# Reconstruction Capital II Ltd

## (“RC2” or the “Fund”)

# Quarterly Report

# 31 March 2013

neweuropecapital

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## Statistics

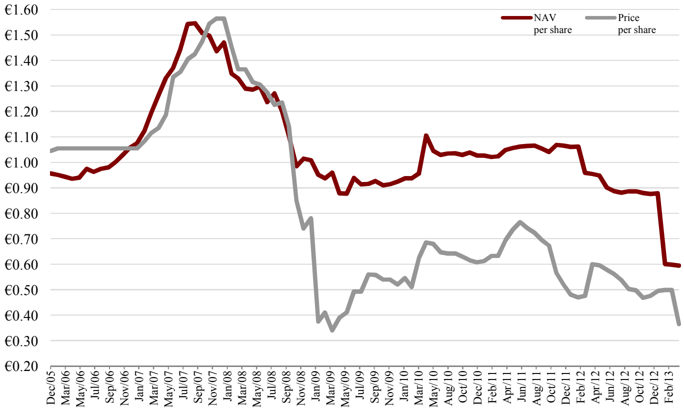
| | |
|---|---|
| NAV per share (€) | 0.5942 |
| Share price (€) | 0.3650 |
| Total NAV (€m) | 59.4 |
| Mk Cap (€m) | 36.5 |
| # of shares (m) | 100.0 |
| NAV return since inception | -37.88% |
| 12-month NAV CAGR | -37.71% |
| NAV annualized Return* | -6.36% |
| NAV annualized Volatility* | 17.30% |
| Best month (NAV) | 15.60% |
| Worst month (NAV) | -31.58% |
| # of months up (NAV) | 45 |
| # of months down (NAV) | 42 |

**since inception*

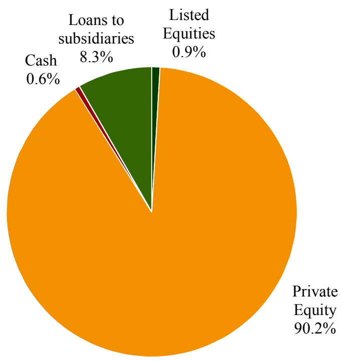
## RC2 NAV returns

| | 2009 | 2010 | 2011 | 2012 | 2013 |
|---|---|---|---|---|---|
| Jan | -5.65% | 1.36% | -0.54% | 0.11% | -31.58% |
| Feb | -1.51% | 0.03% | 0.24% | -9.68% | -0.50% |
| Mar | 2.39% | 2.07% | 2.48% | -0.51% | -0.64% |
| Apr | -8.40% | 15.60% | 0.70% | -0.65% | |
| May | -0.26% | -5.42% | 0.55% | -4.98% | |
| Jun | 3.08% | -1.57% | 0.25% | -1.48% | |
| Jul | 1.08% | 0.53% | 0.13% | -0.73% | |
| Aug | 0.23% | 0.07% | -1.10% | 0.61% | |
| Sep | 1.20% | -0.62% | -1.25% | 0.01% | |
| Oct | -1.79% | 0.96% | 2.63% | -0.81% | |
| Nov | 0.46% | -1.15% | -0.25% | -0.38% | |
| Dec | 1.08% | -0.06% | -0.49% | 0.30% | |
| YTD | -8.38% | 11.07% | 3.32% | -17.17% | -32.35% |

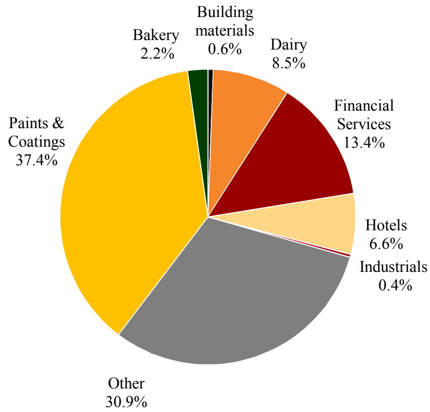
## Share price / NAV per share (€)




## Portfolio Structure by Asset Class

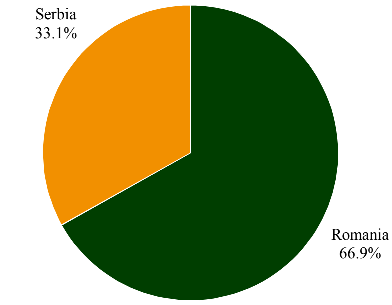



## Equity Portfolio Structure by Sector




*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 fell by 32.4% over the first quarter of 2013, ending the period at €0.5942. This was mainly the result of the yearly independent valuation exercise, which resulted in substantial write-downs in the valuations of East Point Holdings, Policolor, Top Factoring, Klas and Mamaia Resort Hotels.

The performance of East Point Holdings' operating divisions has deteriorated over the quarter, and the group also suffered from having deposits at Laiki Bank, where the Cyprus authorities are requiring uninsured deposits (i.e the portion over €0.1m) to be used to bail-in the bank.

On the other hand, all the Romanian companies are continuing to perform satisfactorily and broadly on budget. Although Policolor's results for the first quarter are not particularly significant, as this is the low season for sales of paints in South East Europe, they came in above budget. Top Factoring was broadly on budget, whilst Albalact achieved an 18% growth in sales compared to the same period last year, although its EBITDA fell due to a weaker gross margin. Mamaia Resort Hotels, which is a seasonal operation, is hardly active over the first quarter, but management expects a strong 2013 summer season, due to improved tariffs and the award of a new concession to operate the beach in front of the hotel.

Whilst the Investment Adviser has continued to make progress on the sale of Top Factoring by means of an organized sales process, and the Policolor land by direct negotiations, no breakthroughs were achieved over the quarter.

At the end of the quarter, the Fund had cash and cash equivalents of approximately €0.3m, compared to €1.5m at the end of the previous quarter. The Fund's borrowings (excluding borrowings of investee companies) amounted to €4.8m, whilst overdue amounts owed to the Investment Manager and Advisers amounted to €3.7m.

Yours truly,

New Europe Capital

## East Point Holdings Ltd

### Background

East Point Holdings Ltd ("EPH" or the "Group") is a Cyprus-based holding company which operates along the following main business lines: Copper Processing, Cable Production, Bakeries, Milling and Real Estate. 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. Over 2011, RC2 increased its shareholding from 42.0% to 59.0%, pursuant to an asset swap agreed with EPH's founding shareholders, whereby the founding shareholders of the business were due to exit the business completely by early 2012 in exchange for non-core assets. In February 2012, RC2 completed the final phase of the asset swap, increasing its shareholding in EPH from 59.0% to 63.0%. In March 2010, RC2 acquired a direct 11.1% shareholding in Klas DOO ("Klas"), the holding company for EPH's Bakeries business, for €2.7m.

### Deposits at Laiki Bank

EPH and certain subsidiaries had cash holdings amounting to approximately €2.5m at Laiki Bank when the Cyprus government announced that uninsured deposits in excess of €0.1m per depositor will be used to bail-in these banks. Of these, approximately €1.4m was on deposit as security for a performance bond issued in favour of the Serbian Privatization Agency in relation to the privatization of Novkabel, EPH's cable producer. According to the latest information received from Cyprus, the monies on deposit for the performance guarantee will be transferred to a "good bank" (together with the guarantee) and therefore will not be affected. Regarding the balance of €1.1m, it appears that EPH will be able to recover at least €0.3m, as three separate companies of the group had deposits at Laiki Bank, each one with a €0.1m insured amount, whilst the remaining €0.8m is indefinitely blocked and subject to substantial write-downs. However, the situation is still subject to change and is being monitored on a daily basis.

### Copper Processing (EPM)

| *(EUR m)* | 2011 | 2012 | 2013B | 1Q12 | 1Q13 | 1Q13B |
|---|---|---|---|---|---|---|
| **Income Statement** | | | | | | |
| **Net Sales** | 219.4 | 181.7 | 200.3 | 43.4 | 34.7 | 42.6 |
| **EBITDA** | 4.8 | 5.8 | 8.5 | 1.1 | 0.1 | 1.2 |
| *EBITDA margin* | *2.2%* | *3.2%* | *4.2%* | *2.6%* | *0.4%* | *2.7%* |
| **Profit after Tax** | (4.9) | (1.0) | 2.4 | (1.9) | (1.1) | (0.3) |
| *Net margin* | *-2.2%* | *-0.5%* | *1.2%* | *-4.3%* | *-3.1%* | *-0.6%* |

The performance of EPM's copper business deteriorated over the first quarter, mainly due to volumes sold being down 15.4% and 16% below budget. The main reason for the fall in sales was reduced access to trade finance, as the existing providers have reduced the availability of their lines, whilst EPH's attempts to access a new trade finance facility have been significantly delayed. However, lower demand in western Europe (mainly Italy) and Russia also contributed to the fall in sales. The fall in sales in Western Europe and Russia was partially offset by an increase in volumes sold in Central Europe and the former Yugoslav countries. As a result of the decline in sales, the EBITDA margin fell from 2.6% in 1Q2012 to 0.4% in 1Q2013.

### Cable Production

| *(EUR '000)* | 2011A* | 2012** | 2013B | 1Q12** | 1Q13** | 1Q13B |
|---|---|---|---|---|---|---|
| **Income Statement** | | | | | | |
| **Net Sales** | 36,779 | 32,277 | 36,890 | 6,935 | 4,097 | 5,694 |
| **EBITDA** | (387) | (162) | 286 | (328) | (775) | (868) |
| *EBITDA margin* | *-1.1%* | *-0.5%* | *0.8%* | *-4.7%* | *-18.9%* | *-15.2%* |
| **Profit after Tax** | (387) | 270 | (1,019) | (2,290) | (567) | (1,194) |
| *Net margin* | *-1.1%* | *0.8%* | *-2.8%* | *-33.0%* | *-13.8%* | *-21.0%* |

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

During the first quarter of 2013, Novkabel, EPH's cable producer experienced a 29% year-on-year fall in volumes sold, mainly as a result of much lower sales on the Russian market. Despite lower sales on the Russian market, the EBITDA was better than budgeted, mainly due to operational improvements implemented during 2012. In late March, a new sales manager with extensive experience of EU markets was hired, in order to strengthen Novkabel's presence in western Europe.

### Milling

| *(EUR '000)* | 2011A* | 2012** | 2013B | 1Q12** | 1Q13** | 1Q13B |
|---|---|---|---|---|---|---|
| **Income Statement** | | | | | | |
| **Net Sales** | 13,687 | 12,495 | 12,680 | 2,801 | 2,587 | 3,292 |
| **EBITDA** | 2,873 | 2,275 | 1,252 | 571 | 278 | 251 |
| *EBITDA margin* | *21.0%* | *18.2%* | *9.9%* | *20.4%* | *10.7%* | *7.6%* |
| **Profit after Tax** | 1,782 | 1,880 | 1,069 | 314 | 253 | 216 |
| *Net margin* | *13.0%* | *15.0%* | *8.4%* | *11.2%* | *9.8%* | *6.6%* |

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

EPH's flour mill's sales were €2.6m over the first quarter, 21% below budget. However, EBITDA came in 10% above budget mainly due to Zitomlin remaining focused on margins and keeping higher prices than its competitors, and a good wheat procurement strategy.

### Bakeries

| *(EUR '000)* | 2011A* | 2012** | 2013B | 1Q12** | 1Q13** | 1Q13B |
|---|---|---|---|---|---|---|
| **Income Statement** | | | | | | |
| **Net Sales** | 20,260 | 17,061 | 16,823 | 4,104 | 3,955 | 3,401 |
| **EBITDA** | (438) | (1,308) | (73) | (205) | (648) | (449) |
| *EBITDA margin* | *-2.2%* | *-7.7%* | *-0.4%* | *-5.0%* | *-16.4%* | *-13.2%* |
| **Profit after Tax** | (1,286) | (7,577) | (2,416) | (945) | (1,311) | (961) |
| *Net margin* | *-6.3%* | *-44.4%* | *-14.4%* | *-23.0%* | *-33.2%* | *-28.2%* |

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

During the first quarter of 2013, EPH's bakery division continued to experience difficulties due to government controls capping bread prices and delays in relocating production to its new state-of-the-art facility on the outskirts of Belgrade. These delays have been caused by bureaucratic obstacles in getting an operating permit for the new plant from the Serbian fire authorities. EBITDA was a negative €0.6m, 40% worse than the budget, despite revenues coming in 16% above budget at €4.0m. However, the EBITDA loss includes €0.2m of extraordinary expenses for redundancies as the company continued to reduce its personnel, cutting its workforce by 25 employees over the quarter, with an additional reduction of 25 planned for the second quarter. Following the departure of the CEO in late March, a new manager with over 20 years of experience in FMCG companies was hired in April.

## Policolor Group

### Background

RC2 has a 40.0% 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, and a producer of thermo-insulation materials, resins and specialty chemicals. The Group comprises Policolor SA, a Romanian company, and Orgachim AD, its 91% owned Bulgarian subsidiary. Both Policolor and Orgachim are unlisted. Over the quarter, Policolor increased its shareholding in Orgachim from 82% to 91%.

### Group Financial results

| *(EUR '000)* | 2011A* | 2012 ** | 2013 B | Q1 2012** | Q1 2013A** | Q1 2013B |
|---|---|---|---|---|---|---|
| **Income statement (according to IFRS)** | | | | | | |
| **Total operating revenues** | **74,030** | **62,503** | **67,255** | **10,889** | **10,549** | **9,827** |
| Operating expenses | (74,618) | (62,049) | (64,884) | (11,715) | (11,994) | (11,699) |
| **Operating profit** | **(588)** | **454** | **2,371** | **(826)** | **(1,445)** | **(1,872)** |
| *Operating margin* | *-0.8%* | *0.7%* | *3.5%* | *-7.6%* | *-13.7%* | *-19.0%* |
| Depreciation | 2,923 | 3,412 | 3,480 | 860 | 875 | 825 |
| **EBITDA** | **2,335** | **3,866** | **5,851** | **34** | **(571)** | **(1,047)** |
| *EBITDA margin* | *3.2%* | *6.2%* | *8.7%* | *0.3%* | *-5.4%* | *-10.7%* |
| Financial Profit/(Loss) | (1,185) | (997) | (1,313) | (336) | (129) | (317) |
| **Profit before tax** | **(1,774)** | **(543)** | **1,058** | **(1,162)** | **(1,574)** | **(2,189)** |
| **Profit after tax** | **(1,783)** | **(685)** | **812** | **(1,160)** | **(1,574)** | **(2,189)** |
| Minority interest | 133 | 123 | - | 101 | 126 | 175 |
| **Profit for the year** | **(1,650)** | **(561)** | **812** | **(1,059)** | **(1,448)** | **(2,014)** |
| *exchange rate (RON/EUR)**** | *4.238* | *4.450* | *4.500* | *4.353* | *4.385* | *4.500* |

** Audited financial statement ** Unaudited financial statements *** Average exchange rate*

Due to the low level of paint sales over the winter months, the Group's first quarter results do not provide a clear indication of how the new year is likely to develop. Furthermore, due to the high fixed costs and low sales over the winter, the quarter is traditionally loss-making. However, it is worth noting that the Group managed to slightly exceed its budget in terms of sales due to higher than expected coatings sales, whilst the EBITDA loss was almost €0.5m lower than expected, albeit below the strong result achieved in Q1 of last year, which was entirely due to an unusually robust performance of the non-core anhydrides division due to excellent market conditions.

The paints and coatings divisions increased sales by 8% year-on-year whilst reducing its quarterly EBITDA loss by 30%. Management's focus is on strengthening the gross margin by improving formulations and optimising costs, and re-investing part of the savings in higher marketing spend, whilst improving the organisation of the sales force. Compared to a very good first quarter in 2012, Orgachim's anhydrides sales were €2m lower so far this year. However, the worsening market conditions were anticipated by management and the division's actual results were in line with the budget.

### Operations

Over the first quarter, the Group replaced the anti-fire installation at its solvent-based coatings production plant with new a state-of-the-art system.

Over the past few months, a number of new senior sales and marketing executives were recruited, both in Romania and Bulgaria; the portfolios of products were restructured with a focus on profitable brands and products; and a clear brands positioning policy has been developed to be implemented over the year.

The Group management has progressed in its negotiations with its insurer to recover its claim resulting from a fire at its resins department last year, and an advance has already been paid to Orgachim. The reconstruction of the resins plant has started, but the initial expectation to restart production at Orgachim's own plant over the summer has proven to be unrealistic. Management now expects its resins plant to re-start during the fourth quarter of 2013. Meanwhile, Orgachim is continuing to produce resins at two external plants. However, these sales are generating marginal EBITDA due to the additional costs of operating at third-party sites, and are therefore being effected primarily to retain key customers until the re-build of Orgachim's own plant is completed.

Orgachim has started a demerger project aimed at separating its business lines into three independent entities, active in paints and coatings, resins and anhydrides. The separation plan is in progress and Orgachim aims to register the new companies by the end of the third quarter.

Policolor has made progress in re-zoning its 14ha of land located on the eastern periphery of Bucharest, which is necessary prior to effecting a sale. It has been granted the technical approval of the authorities, and is hoping to obtain the final approval over the summer. The re-zoning permit will change the land's destination from industrial to commercial, retail and services.

## Top Factoring

### Background

Top Factoring ("Top Factoring") 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 purchase part of the business is undertaken by an SPV also 93%-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

| *(EUR '000)* | 2011* | 2012** | 2013B | 1Q12** | 1Q13** | 1Q13B |
|---|---|---|---|---|---|---|
| **Combined Group Income Statement** | | | | | | |
| **Total Gross Operating Revenues** | **5,549** | **8,738** | **10,107** | **1,978** | **2,226** | **2,319** |
| Debt portfolios (collections) | 4,571 | 7,657 | 9,138 | 1,721 | 1,996 | 2,030 |
| Agency contracts | 978 | 1,082 | 969 | 257 | 230 | 289 |
| Amortization of debt portfolios | (1,274) | (3,423) | (4,357) | (552) | (897) | (883) |
| **Total Net Operating Revenues** | **4,275** | **5,315** | **5,751** | **1,427** | **1,329** | **1,436** |
| **Total Operating Expenses** | **(2,940)** | **(3,357)** | **(3,393)** | **(878)** | **(822)** | **(875)** |
| **Operating Profit** | **1,335** | **1,958** | **2,357** | **549** | **506** | **561** |
| **EBITDA** | **1,398** | **2,072** | **2,463** | **567** | **534** | **587** |
| *EBITDA margin* | *32.7%* | *39.0%* | *42.8%* | *39.8%* | *40.2%* | *40.9%* |
| Financial Profit/(Loss) | (150) | (197) | (192) | (73) | (50) | (52) |
| **Profit before Tax** | **1,185** | **1,761** | **2,165** | **476** | **457** | **509** |
| Income Tax | (111) | (191) | (217) | (48) | (46) | (51) |
| **Profit after Tax** | **1,074** | **1,569** | **1,949** | **428** | **411** | **458** |
| *Net margin* | *25.1%* | *29.5%* | *33.9%* | *30.0%* | *30.9%* | *31.9%* |
| *Avg exchange rate (RON/EUR)* | *4.238* | *4.456* | *4.400* | *4.353* | *4.385* | *4.400* |

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

First quarter gross revenues increased by 12.5% year-on-year, but were slightly below budget. The quarterly impairment test on proprietary portfolios resulted in a net write down of €120,000 as at 31st March, mainly generated by two of the telecoms portfolios, while a few banking portfolios were re-valued upwards. The impairment gets booked as additional amortization expense and consequently reduces the net revenues. The net profit of €0.4m was virtually unchanged compared to the same period last year, and slightly below budget.

The debt purchase line accounted for 83% of net operating revenues, of which banking portfolios generated 58% (up from 18% in the first quarter of 2012). Agency contracts generated the remaining 17% of net revenues.

### Operations

In April, after a one-month delay, the Group managed to renew its one-year framework agreement with a leading Romanian bank, whereby it acquires NPL portfolios which meet certain pre-established criteria on a monthly basis. As at the end of March, the Group owned 27 debt packages (eleven telecoms and sixteen banking) made up of 747,000 cases with a total face value of €196m.

The Group's efforts to strengthen its field and legal collection profit centres paid off, as these departments generated a combined 16% of total gross revenues in the first quarter, up from 4.9% over the same quarter last year. In particular, the legal collection department generated 10% of gross collections in 1Q2013, up from 0.5% in 1Q2012. This is important as it enables the group to develop new revenue streams, in addition to those generated by its call centre, which generated 84% of gross collections over 1Q2013, down from 95.1% in 1Q2012.

## Albalact

### Background

Albalact SA ("Albalact" or the "Company") is a Romanian dairy company quoted on the RASDAQ section of the Bucharest Stock Exchange in which RC2 owns a 25.4% stake under its Private Equity Programme. A local entrepreneur and his family own 45%, with the remaining 29.6% representing the free float. With Albalact's market capitalization increasing by 6.3% over the quarter, RC2's shareholding in Albalact had a market value of €5.3m as at 31 March, compared to €5.0m at the end of the previous quarter.

### Financial results

| *(EUR '000)* | 2011A* | 2012* | 2013B | 1Q12** | 1Q13** |
|---|---|---|---|---|---|
| **Standalone Income Statement** | | | | | |
| **Sales Revenues** | **79,814** | **77,164** | 87,374 | **19,840** | **23,361** |
| Other operating revenues | 2,267 | 192 | (594) | 748 | (159) |
| **Total Operating Revenues** | **82,081** | **77,356** | **86,780** | **20,588** | **23,202** |
| Total Operating Expenses | (79,842) | (74,946) | (83,411) | (19,546) | (22,427) |
| **Operating Profit** | **2,238** | **2,410** | 3,369 | **1,042** | **775** |
| *Operating margin* | *2.7%* | *3.1%* | *3.9%* | *5.1%* | *3.3%* |
| **Recurring EBITDA** | **3,598** | **5,655** | **6,065** | **1,735** | **1,496** |
| EBITDA from non-recurring sale of non-core assets | 1,412 | (429) | - | - | - |
| **Total EBITDA** | **5,009** | **5,225** | **6,065** | **1,735** | **1,496** |
| *EBITDA margin* | *6.1%* | *6.8%* | *7.0%* | *8.4%* | *6.4%* |
| Financial Profit/(Loss) | (632) | (450) | 384 | (297) | (57) |
| **Profit before Tax** | **1,607** | **1,960** | **3,753** | **745** | **718** |
| Income Tax | (246) | (317) | (600) | (120) | (105) |
| **Profit after Tax** | **1,361** | **1,643** | **3,152** | **625** | **613** |
| *Net margin* | *1.7%* | *2.1%* | *3.6%* | *3.0%* | *2.6%* |
| *Avg exchange rate (RON/EUR)* | *4.238* | *4.456* | *4.400* | *4.353* | *4.385* |

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

Albalact has released its standalone results both for the year ended 31 December 2012 and the first quarter of 2013.

Albalact's 2012 strategy was focused on increasing its profitability by improving its sales mix and better cost controls, whilst maintaining its market share. Although Albalact's 2012 RON-denominated sales increased by a modest 1.7% in 2012 (and fell by 3.3% in euro-terms due to the 5.1% year-on-year depreciation of the average exchange rate), the Company's recurring EBITDA (before gains or losses from the sale of assets) increased by 57% from €3.6m to €5.7m in 2012.

At a shareholder meeting held on the 29th April, the Company decided to distribute all its 2012 distributable profit, the first distribution since 1998. As a result, RC2 will receive net dividends of approximately €350,000.

The Company's 2013 first quarter performance was excellent in terms of sales, with an 18% increase over the same period last year. However, the EBITDA was 14% lower due to a weaker gross margin.

### Operations

In 2012, Albalact processed 79.5m litres of milk, 9.3% lower than in 2011. Despite the lower quantities of milk processed, the Company's sales were stable year-on-year in RON terms, due to a larger share of higher value-added products, such as yoghurts and cheese. In terms of raw milk sourcing, Albalact has been focusing on collecting more quality raw milk from Romanian farms, thereby reducing collection and transportation expenses.

Albalact has continued to consolidate its position as the second largest player on the Romanian market, and the leader in pasteurized milk, butter and sour cream.

**Prospects**

The Company's 2013 budget targets a 13.3% year-on-year increase in sales from €77.4m to €87.6m, and a significant increase in the net profit from €1.6m to €3.2m. Albalact is expecting to significantly improve its market share in fresh cheese, following its entry in this segment last year, as well as in yoghurts, where it is currently the third largest player on the market.

## 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 Mamaia, Romania's premium seaside resort next to Constanta. In March 2008, RC2 acquired 63% of the Company, with the remaining 37% being owned by a Romanian private individual.

| (EUR '000) | 2011A* | 2012A* | 2013B | 1Q12** | 1Q13** | 1Q13B |
|---|---|---|---|---|---|---|
| **Income Statement** | | | | | | |
| **Sales Revenues** | **1,664** | **1,744** | **2,021** | **88** | **25** | **54** |
| Other operating revenues | 7 | 81 | 26 | 5 | 5 | - |
| **Total Operating Revenues** | **1,671** | **1,825** | **2,047** | **93** | **29** | **54** |
| Total Operating Expenses | (1,563) | (1,598) | (1,662) | (253) | (153) | (167) |
| **Operating Profit** | **108** | **227** | **385** | **(160)** | **(124)** | **(113)** |
| *Operating margin* | *6.5%* | *12.4%* | *18.8%* | *neg.* | *neg.* | *neg.* |
| **EBITDA** | **437** | **457** | **601** | **(85)** | **(75)** | **(59)** |
| *EBITDA margin* | *26.2%* | *25.0%* | *29.4%* | *neg.* | *neg.* | *neg.* |
| Financial Profit/(Loss) | (153) | (172) | (120) | (53) | (45) | (64) |
| **Profit before Tax** | **(45)** | **55** | **265** | **(214)** | **(169)** | **(177)** |
| Income Tax | - | - | - | - | - | - |
| **Profit after Tax** | **(45)** | **55** | **265** | **(214)** | **(169)** | **(177)** |
| *Net margin* | *neg.* | *3.0%* | *12.9%* | *neg.* | *neg.* | *neg.* |
| *Avg exchange rate (RON/EUR)* | *4.238* | *4.456* | *4.400* | *4.353* | *4.385* | *4.400* |

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

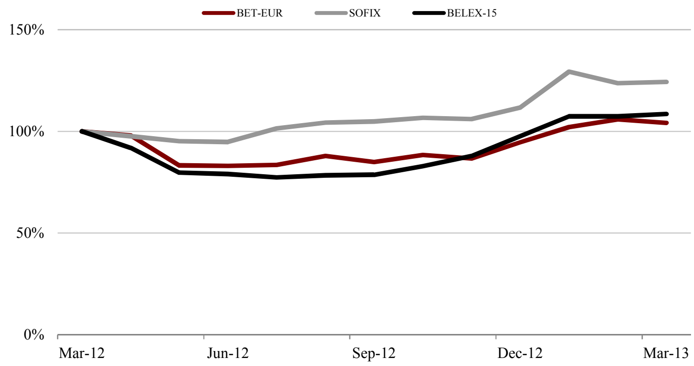
Between January and April, in order to minimize costs during the peak of the low season, management decided to keep the Hotel open only for corporate events. This resulted in negligible revenues, but a smaller loss than last year.

Nevertheless, management is optimistic that it will meet its budget for the year, as demand for the peak season is very encouraging. The occupancy rate over the first week of May (which is the beginning of the summer season in Mamaia and this year coincided with the Orthodox Easter holiday) reached 75%, a record for the Hotel in recent years.

In May, the Company was awarded a 10-year concession over the 3,300sqm beach in front of the Hotel (this had previously been awarded to another operator). The concession will allow the Hotel to offer its customers a complete hospitality product, especially as the quality of the beach services has often been a cause of discontent for its customers. Management also expects the beach to become a profit centre for the Hotel.

## Capital Market Developments

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




**Commentary**

During the fourth quarter, stock markets in the region experienced a strong rebound, with the BET-EUR gaining 11.4 %, the SOFIX 6.6%, and the BELEX-15 24.2 %, all in euro terms. Over the past year, the BET-EUR index gained 15.6%, the SOFIX 7.2%, while the BELEX-15 remained flat, all in euro-terms.

By comparison, over the same period, the MSCI Emerging Market Eastern Europe index was up 11.2%, the MSCI Emerging Market index 13.1%, the FTSE100 index 8.9% and the S&P index 11.4%, all in euro terms.

## Macroeconomic Overview

### Overview

| | RO | as of: | BG | as of: | SRB | as of: |
|---|---|---|---|---|---|---|
| GDP Growth (y-o-y) | 2.1% | 3M13 | 0.4% | 3M13 | -1.7% | FY12 |
| Inflation (y-o-y) | 5.3% | 3M13 | 2.7% | 3M13 | 11.2% | 3M13 |
| Ind. prod. growth (y-o-y) | 5.4% | Feb-13 | -3.6% | Mar-13 | 13.1% | Feb-13 |
| Trade balance (EUR bn) | -0.5 | 2M13 | -0.4 | 2M13 | -0.4 | 3M13 |
| *y-o-y* | *-47.6%* | | *-36.9%* | | *-63.8%* | |
| FDI (EUR bn) | 0.2 | 2M13 | 0.0 | 2M13 | 0.1 | 2M13 |
| *y-o-y change* | *-15.1%* | | *-92.3%* | | *n/a* | |
| Total external debt/GDP | 70.4% | Feb-13 | 89.7% | Feb-13 | 80.4% | Feb-13 |
| Reserves to short-term debt | 163.9% | Feb-13 | 135.5% | Feb-13 | 2857.1% | Feb-13 |
| Loans-to-deposits | 111.5% | Mar-13 | 90.4% | Mar-13 | 109.0% | Feb-13 |
| Public sector debt-to-GDP | 36.4% | Jan-13 | 16.2% | Feb-13 | 58.4% | Mar-13 |

### Commentary

*Romania*

Romania's 1Q2013 GDP increased by 0.5% quarter-on-quarter, whilst the eurozone's GDP fell by 0.2%. Year-on-year, Romania's first quarter GDP increased by 2.1%. According to revised numbers from the National Statistics Institute, Romania's 4Q2012 GDP grew by 0.7% year-on-year, higher than the previously reported 0.1%. 2012 GDP increased by 0.7%, down from 2.5% the previous year. The IMF is now forecasting 1.6% GDP growth in 2013, and a positive sign came from industrial production, which increased by 5.4% year-on-year in February.

Over the first two months, exports grew by 8.1% year-on-year, and imports by 1.3%. Consequently, the January-February 2013 trade deficit improved considerably, falling 47.6% compared to the same period last year, from €1bn to €0.5bn. The improvement in the trade balance, together with a 50% year-on-year improvement in current transfers, resulted in a positive current account balance for the first time since 1990. The current account balance was a positive €0.3bn over January-February 2013, compared to a deficit of €0.7bn over the same period of 2012. FDI flows amounted to only €0.2bn, down 15% year-on-year.

After gaining 1.3% against the euro from the end of December to the end of February due to strong interest in Romanian treasury bills and bonds, the Romanian Leu lost momentum and depreciated by 1% month-on-month in March, resulting in a slight 0.3% appreciation against the euro over the first quarter.

Inflation followed a downward trend, with Romania's CPI falling from 6% at the end of January to 5.3% at the end of March. The National Bank of Romania ("NBR") is confident that it will continue falling and has revised its projection for the 2013 annual CPI growth rate from 3.5% to 3.2%. The NBR is maintaining its 2013 target inflation rate at 2.5%, with a variation band of ±1%.

Over the first quarter, the budget deficit came in at €955m, up 24% year-on-year and equivalent to 0.7% of GDP. The deficit increase was mainly the result of higher personnel expenses (+20% year-on-year, from €2.2bn to €2.6bn). For 2013, the Romanian Government has set a budget deficit target of 2.1% of GDP. After managing to shrink the budget deficit to 2.5% of GDP in 2012, and with good chances of meeting its 2013 target, Romania should be able to exit the EU's excessive deficit procedure. Romania entered this procedure after posting a deficit of 5.4% of GDP in 2008 (the Maastricht criteria provides that the budget deficit of a EU country must not exceed 3% of GDP). Romania's total external debt was €100.4bn at the end of the first quarter, up 1% year-to-date. The public sector debt was €51.5bn at the end of January, virtually unchanged year-to-date and equivalent to 36% of GDP. Romania's improved economic prospects have resulted in lower financing costs, with yields on comparable RON-denominated bonds decreasing from 5.7% in January to 5.0% in March. The NBR's foreign reserves (excluding gold) amounted to €32.2m at the end of February, up from €31.2bn at the end of 2012, allowing it to comfortably cover the country's short-term external debt (€19.6bn).

Total domestic non-governmental credit (which excludes loans to financial institutions) amounted to €50.7bn at the end of 2012, down 1% year-to-date in RON terms. The stock of deposits was €45.5bn at the end of March, up 2% year-to-date in RON terms. Overdue loans accounted for 13.7% of the total loan stock at the end of March, compared to 13% at the end of 2012.

*Bulgaria*

Preliminary data indicate that Bulgaria's economy grew by 0.8% in 2012 and by 0.1% quarter-on quarter over the first quarter of 2013. 1Q2013 GDP has grown by 0.4% year-on-year. The IMF has revised downwards its projection for Bulgaria's GDP growth in 2013 from 1.5% to 1.2%, based on weaker external prospects and a weak labour market. Bulgaria has one of the highest unemployment rates in the EU (12.6% at the end of March). Having grown since December 2012, Bulgaria's industrial production fell by 3.6% year-on-year in March.

Bulgaria's CPI rate was 2.7% at the end of March, down from the 4.2% recorded at the end of 2012. With exports increasing by 18.4% year-on-year and imports growing by 9.2%, the trade deficit fell from €0.6bn over January-February 2012 to €0.4bn over the same period this year, equivalent to 0.9% of GDP. Having increased by 12.8% year-on-year in 2012, exports to non-EU countries gained momentum, increasing by 20.2% year-on-year over the first two months of 2013. FDI inflows were only €40m over the period, down from €0.5bn over the same period in 2012.

Bulgaria's budget deficit was €0.4m, or 1% of GDP, representing a 16% year-on-year increase. The increase in the deficit was mainly triggered by an increase in wages and social expenses, which were up 6.5% from €2.1bn to €2.2bn. Bulgaria's public sector debt was 16.2% of GDP at the end of February, down from 17.6% at the end of 2012. External debt accounted for 54% of the public debt, with domestic debt accounting for the balance of 46%. The country had a solid reserves-to-short-term debt ratio of 136% at the end of February. Despite the recent political turmoil, the currency board remains in place with the leva continuing to be pegged to the euro.

The Bulgarian banking system's total loans-to-deposits ratio was 90% at the end of March, down from 93% at the end of 2012. Whilst loans to non-financial institutions fell by 0.7% from €27.2bn to €27.0bn, the deposit base increased by 2.2% from €29.3m to €29.9m. Overdue loans accounted for 22.5% of total loans at the end of March, slightly up from 22.4% at the end of 2012.

An increase in electricity prices triggered massive street protests in Sofia in January, resulting in the centre-right Citizens for the European Development of Bulgaria party ("GERB") resigning two months ahead of the scheduled parliamentary elections.

*Serbia*

According to a preliminary estimate from the National Bank of Serbia (NBS), Serbia's GDP grew by 1.9% year-on-year during the first quarter of 2013, after falling by 1.7% in 2012. This came as a result of the strong growth in industrial production, which rose by 13.1% year-on-year, mainly driven by the serial production of cars at the new FIAT plant in Kragujevac; increased production of pharmaceutical products; and the re-opening of an upgraded oil refinery in November 2012.

During the first quarter of 2013, the budget deficit amounted to €0.4bn, or 5.3% of GDP, representing a 5.5% year-on-year fall. This was the result of higher tax collections (mostly VAT and corporate profit tax) and lower growth in expenditures, in line with the fiscal consolidation measures enacted in late 2012.

The CPI was 11.2% in March, mainly due to an increase in the excise on tobacco and gas products introduced in February. Further inflationary pressures are expected for the rest of the year, with a 10% electricity price hike announced for June. In order to prevent the knock-on effect on other prices of controlled price hikes, the NBS increased its key policy rate by 25 bps in February to 11.75%.

In February, the government successfully placed a US dollar-denominated eurobond issue, raising USD 1.5bn. In addition, at the beginning of April, the Russian government approved a USD 500m budget support loan, while the government recently announced a USD 400m agricultural development loan from the Development Fund of Abu Dhabi. FDI reached €0.1bn over the first two months of 2013.

The strong 31% year-on-year growth in exports over the first quarter was mainly the result of the start of serial production of cars at FIAT's Serbian factory. Meanwhile, imports increased by only 4.4% year-on-year due to weakening domestic demand. Consequently, the trade deficit fell to €0.4bn at the end of March, well below the €1bn over the same period last year. The recent agreement with Russia to open up its market to duty-free FIAT exports, and Russia's proposal to finance the construction of the Serbian stretch of the South Stream natural gas pipeline, are also important positive developments.

Supported by the tight monetary policy of the NBS, significant investments in domestic treasury bills, and a falling trade deficit, the Serbian dinar stabilized during the first quarter of 2013, having fallen by 8.7% against the euro in 2012.

In April, the governments of Serbia and Kosovo initialled an agreement envisaging the formation of a community of majority Serb municipalities in northern Kosovo, which would replace the Serbs' parallel institutions in Kosovo. Following this agreement, the European Commission recommended opening EU accession talks with Serbia in late June.

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