this department had 17 collectors, covering almost half the country. The Group aims to expand this to 27 field agents by the end of 2011.

In December, the Group acquired three receivable portfolios (two in telecoms and one in banking), consisting of 205,000 cases with a combined nominal value of €72m.

Prospects

The 2011 budget targets a 75% year-on-year increase in revenues. Although this may seem aggressive, the growth is projected to be driven mainly by collections from the portfolios acquired in December 2010, and assumes no new mandate clients and no new debt purchases. With competition intensifying on the receivables collection market, the Group intends to continue to focus on controlling its costs, and is currently assessing the idea of relocating part of its call centre outside of Bucharest.

The debt purchase market should remain attractive in terms of the number and variety of opportunities, as well as in terms of the pricing of portfolios, and Top Factoring aims to remain an active player on this market. It is currently negotiating a bank financing facility for the acquisition of new debt portfolios and is also starting discussions with other third party providers of finance.

Mamaia Resort Hotels

Background

Mamaia Resort Hotels SRL (the "Company") is the owner and operator of the Golden Tulip Mamaia Hotel (the "Hotel"), which is located at Romania's premium Mamaia seaside resort next to Constanta. In March 2008, RC2 acquired 63% of the Company, with the remaining 37% being owned by a Romanian entrepreneur.

Financial results

(EUR '000)	2008A*	2009A*	2010A**	2011B
Income Statement				
Sales Revenues	**1,643**	**1,489**	**1,572**	**2,033**
Other operating revenues	144	78	11	5
Total Operating Revenues	**1,787**	**1,567**	**1,582**	**2,038**
Total Operating Expenses	(2,113)	(2,103)	(1,892)	(1,896)
Operating Profit	**(326)**	**(536)**	**(309)**	**142**
Operating margin	*neg.*	*neg.*	*neg.*	*7.0%*
EBITDA	**(109)**	**(306)**	**(82)**	**358**
EBITDA margin	*neg.*	*neg.*	*neg.*	*17.6%*
Financial Profit/(Loss)	(155)	(62)	(217)	(83)
Profit before Tax	**(481)**	**(598)**	**(527)**	**59**
Income Tax	-	(2)	-	-
Profit after Tax	**(481)**	**(600)**	**(527)**	**59**
Net margin	*neg.*	neg.	neg.	*2.9%*
Avg exchange rate (RON/EUR)	*3.683*	*4.237*	*4.210*	*4.250*

*Note: * IFRS (audited), ** RAS (unaudited)*

Turnover was stable year-on-year at €1.6m, with accommodation revenues flat at €0.8m and Food and Beverages sales also flat at €0.7m. The availability of the conference centre from May compensated for a loss in leisure-related revenues due to the economic crisis. The EBITDA improved from a loss of €306,000 in 2009 to a loss of €82,000 in 2010. Adjusted for one-off refurbishment expenses of €0.1m, the EBTIDA was slightly positive.

The loans taken on to finance the conference centre created a financial loss which resulted in only a slight year-on-year improvement in the bottom line.

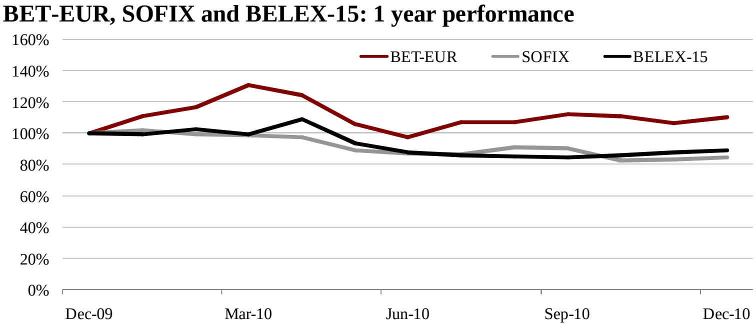
The Hotel has performed well in a difficult year. According to the Romanian Ministry of Tourism, 50 % of all foreign tourists who stayed at Romanian seaside hotels were housed by the Hotel. The occupancy rate during the June-August holiday season was 75%, higher than the 70% achieved last year, and the year-round occupancy rate was 22%, almost unchanged from last year. The Hotel's new conference centre, which was finalized at the end of April, generated €0.5m of additional revenues in 2010. For 2011, the plan is to achieve €0.7m of revenues from conference activities.

Prospects

The 2011 budget is built on the assumption of an occupancy rate of 27%, and an average net tariff of €29, both improvements on 2010. For the next summer season the Hotel has signed contacts with tour-operators in new markets such as Israel, the UK and Poland. Based on the indicative demand registered so far for allotment and charter packages, the hotel is already 130 % booked between May and September 2011.

Capital Market Developments

BET-EUR, SOFIX and BELEX-15: 1 year performance



Commentary

Over the fourth quarter of 2010, the Romanian BET and Bulgarian SOFIX indices decreased by 1.7% and 6.4%, respectively, whilst the Serbian BELEX-15 index gained 5.5%, all in euro terms.

Over the year, the Romanian market (BET-EUR) was up 10.3%. On the other hand, the SOFIX and BELEX-15 indices fell by 15.2% and 11%, respectively.

By comparison, the MSCI Emerging Market index was up 24.8%, the MSCI Emerging Market Eastern Europe index was up 21.9%, whilst the FTSE100 and S&P indices increased by 12.8% and 20.9%, respectively.

Macroeconomic Overview

Overview

	RO	as of:	BG	as of:	SRB	as of:
GDP Growth (y-o-y)	-1.2%	FY10	0.3%	FY10	2.7%	FY10
Inflation (y-o-y)	8.0%	FY10	4.5%	FY10	10.3%	FY10
Ind. prod. growth (y-o-y)	10.0%	Dec-10	5.6%	Nov-10	2.9%	FY10
Trade deficit (EUR bn)	9.5	FY10	2.4	FY10	4.8	11M10
y-o-y	*-4.1%*		*-42.5%*		*-5.8%*	
FDI (EUR bn)	2.6	FY10	1.4	FY10	0.8	11M10
y-o-y change	*-25.6%*		*-58.6%*		*-31.5%*	
Total external debt/GDP	75.6%	Dec-10	102.3%	Dec-10	78.3%	FY10
Reserves to short-term debt	173.0%	Dec-10	113.7%	Dec-10	746.3%	Nov-10
Loans-to-deposits	118.0%	Dec-10	108.2%	Dec-10	125.2%	Nov-10
Public sector debt-to-GDP	37.9%	Dec-10	11.9%	Dec-10	41.5%	Dec-10

Commentary

Romania

Romania's GDP grew by 0.1% in 4Q10 compared to the previous quarter, resulting in negative economic growth of -1.2% over 2010. The positive economic evolution in the last quarter comes after a 0.7% quarter-on-quarter decrease over the third quarter, and was due to growth in industrial production driven by external demand. The IMF is projecting economic growth of 1.5% in 2011 fuelled by growing exports and improved domestic demand.

Romania's CPI reached 8.0% in December 2010, up from 4.7% in 2009. The increase in the inflation rate was mainly due to the steep rise in the VAT rate over the summer (from 19% to 24%). The National Bank of Romania expects the inflation rate to fall in the second half of the year as the effects of the VAT increase fade away, and has set its target rate at 3.6% for 2011.

A joint IMF and EU mission visited Romania at the end of January to review the evolution of the economy. The result of the assessment is that the IMF made available the last tranche of its loan, worth €1bn. However, the Romanian authorities decided not to draw on these funds as the National Bank's current reserves are deemed sufficient. Total disbursements have to date amounted to €12.4bn. The two sides have also reached an agreement on a precautionary agreement of €3.6bn for two years. This agreement is in conjunction with precautionary support from the EU (€1.4bn) and a loan from the World Bank (€0.4bn).

Over 2010, exports increased by 28.1% year-on-year, with imports increasing by only 19.9%. Consequently, the January-December 2010 trade deficit recorded a small (4.1%) year-on-year fall. However, Romania's 2010 current account deficit was up 5% year-on-year at €5.2bn, or 4.3% of GDP, mainly due to an 18% year-on-year fall in current transfers (from €4.2bn to €3.4bn). FDI flows were only €2.6bn (down 26% year-on-year), and covered only 50.3% of the current account deficit. The IMF is projecting a current account deficit of around 5% in 2011.

The 2010 budget deficit came in at 6.5% of GDP, within the threshold agreed with the IMF which provides for a 2010 budget deficit of up to 6.8% of GDP, and down from the 7.4% recorded in 2009. The 2011 budget was approved by Parliament in late December 2010 and provides for a budget deficit of 4.4% of GDP, whilst assuming economic growth of 1.5% in 2011.

The Romanian Government needs to focus on improving the absorption rate of EU funds and developing the country's infrastructure. The absorption rate up to September 2010 was only 13.5%.

Industrial production registered a 10% year-on-year increase in December, resulting in the full year increase coming in at 5.5%. Industry is one of the areas that is contributing to the return to growth of the Romanian economy, mostly through exports.

Romania's total external debt position was €90.7bn at the end of December, or 76% of estimated GDP. Public debt amounted to €45.3bn at the end of 2010, or 37.9% of GDP, a 32% year-on-year increase. Of the total public debt, 43% is RON-denominated and 40% is euro-denominated, with the balance of 17% being in other foreign currencies. The National Bank of Romania's foreign reserves (excluding gold) were €32.4bn at the end of 2010, or 1.7 times the short-term external debt (€18.7bn).

The Romanian leu lost 1.3% against the euro in 2010. Total domestic non-governmental credit (which excludes loans to financial institutions) amounted to €48.9bn at the end of 2010, up from €47.3bn at the end of 2009. Overdue loans amounted to €3.8bn, twice the level at the end of 2009, and equivalent to 7.7% of total loans. The Romanian banking system's total loans-to-deposits ratio was 118% at the end of 2010. In order to fight inflation, the National Bank of Romania decided to keep its key interest rate at 6.25% in February, the sixth consecutive month it was kept unchanged.

Bulgaria

While the economy grew by a modest 0.3% in 2010, helped by good growth in industry which posted a 5.6% year-on-year increase in November 2010, the prospects for growth in 2011 are better, helped by increased exports, even though domestic demand remains depressed. Therefore, the IMF expects 2011 GDP growth of 2%.

Bulgaria's CPI was 4.5% in December, up from 0.6% the previous year, fuelled by the 26% hike in excise duty on cigarettes and alcoholic beverages introduced at the start of 2010, and soaring grain prices over the summer. Over January-December 2010, Bulgaria experienced a negative current account of €0.3bn, compared to a current account deficit of €3.5bn in 2009. The improvement in the current account was mainly triggered by a 67% year-on-year increase in current transfers (from €0.9bn to €1.6bn), and by a 43% year-on-year decrease in the trade deficit, which fell from €4.2bn to €2.4bn. FDI inflows stood at just €1.4bn. The improved current account deficit helped ensure the stability of the currency board regime. The country's reserves-to-short-term-debt ratio was 111.2% at the end of November.

Bulgaria's 2010 budget deficit came in at 3.9% of GDP over 2010. For 2011, the Bulgarian authorities are projecting a deficit of 2.5% of GDP. The Bulgarian Government needs to make progress on the absorption of EU funds: by the end of 2010, the disbursements from EU funds amounted to only €0.6bn (an absorption rate of around 8%). The plan is to increase the absorption rate to 20% by the end of 2011.

Bulgaria's external debt stood at €36.9bn at the end of 2010, or 102.3% of GDP, of which only 11.9% was attributable to the public sector. Public sector debt increased by 2.6% in 2010, while private debt fell by 3% over the same period.

The Bulgarian banking system had a total loans-to-deposit ratio of 108% at the end of 2010. While loans to non-financial institutions increased by only 0.8% year-on-year (from €25.8bn to €26.0bn), the deposit base increased by 8.4% from €22.1bn to €24.0bn. The population's proneness to savings is a positive sign of improved confidence in the economy. Overdue loans accounted for 12% of total loans at the end of 2010, up from 6.4% at the end of 2009.

Serbia

According to the National Bank of Serbia (NBS), real GDP grew by 1.8% in 2010, driven upwards by net exports and investments. The slower growth expected in the euro zone over 2011 is expected to weaken Serbian exports. The EIU is projecting 3% GDP growth in 2011. However, Serbia will need to undertake a considerable fiscal retrenchment in order to reduce current expenditure, threatening economic growth.

Year-end consumer price inflation reached 10.3% in 2010, significantly above the target (6% ± 2%), fuelled by high prices of food, crude oil and the pass-through from the depreciation of the dinar (9.1%). Inflation is expected to rise further in 2011 due to the lifting of the freeze on public-sector wages and pensions in January 2011, increases in excise duties on tobacco and fuel, and rising world oil prices. Consequently, despite the NBS' target range (4.5% ± 1.5%), inflation is expected to reach 7.5% in 2011.

The dinar appreciated by 1.6% over the fourth quarter of 2010, losing 9.1% against the euro over the year. The dinar was subject to turbulence in 2010, reflecting nervousness in financial markets triggered by the crises in Greece and the wider euro zone problems. However, a flexible exchange rate has been an advantage during the recent global crisis, with the dinar's depreciation boosting Serbia's competitiveness.

Over January – November 2010, the trade deficit reached €4.8bn, a 5.8% year-on-year fall, primarily due to higher export (+34.5% y-o-y) than import growth (+13.2% y-o-y). The growth in imports of recent years, driven by domestic demand, is unlikely to be repeated over the medium term, which should result in the trade flows becoming more balanced. Furthermore, enterprise restructuring, privatisation and other supply-side reforms should make exporters more competitive over the medium term.

Over the fourth quarter of 2010, the National Bank of Serbia (NBS) performed four key interest rate hikes, increasing the rate from 9.5% to 12%, due to mounting inflationary pressures. A tighter monetary policy stance is expected to dampen inflationary expectations and should help bring inflation back within the target range in the medium term.

Important Information