Reconstruction Capital II Ltd

("RC2" or the "Fund")

Quarterly Report

June 30th, 2010

neweuropecapital

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Statistics

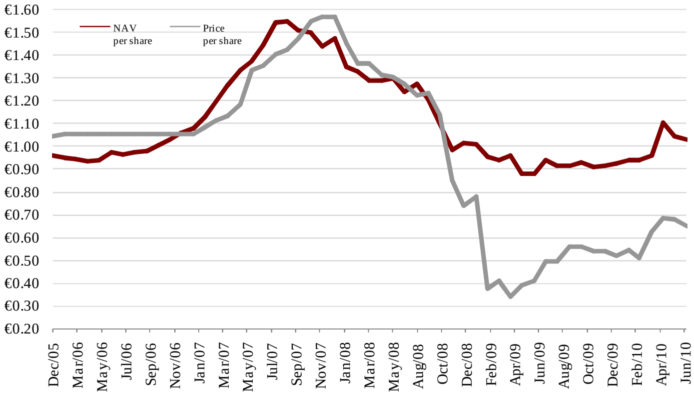
NAV per share (€)	1.0293
Share price (€)	0.6475
Total NAV (€ m)	102.9
Market Cap (€ m)	64.8
# of shares (m)	100.0
NAV return since inception	7.61%
12-month NAV CAGR	13.90%
NAV annualized return*	1.64%
NAV annualized volatility*	15.16%
Best month (NAV)	15.60%
Worst month (NAV)	-10.52%
# of months up (NAV)	31
# of months down (NAV)	23

** since inception*

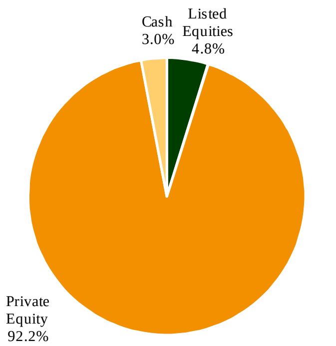
RC2 NAV returns

	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%	-
Aug	0.22%	-5.55%	0.23%	-
Sep	-2.50%	-8.34%	1.20%	-
Oct	-0.69%	-10.52%	-1.79%	-
Nov	-4.09%	3.03%	0.46%	-
Dec	2.46%	-0.60%	1.08%	-
YTD	36.74%	-31.43%	-8.38%	11.38%

Share price / NAV per share (€)

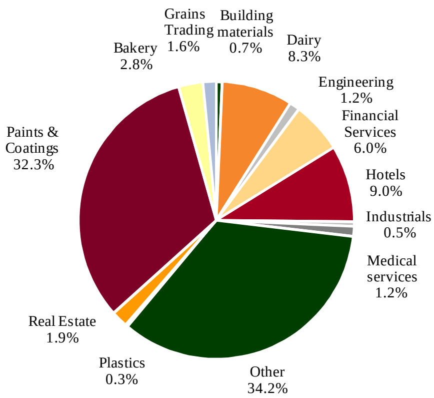


Portfolio Structure by Asset Class



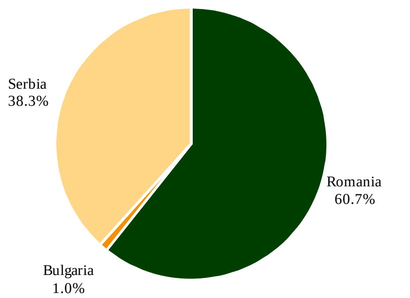
Note: Cash equivalents included under Cash

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

Over the quarter, RC2's NAV per share increased by 7.6% whilst its share price increased by 3.6%, resulting in the discount to NAV increasing from 34.7% to 37.1%.

The economic environment in RC2's three main countries of operation remains challenging. In particular, Romania has had to apply drastic fiscal tightening measures, including cutting public sector wages by 25% and increasing the VAT level from 19% to 24% from 1 July, while Serbia has implemented a freeze on public sector pensions and wages. However, a common pattern in Romania, Serbia and Bulgaria is a strong rise in exports, as demand from the EU picks up, and the countries of South East Europe try to find a new growth-driver in the context of falling local consumption and FDI.

Despite sharp falls in the construction sectors in both Romania and Bulgaria, paints producer Policolor managed to slightly increase its Operating and Net Profit, as the Policolor group benefited from the strong restructuring and cost-cutting measures taken last year.

Although the EPH group posted a poor financial performance in the first half of 2010, RC2 managed to increase its shareholding from 21% to 42% in April for no extra consideration, and is using its increased shareholding to push for a deep restructuring of the holding company and its main operating businesses. The main objectives include a sale of shareholdings in the Agribusiness and River Shipping divisions, in order to massively deleverage the group.

In spite of a difficult retail environment in Romania, dairy processor Albalact achieved a 19% year-on-year increase in sales volumes over the first half of 2010, and a 10% increase in sales by value in euros. Its operating profit was slightly up at €1.54m.

At the end of April, Mamaia Resort Hotels opened a conference centre with the capacity to seat over 400 people in 6 separate halls spread out over approximately 1,200 sqm. The centre has already generated €120,000 of additional revenues over its first two months of operations and should act as the hotel's main growth driver over the low season.

The Top Factoring group has continued its strong performance with a threefold increase in sales over the first semester (from €0.6m to €1.7m), and an Operating and Net Profit for the period of €0.6m, compared to a loss of €0.1m during the same period the year before.

At the end of June, the Fund, which has no gearing, had cash balances of approximately €3.1m, compared to €1.7m on 31 March.

Yours truly,

New Europe Capital

Policolor Group

Background

The Policolor Group ("Policolor" or the "Group") is 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 which is quoted on the Bulgarian Stock Exchange. RC2 has shareholdings in both companies: 40% in Policolor and 2.4% in Orgachim. On 23 June, Policolor and shareholders of the Romanian Investment Fund Ltd ("RIF"), Policolor's majority shareholder, launched a tender offer for all the outstanding minority shares of Orgachim. Pursuant to the tender offer, which closed on 22 July, Policolor's shareholding in Orgachim increased from 64.2% to 68.0%.

Financial results

(EUR '000)	2008A*	2009A*	2010B	1H09**	1H10**
Income statement (according to IFRS)					
Sales revenues	**100,632**	**71,638**	**77,574**	**38,167**	**32,707**
Other operating revenues	2,002	2,026		1,062	365
Total operating revenues	**102,634**	**73,663**	**77,574**	**39,229**	**33,072**
Total Operating Expenses	(105,678)	(70,457)	(71,290)	(37,343)	(31,170)
Operating profit	**(3,044)**	**3,206**	**6,284**	**1,886**	**1,903**
Operating margin	*-3.0%*	*4.4%*	*8.1%*	*4.8%*	*5.8%*
EBITDA	**2,619**	**9,058**	**10,421**	**4,296**	**3,441**
EBITDA margin	*2.6%*	*12.3%*	*13.4%*	*11.0%*	*10.4%*
Financial Profit/(Loss)	(1,773)	(1,021)	(1,311)	(656)	(541)
Restructuring costs	-	-	(745)	(326)	-
Profit before tax	**(4,818)**	**2,185**	**4,227**	**904**	**1,362**
Income tax	443	281	(579)	(116)	(129)
Profit after tax	**(4,375)**	**2,467**	**3,648**	**788**	**1,232**
Minority interest	646	(163)	835	124	(294)
Profit for the year	**(3,729)**	**2,304**	**4,483**	**912**	**939**
Avg exchange rate (RON/EUR)	*3.683*	*4.237*	*4.200*	*4.229*	*4.148*

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

In the first six months of 2010, Policolor's consolidated sales fell by 14.3%, mainly as a result of the overall decline in economic activity in Romania and Bulgaria, which affected the construction sector particularly badly. However, the Group's Operating and Net Profit after Minority Interest were both slightly higher than in the same period last year.

Due to the severe economic climate in both countries, compounded by a substantial rise in raw material costs and an increase in the Romanian VAT rate from 19% to 24% from 1 July, management has revised the 2010 Group budget. Accordingly, the Group's revised budget targets consolidated sales of €77.5m (down from €82m), and the Operating Profit is now forecast at €6.3m, instead of €8.4m, whilst the EBITDA level has been revised downwards from €12.6m to €10.4m.

Operations

The Architectural strategic business unit ("SBU") lost 22.4% of its consolidated sales over the first six months of the year, from €15.4m to €12.0m. Over the period, Romania's residential and non-residential construction works recorded year-on-year falls of 37.1% and 23.6%, respectively. Similarly, Bulgaria's residential and non-residential construction works fell by 31.5% year-on-year.

During the spring season, the Architectural SBU launched new water-based products, such as decorative paints with silver (with an anti-bacterial effect), and a new range of colours aimed at children. Over the first six months of 2010, the SBU managed to increase its EBITDA margin from 5.6% to 7.5%.

Despite fierce competition in automotive coatings, over the first six months of 2010 the Automotive SBU lost only 3.7% of its consolidated sales, which fell from €4.4m to €4.2m. However, it managed to keep its EBITDA margin flat at around 27%, resulting in overall EBITDA of €1.1m, compared to €1.2m the same period the year before.

The Industrial SBU achieved consolidated sales of €2.7m in the first half of the year, compared to €3m in the first half of 2009. Over the period, the SBU launched new ranges of coatings for wood and marine applications.

The Thermo-Insulation SBU, which is 100%-exposed to the B2B construction market in terms of sales, lost 42% of its turnover compared to the previous year, and generated negative EBITDA of €-0.3m.

On the other hand, the Group's two specialty chemicals divisions achieved a good performance over the period. The resins SBU gained a number of new clients and achieved consolidated sales of €2.4m (18% higher than last year), while the EBITDA level came in 11% higher at €478,000. Meanwhile, the Anhydrides SBU increased its net sales by 7% from €7.3m to €7.8m, and its EBITDA level increased almost threefold from €335,000 to €921,000, with the EBITDA margin increasing from 5% to 12%.

The Group is preparing its non-core real estate for sale, and has started demolition works on 8 of its 14 hectares of land in the eastern periphery of Bucharest. The demolition works are progressing well and should be finished by year-end.

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. On 27 April 2010, in exchange for RC2 releasing certain claims against EPH's other shareholders, its shareholding increased to 42%. The bulk of the Group's operations are in Serbia and Romania, but it is also active in other countries, including Hungary and Austria, and has a network of sales, procurement and representative offices in New York, Moscow, Frankfurt, Beijing and Sofia. EPH operates along the following main business lines: Agribusiness (Cereals Trading and Storage), Milling, Bakeries, Copper Processing, Cable Production, River Shipping, 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. On 30 June, RC2 acquired a 3.9% shareholding in the Agribusiness for €1.6m.

Financial Results

(EURm)	2008A	2009A*	1H09*	1H10*
Income statement (according to IFRS)				
Net Sales	**462.1**	**414.1**	**221.6**	**199.8**
Cost of Sales	(398.6)	(346.2)	(178.3)	(171.9)
Gross Profit	63.5	67.9	43.3	27.8
EBITDA	**17.5**	**14.2**	**13.4**	**2.2**
EBITDA margin (%)	*3.8%*	*3.4%*	*6.0%*	*1.1%*
EBIT	**2.6**	**(1.5)**	**5.7**	**(9.3)**
EBIT margin (%)	*0.6%*	*-0.4%*	*2.6%*	*-4.6%*
Net interest income (expenses)	(14.5)	(13.3)	(6.8)	(5.8)
FX gain (loss)	(6.4)	(6.1)	(7.1)	(7.1)
Share of profit (loss) of associates	0.2	(0.9)	(0.4)	(0.3)
Income/(loss) before taxes	**(18.1)**	**(21.8)**	**(8.6)**	**(22.5)**
Income tax (expense)/benefit	(0.5)	(1.3)	(0.5)	(0.3)
Net income/(loss)	**(18.6)**	**(23.1)**	**(9.1)**	**(22.8)**
Minority interest	0.3	(1.7)	0.6	2.2
Net income after minority interest	**(18.2)**	**(21.4)**	**(8.5)**	**(20.6)**

*Note: 2008 audited accounts; * unaudited management accounts;*

Based on EPH's consolidated management accounts for the first half of 2010, the Group's operational profitability has continued to fall sharply, mainly as a result of lower trading activity at EPH's Agribusiness division, historically the most cash generative business of the Group. This was the result of the Group virtually stopping all Romanian-origin grain export activity, due to delays by the Romanian government in refunding VAT to all cereal exporters. The Group's Copper business continued to perform well at an operating level, but was hit by a fall in the value of its stocks due to the fall in copper prices in the second quarter. The six-month accounts are not fully comparable with those of last year because Novkabel AD ("Novkabel"), which was acquired from the Serbian state last year and is currently undergoing a restructuring programme, was not fully consolidated in 1H09.

Agribusiness

Due to the absence of volumes from Romania (where normally one third of all cargoes are sourced), EPH's Agribusiness continued to perform poorly throughout the first half of the year. Throughput at its flagship silo at Constanta port ("Silotrans") was 317,000 tons, 59% lower than the same period last previous year. Consequently, the EBITDA level fell to €0.9m whilst the bottom line recorded a net loss of €1.3m. Silotrans has experienced a pick-up in throughput in the third quarter, and EPH has been actively sourcing alternative supplies from Serbia and Hungary to replace its Romanian volumes. EPH aims to sell a share in this business to a strategic partner.

Copper Processing

During the first six months of 2010, EPH's copper division recorded a 35.5% increase in sales from €84.9m in 1H2009 to €115m. This is the result of both higher copper prices and an 8.4% increase in production volumes to 18,400 tons. The higher production levels are mainly the result of EPH gaining market share across Europe, as well as a successful sales strategy in the Russian Federation, which accounted for 6.5% of sold volumes. A fall in copper prices during the second quarter affected the value of inventories, driving the EBITDA margin down from 8.7% in 1H2009 to 3.2% in 1H2010. However, the recent recovery in copper prices suggests that this could be reversed during the third quarter. A new management information system has been implemented during the first half of 2010 and is expected to improve overall efficiency and profitability.

Cable Production

Novkabel was acquired by EPH over 2007-2009 partly as a turnaround project but also due to its real estate potential. The Group took operational control in March 2009. Due to low levels of activity in the construction industry and in infrastructure investment during the first half of 2010, sales fell from €10.8m over the first half of 2009 to €9.6m. However, the EBITDA loss narrowed from €-0.8m to €-0.6m. Investments in measuring equipment, installation cables and oil rubber cables are also being implemented to improve production efficiency and quality, and the cost competitiveness of Novkabel's products.

River Shipping

Total sales were up 13% year-on-year to €22.4m, on the back of a 26% year-on-year increase in total volumes shipped and strong fuel bunkering operations. However, the high water situation on the Danube in June and the lack of volumes in January and February, as well as €0.6m of restructuring costs, caused the River Shipping's EBITDA to fall from €-0.3m over 1H09 to €-1.1m in 1H10.

EPH is in negotiations with the River Shipping business's lenders and with a strategic partner in order to reduce its overall level of indebtedness, and potentially to sell an interest in this business. A successful outcome to these discussions would substantially improve EPH's consolidated net debt position.

Bakeries

Over the first six months of 2010, Klas recorded a 9.2% year-on-year decline in revenues, from €13.0m to €11.9m, mainly due to a 6% depreciation of the dinar on average over the first half of 2010.

Lower bread prices on the domestic market coupled with increased energy costs, and one-off employee restructuring costs amounting to €0.4m in the second quarter, resulted in a sharp fall in the EBITDA level from €1.5m in 1H2009 to €58k in 1H2010. Due to the difficult market conditions, Klas has abandoned its plans to build a new state-of-the-art bakery on the outskirts of Belgrade and has opted instead to relocate its main production facility to two existing satellite facilities, which will free up substantial real estate in a residential area in central Belgrade. The relocation should also reduce operating costs and optimize logistics routes. As part of its ongoing personnel reduction plan, the Bakery business is planning further workforce cuts over the summer, effectively reducing its headcount by a further 60.

Milling

EPH's milling division generated sales of €4.6m during the first six months of 2010, down from €8.7m the year before. Lower wheat prices (-12.0% year-on-year, in local currency terms) coupled with lower production volumes, resulted in an EBITDA of €0.6m, down from €0.8m in 1H09.

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 46.7%, with the remaining 27.9% representing the free float. With Albalact's market capitalization having lost 43.9% over the quarter, RC2's shareholding in Albalact had a market value of €8.4m as at 30 June, compared to €14.9m at the end of the previous quarter.

Financial results

(EUR '000)	2008A*	2009A**	1H09***	1H10***
Income Statement				
Sales Revenues	**51,741**	**53,330**	**27,492**	**30,151**
Other operating revenues	2,496	1,557	845	1,040
Total Operating Revenues	**54,236**	**54,887**	**28,337**	**31,191**
Total Operating Expenses	(52,163)	(52,422)	(26,868)	(29,655)
Operating Profit	**2,074**	**2,465**	**1,469**	**1,536**
Operating margin	*3.8%*	*4.5%*	*5.2%*	*4.9%*
EBITDA	**4,856**	**5,489**	**3,430**	**3,128**
EBITDA margin	*9.0%*	*10.0%*	*12.1%*	*10.0%*
Financial Profit/(Loss)	(1,860)	(1,803)	(671)	(825)
Profit before Tax	**214**	**662**	**798**	**712**
Income Tax	(52)	(48)	(133)	(129)
Profit after Tax	**162**	**614**	**665**	**583**
Net margin	*0.3%*	*1.1%*	*2.3%*	*1.9%*
Avg exchange rate (RON/EUR)	*3.683*	*4.237*	*4.233*	*4.148*

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

Although the Romanian dairy market fell by approximately 10% in the first six months of 2010, according to a press statement by Tnuva (one of top ten players on the local market), Albalact managed to achieve a 19% growth in sales volumes compared to the same period the year before, and a 10% growth in sales by value in euros, in spite of downward pressure on retail prices due to the lower purchasing power of Romanian consumers and a falling local currency. The operating profit also slightly improved from €1.46m to €1.54m. However, in spite of the strong performance in terms of sales and operating profit, Albalact's net profit came in 12.3% lower at €0.6m due to €600,000 of unrealized forex losses on its euro-denominated debt.

Operations

Of the top ten players on the Romanian market, Albalact and Danone are the only ones which managed to record positive growth so far this year, with the others recording strong falls in sales. This would suggest that the market is becoming more polarized, with Danone the clear leader in yoghurts and Albalact the leader in fresh milk and butter.

Following the return of Raul Ciurtin (the President of the Board of Directors of Albalact and a member of the family that owns 46.7% of its equity) to the CEO position in March, the Company has defined its strategy for 2010 as profitable growth and market share accretion, driven by a restructuring of its distribution system and a consistent marketing campaign. As such, the number of warehouses is planned to go down from six to four, and the sales force and distribution fleet are due to increase in the second half of 2010. The company intends to invest €1-1.5m in its fleet of vans and approximately €200,000 in warehousing equipment such as forklifts and IT systems. The aim is to increase the number of Albalact's retail clients from 4,000 to 4,800 by the end of 2010.

In terms of marketing, Albalact has invested €300,000 in promoting the "Raraul" brand (for cheese and both fresh and UHT milk) in order to turn this local brand which was acquired in late 2008 into a national brand. The company is also preparing a campaign to promote its flagship "Zuzu" and "Fulga" brands in both trade marketing channels and TV commercials in September 2010.

Prospects

The Company's 2010 budget targets a 13.7% growth in sales, from €53.3 to €60.6m, and a 21.8% increase in the EBITDA level, resulting in an improvement in the bottom line from €0.6m to €2.3m. While the sales target is achievable, downward pressures on retail prices, compounded by higher raw milk prices, should make the targeted EBITDA level more difficult to achieve.

Albalact has called a shareholders' meeting in September to approve a merger with its 96%-owned subsidiary Raraul. This should have little impact on Albalact's shareholder structure whilst simplifying the management, administration and IT functions of both businesses.

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*	2009*	1H09**	1H10**
Income Statement				
Sales Revenues	**1,643**	**1,489**	**353**	**369**
Other operating revenues	144	78	14	10
Total Operating Revenues	**1,787**	**1,567**	**366**	**379**
Total Operating Expenses	(2,113)	(2,103)	(865)	(773)
Operating Profit	**(326)**	**(536)**	**(499)**	**(395)**
Operating margin	*neg.*	*neg.*	*neg.*	*neg.*
EBITDA	**(109)**	**(306)**	**(390)**	**(296)**
EBITDA margin	*neg.*	*neg.*	*neg.*	*neg.*
Financial Profit/(Loss)	(155)	(62)	(9)	(41)
Profit before Tax	**(481)**	**(598)**	**(507)**	**(436)**
Income Tax	0	(2)	0	0
Profit after Tax	**(481)**	**(600)**	**(507)**	**(436)**
Net margin	*neg.*	neg.	neg.	neg.
Avg exchange rate (RON/EUR)	*3.683*	*4.237*	*4.233*	*4.148*

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

The bulk of the Hotel's revenue is earned over the summer months, so the results of the first six months are not particularly significant. However, operating in a difficult overall climate, the new conference centre completed in April has helped the Hotel to keep its revenues unchanged over the first half of the year.

Operations

The Hotel's occupancy rate was almost 14% over the first semester, slightly up from 12.6% over the same period last year. However, the occupancy rate jumped to 80% in July, and, based on confirmed bookings, the August occupancy rate is also estimated at 80%, above the budgeted 72%.

The Hotel's new conference centre, which can host events in 6 separate halls over approximately 1,200 sqm, was finalized at the end of April and has already generated additional revenues of €120,000 up to the end of June.

Prospects

The conference centre has been well received by the market and generated a further €116,000 of revenues in July, with early bookings for the autumn season amounting to a further €0.3m. Consequently, management expects the occupancy rate in the off-season months (October – December) to jump from 5% in 2009 to 12%.

Top Factoring

Background

Top Factoring ("Top Factoring" or the "Company") 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.

Financial results

(EUR '000)	2008A*	2009A**	1H09**	1H10**
Income Statement				
Total Operating Revenues	**1,205**	**1,587**	**570**	**1,732**
Debt portfolios	**993**	**1,064**	**369**	**1,166**
Agency contracts	**212**	**523**	**201**	**566**
B2C	139	370	150	477
B2B	73	153	51	89
Amortization of debt portfolios	(774)	(388)	(192)	(259)
Total Operating Expenses	**(1,883)**	**(1,490)**	**(644)**	**(1,155)**
Operating Profit	**(678)**	**97**	**(74)**	**577**
EBITDA	**(641)**	**132**	**(57)**	**601**
EBITDA margin	*neg.*	*8.3%*	*neg.*	*34.7%*
Financial Profit/(Loss)	(15)	(5)	2	2
Profit before Tax	**(693)**	**92**	**(73)**	**579**
Income Tax	0	(0)		-
Profit after Tax	**(693)**	**91**	**(73)**	**579**
Net margin	*neg.*	*5.8%*	*neg.*	*33.4%*
Avg exchange rate (RON/EUR)	*3.683*	*4.237*	*4.233*	*4.148*

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

The results presented above are the combined accounts of Top Factoring and Glasro Holdings Ltd. (together the "Top Factoring Group").

Top Factoring and Glasro (together the "Group") have continued their strong performance with a threefold year-on-year increase in turnover over the first six months (from €0.6m to €1.7m), and an Operating and Net Profit for the period of €0.6m, compared to a loss of €0.1m during the same period the year before.

During this period, collections from the four debt portfolios purchased from Vodafone amounted to €1.2m, of which 76% was generated by the last two portfolios which were acquired in 2009.

Agency contracts generated €0.6m of revenues in the first quarter of 2010, far better than in the same period of 2009 (€0.2m).

Operations

Top Factoring has expanded its "field collection" network, which comprised 30 collectors at the end of June. The company plans to recruit 20 new field collectors by the end of the year, in order to achieve nationwide coverage. Over the first six months of the year, the field collection department generated revenues of €94,000 mainly from the Group's proprietary debt packages, while the Group's budget projects field collection revenues to increase to €230,000 over the second half of the year. Field collection services are increasingly requested by Top Factoring's clients, and the Company is already providing them to two banks and one telecoms operator.

Prospects

Due to the reduction in purchasing power resulting from the austerity measures implemented by the Romanian government over the summer, the success rate of the debt collection process is expected to fall in the second half of 2010. At the same time, the costs involved in the collection process should increase due to the higher number of actions required in order to achieve a certain success rate. Consequently, Top Factoring is carefully monitoring the profitability of each of its accounts and business lines and plans to restructure those which do not perform according to its targets.

Bulgarian Stock Exchange

RC2 owns a 1.8% shareholding in the company which operates the Bulgarian Stock Exchange (BSE). These shares are not traded on an organized market and are valued at cost (€0.5m) by RC2. The BSE is 44% owned by the Bulgarian state, 34% owned by Bulgarian brokerage firms and commercial banks, and the balance is owned by a combination of institutions and private individuals.

Financial results

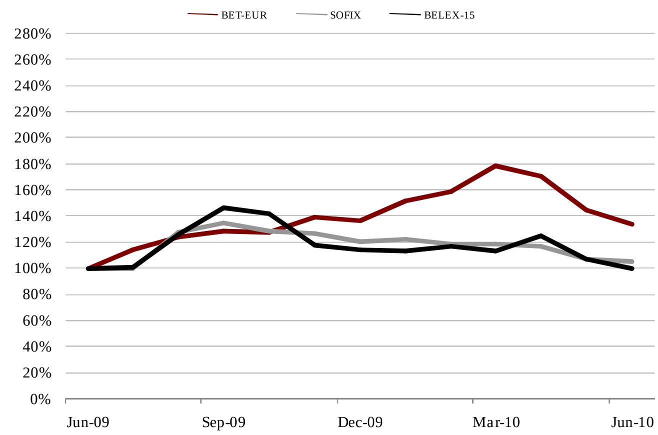
(EUR '000)	2007*	2008*	2009**
Income statement			
Revenues	**4,886**	**2,359**	**1,314**
Total Operating Expenses	(2,057)	(2,271)	(1,549)
Operating Profit	**2,828**	**88**	**(235)**
Operating margin	*57.9%*	*3.7%*	*neg.*
EBITDA	**2,993**	**301**	**(9)**
EBITDA margin	*61.3%*	*12.7%*	*neg.*
Financial Profit/(Loss)	156	222	187
Earnings before tax	**2,984**	**310**	**(49)**
Income tax	(300)	(32)	5
Earnings after tax	**2,685**	**279**	**(43)**
Net margin	*54.9%*	*11.8%*	*neg.*
Avg exchange rate (BGN/EUR)	*1.956*	*1.956*	*1.956*

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

The fall in emerging markets in 2009 resulted in the turnover of the Bulgarian Stock exchange almost halving from €2.4m in 2008 to €1.3m in 2009, which resulted in a loss of €43,000 for the year, compared to a profit of €310,000 in 2008. The BSE has not released any results for 2010.

Capital Market Developments

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



Commentary

Over the second quarter, the Romanian, Bulgarian and Serbian stock markets continued their bearish trend. The BET-EUR fell by 25.4%, the SOFIX by 11.5% and the BELEX-15 by 11.9%.

Over the first six months of the year, the BET index fell by 2.4%, while the SOFIX and BELEX-15 indices decreased by 12.7% and 12.4%, respectively, all in euro-terms.

By comparison, the MSCI Emerging Markets, the MSCI Emerging Market Eastern Europe and the S&P indices were up 8.5%, 1.3% and 8.1%, respectively, whilst the FTSE100 index fell by 1.6%, all in euro-terms.

Macroeconomic Overview

Overview

	RO	as of:	BG	as of:	SRB	as of:
GDP Growth (y-o-y)	-1.5%	6M10	-2.5%	6M10	0.6%	3M10
Inflation (y-o-y)	4.4%	6M10	1.4%	6M10	4.2%	6M10
Ind. prod. growth (y-o-y)	6.7%	Jun-10	0.4%	May-10	2.5%	Jun-10
Trade deficit (EUR bn)	4.7	6M10	1.2	5M10	2.1	5M10
y-o-y	*0.5%*		*-39.7%*		*-13.8%*	
FDI (EUR bn)	1.8	6M10	0.3	5M10	0.4	5M10
y-o-y change	*-29.0%*		*-79.1%*		*-49.2%*	
Total external debt/GDP	72.5%	Jun-10	104.9%	May-10	79.9%	May-10
Reserves to short-term debt	200.0%	Jun-10	104.9%	May-10	613.5%	May-10
Loans-to-deposits	123.9%	Jun-10	111.3%	Jun-10	125.2%	May-10
Public sector debt-to-GDP	34.9%	May-10	11.7%	May-10	32.7%	Jun-10

Commentary

Romania

Although Romania's GDP fell by 1.5% over the first half of 2010 compared to the previous year, it grew by 0.3% in the second quarter. The IMF now expects a 2% fall in GDP in 2010.

In order to tighten the budget deficit which reached 3.4% of GDP at the end of June, the Romanian Government decided to apply drastic cost-cutting measures, including cutting public sector wages by 25% and increasing the VAT level from 19% to 24% from 1 July. These measures were the subject of a review by a joint EU and IMF mission at the beginning of August prior to the disbursement of a new €1.2bn tranche of the EU's €5bn loan to Romania, and a new €0.9bn tranche of the IMF's €12.9bn loan. This is the third tranche of the EU loan and brings the total disbursements to €3.7bn. The IMF tranche is the sixth disbursement and brings the total disbursements to €11.6bn.

Going forward, the state budget will need further expenditure cuts in order to keep the deficit below 6.8% of GDP in 2010, which is the target agreed with the IMF. On the other hand, in order to return to economic growth next year, the Romanian Government needs to boost investment and productivity, as well as to improve the absorption of EU funds, which is currently very disappointing at only 10%. The Romanian government also intends to reactivate its privatization program, mainly by selling stakes on the capital markets in the industry, energy and transportation fields.

Industrial production continued to grow, having recorded a 4.7% month-on-month increase in June. Much of this growth is generated by exports. Indeed, exports increased by 25.8% year-on-year with imports increasing by only 19.3%. However, because of the greater absolute value of imports, the January-June trade deficit still registered a slight 0.5% year-on-year increase.

Romania's January-June 2010 current account deficit of €3.6bn was 50% higher than the same period in 2009, mainly due to a 50% year-on-year fall in current transfers (from €2.1bn to €1.1bn). FDI flows, which stood at €1.8bn (down 29% year-on-year), covered only 50.4% of the current account deficit.

Romania's CPI was up 4.4% year-on-year in June, down from 4.7% at the end of 2009. However, the VAT increase as well as unfavourable agricultural conditions could push the inflation rate to 7% - 8% at the end of 2010.

Romania's total external debt position stood at €87.0bn at the end of June, or 73% of estimated 2010 GDP. Public debt amounted to €42.7bn at the end of May, a 20% YTD increase, but still only 35% of GDP. Of the total public debt, 48% is RON-denominated and 40% is euro-denominated, with the balance of 12% being in other foreign currencies. The National Bank of Romania's foreign reserves (excluding gold) came in at €31.6bn at the end of July, or twice the short-term external debt (€15.8bn).

Due to the fiscal uncertainties, the forex market has been tense over the quarter, with the Romanian currency plunging to a historical low against the euro at the end of June, having depreciated by 3.3% since the beginning of the year. However, after the Romanian government implemented cost cutting measures, the markets relaxed and the Romanian leu appreciated by 2.8% month-on-month in July.

Total domestic non-governmental credit (which excludes loans to financial institutions) amounted to €48.3bn at the end of June, marginally up from €47.3bn at the end of 2009. Inevitably, the economic recession has put pressure on the quality of the banks' assets, with overdue loans amounting to 6.5% of total loans. The Romanian banking system's total loans-to-deposits ratio was around 124% at the end of the second quarter.

Bulgaria

Bulgaria's economic output fell by 1.5% year-on-year in the second quarter, bringing the six-month year-on-year economic decline to 2.5%. Consumption and investments decreased by 6.7% and 7.2% year-on-year, respectively.

However, rising external demand for Bulgarian products contributed to a 22.1% year-on-year increase in exports over January-May, while imports increased by only 2.5%. Consequently, the trade deficit fell by 39.7% over the first five months of 2010, from €2bn to €1.2bn.

Over January-May, Bulgaria's current account deficit was €0.7bn, or 2% of GDP, compared to €2.4bn over the same period in 2009, or 7% of GDP. However, with private capital inflows having fallen sharply, FDI covered only 35.7% of the deficit. Bulgaria's six month budget deficit came in at 2.2% of GDP, down from 2.4% of GDP over the first quarter. Bulgaria has raised its 2010 budget deficit target from the initially planned 0.7% of GDP to 3.8% of GDP. At the same time, the EU has recommended that Bulgaria narrows its budget deficit to 3% of GDP by 2011.

The Bulgarian authorities are committed to maintaining the currency peg regime. During the growth years, this resulted in a disciplined fiscal policy which generated large fiscal surpluses that are now helping Bulgaria weather the global economic crisis. At the end of June, Bulgaria had a fiscal reserve of around €3bn,which was down 28% year-to-date. The budget allows spending of €1bn from the fiscal reserve in 2010 to support anti-crisis and social measures.

Bulgaria's CPI was up 1.4% year-on-year in June, down from 1.9% in May. At the same time, industrial production continued to lose ground, having posted a 0.9% month-on-month fall in May.

While Bulgaria's external debt at the end of May was €36.5bn, or 104.9% of GDP, only 11.7% was attributable to the public sector. Public sector debt increased by 3.1% year-to-date, while private debt fell by 4% over the same period.

The Bulgarian banking system had a total loans-to-deposit ratio of approximately 111% at the end of June. While loans to non-financial institutions remained virtually flat at around €25bn since the end of 2009, the deposit base increased from €22.1bn to €23bn. At the end of June, overdue loans accounted for 15.1% of total loans, up from 14.6% the previous month.

Serbia

According to the National Bank of Serbia (NBS), real GDP grew by 0.6% over the first quarter of 2010. However, given the low FDI flows, and fiscal tightening and high unemployment restraining private consumption, the recovery is expected to be fragile in 2010, with the potential to strengthen in 2011 due to stronger demand from the EU.

The CPI increased by 4.2% year-on-year in June, which is far below the lower band of the NBS's targeted range (5.3% - 9.3%). The NBS's most recent Inflation Report expects the CPI to reach 5% by the end of 2010. However, a weak harvest, energy price hikes, and a weakening dinar are likely to push the inflation rate above the NBS's expectations.

Over the second quarter of 2010, the dinar continued to depreciate (by 4.4%), losing 8.1% year-to-date. Reflecting incertitude in financial markets triggered by the Greek and wider euro zone crises, the dinar depreciated sharply over May and June (4.7%), after a modest appreciation in April of 0.5%. The NBS has tried to counteract depreciation pressures by boosting demand for the dinar on the foreign-exchange market (interventions by the NBS in May and June amounted to €612m) with limited success. Over the first six months of 2010, the NBS has spent €1.6bn in order to ease the deprecation pressures on the dinar.

The trade deficit reached €2.1bn over January - May 2010, representing a 13.8% yearly decline, mostly due to the strong growth in exports (+18.1%) and much lower imports growth (+1.6%). This improvement is mostly driven by increasing foreign demand for iron and steel, non-ferrous metals and agricultural products.

Low aggregate demand, a freeze in public wages and pensions and low inflationary pressures triggered further cuts in the key interest rate in April and May by a total of 150 bp, from 9.5% to 8%, the latter representing a historic low for Serbia.

On 14 June, following a positive assessment of Serbia's co-operation with the International Criminal Tribunal for the former Yugoslavia ("ICTY"), the EU Council of Ministers decided to unblock the ratification process of the EU's stabilisation and association agreement (SAA) with Serbia, conditioned on Serbia maintaining its co-operation with the ICTY.

Important Information