Reconstruction Capital II Ltd

("RC2" or the "Fund")

Quarterly Report

September 30th, 2011

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Statistics

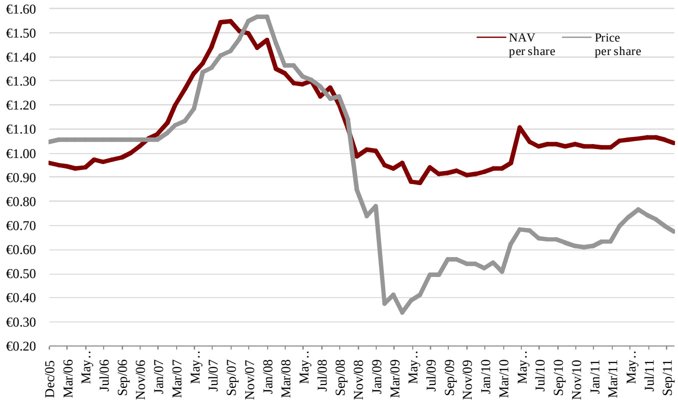
NAV per share (€)	1.0410
Share price (€)	0.6738
Total NAV (€ m)	104.1
Mk Cap (€ m)	67.4
# of shares (m)	100.0
NAV return since inception	8.83%
12-month NAV CAGR	1.16%
NAV annualized Return*	1.48%
NAV annualized Volatility*	13.47%
Best month (NAV)	15.60%
Worst month (NAV)	-10.52%
# of months up (NAV)	40
# of months down (NAV)	29

** since inception*

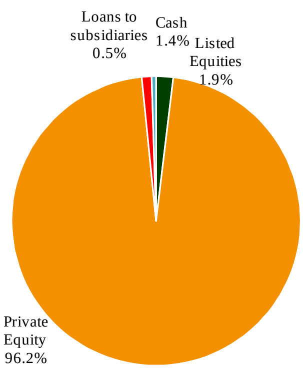
RC2 NAV returns

	2007	2008	2009	2010	2011
Jan	4.70%	-8.27%	-5.65%	1.36%	-0.54%
Feb	6.17%	-1.48%	-1.51%	0.03%	0.24%
Mar	5.90%	-3.03%	2.39%	2.07%	2.48%
Apr	5.05%	-0.26%	-8.40%	15.60%	0.70%
May	3.08%	0.93%	-0.26%	-5.42%	0.55%
Jun	5.19%	-4.75%	3.08%	-1.57%	0.25%
Jul	6.93%	2.85%	1.08%	0.53%	0.13%
Aug	0.22%	-5.55%	0.23%	0.07%	-1.10%
Sep	-2.50%	-8.34%	1.20%	-0.62%	-1.25%
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%	1.42%

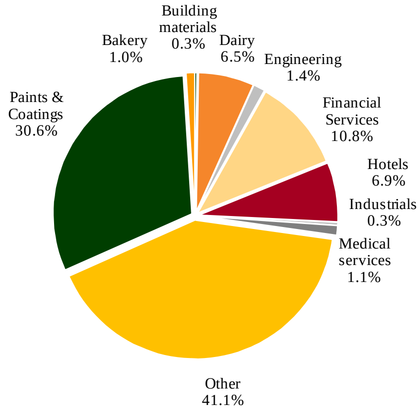
Share price / NAV per share (€)



Portfolio Structure by Asset Class

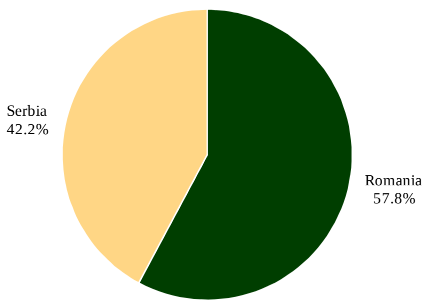


Equity Portfolio Structure by Sector



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

Over the third quarter of 2011, RC2's NAV per share fell by 2.3%, ending the period at €1.0410.The discount to NAV widened from 30.2% to 35.3%, as a result of the share price falling by 10.2%.

EPH's results for the first nine months of 2011 show a definite improvement over the previous year, with EBITDA more than doubling from €3.0m to €6.7m. The overall loss for the nine months is almost entirely explained by one-off losses related to the disposal of non-core assets. In particular, the Milling division had an exceptional result, whilst the Cables Production division has seen sales grow by 42% year-on-year, and in the third quarter returned to profit, achieving its best ever result since privatization. EPH has developed (and is currently implementing) relocation and investment plans at both the Cables Production and Bakery divisions, which should significantly enhance profitability and release substantial surplus real estate for sale. An operational and financial restructuring programme is also being implemented at the Copper Processing business.

Policolor managed to achieve modest sales growth over the first nine months but its gross margin remained under pressure due to rampant raw material inflation throughout the European chemicals sector. Whilst the Group is estimated to have slightly improved its market share, the EBITDA fell from €5.8m to €4.5m over the first nine months. Management is now under pressure to introduce much stronger price increases and to further cut costs across the group.

Top Factoring has seen its nine month sales increase by 47% in 2011, and is on target to achieve EBITDA of €0.9m by year-end. It acquired two new debt portfolios over the third quarter (one in banking and one in telecoms).

Albalact continued to achieve strong euro-denominated sales growth in the first nine months of 2011 (+34% in euro terms) in spite of depressed FMCG consumption, but its EBITDA was almost unchanged due to rising raw milk prices and higher marketing expenses. In August, the Romanian press reported that Albalact had overtaken FrieslandCampinato become the second largest dairy producer in Romania.

Mamaia's EBITDA increased from just above breakeven over the first nine months of last year, to €0.5m over the same period this year, due to severe cost-cutting measures.

At the end of the quarter, the Fund had cash and cash equivalent balances of approximately €1.3m, practically unchanged since the end of June.

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 in Serbia 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 and Real Estate. 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 late 2010, RC2 and Darby agreed a process whereby the founding shareholders of the Group would exit their shareholdings in exchange for certain non-core assets. Once finalized, this process, which is being implemented in steps, would take RC2's shareholding to 63%, with Darby holding the balance of the shares.

Recent Developments

During the third quarter, RC2 increased its shareholding in EPH from 51.6% to 59.0%, as part of the agreement whereby the founding shareholders of the business would exit the business over a number of months in exchange for non-core assets.

Financial Results

(EURm)	2009A	2010A	2011B	9M10**	9M11**
Income Statement (according to IFRS)					
Net Sales	**323.1**	**390.5**	**364.9**	**271.9**	**255.1**
Cost of Sales	(273.0)	(351.7)	(325.6)	(243.2)	(221.7)
Gross Profit	50.1	38.9	39.3	28.7	33.4
EBITDA	**8.2**	**1.4**	**10.7**	**3.0**	**6.7**
EBITDA margin (%)	*2.5%*	*0.4%*	*2.9%*	*1.1%*	*2.6%*
Depreciation	(8.2)	(7.1)	*n/a*	(5.1)	(4.9)
Release of negative good will	6.8	0.0	*n/a*	-	-
Other income / expense, net	(1.3)	42.1	*n/a*	0.1	(5.6)
Creditors / Debt write-off	18.6	(2.8)	*n/a*	(0.1)	(0.7)
Impairment charge of assets	0.8	(0.9)	*n/a*	-	-
FV adjustment on investment property	(1.0)	(0.8)	*n/a*	-	-
Exceptional items	2.8	(16.6)	*n/a*	(2.8)	(5.1)
EBIT	**26.7**	**15.3**	**5.9**	**(4.9)**	**(9.6)**
EBIT margin (%)	*8.3%*	*3.9%*	*1.6%*	*-1.8%*	*-3.8%*
Net interest (expenses)	(9.0)	(7.8)	(7.5)	(4.6)	(5.5)
FX gain (loss)	(3.5)	(4.4)	n/a	(7.7)	2.0
Share of profit (loss) of associates	(0.7)	(0.1)	n/a	(0.2)	0.3
Income/(loss) before taxes	**13.4**	**3.0**	**(1.7)**	**(17.4)**	**(12.8)**
Income tax (expense)/benefit	(0.7)	0.6	(0.2)	(0.2)	(0.2)
Profit/ (loss) from continued operations	**12.7**	**3.5**	*n/a*	**(17.6)**	**(12.9)**
Profit/ (loss) from discontinued operations	**(55.6)**	**(11.7)**	*n/a*	**(10.7)**	**0.5**
Profit/ (loss) for the year	**(42.9)**	**(8.1)**	**(1.8)**	**(28.3)**	**(12.5)**
Minority interest	(0.1)	(0.9)	*n/a*	(1.1)	(0.5)
Owners of the parent	(42.9)	(7.3)	(1.8)	(27.2)	(12.0)

*Note: 2009 & 2010 audited accounts; * unaudited management accounts;*

Despite a 6.2% year-on-year fall in revenues, caused almost entirely by lower volumes at the Copper Processing division, EPH's nine-month results show a significant improvement at EBITDA level, due to improving profitability at the Milling and Cable Production divisions. The exceptional items, write-offs and other expenses totalling €11.4m are mainly attributable to losses on the disposal of non-core assets, and are the main reasons for the overall loss of €12.0m during the period. As such, they are not related to the day-to-day operations of the ongoing business lines.

Copper Processing

The Copper Processing division's revenues (€179.0m) and EBITDA (€4.6m) for the first nine monthswere virtually unchanged over the previous year, if one excludes the €1.0m impact of the fall in the value of the division's copper stocks, due to a sharp fall in the price of copper in the third quarter. A new management team recruited earlier in 2011 has put together a comprehensive restructuring plan for the business, including (1) selective price increases and a focus on more cash-generative products and geographical markets, (2) higher use of recycled metal, (3) reorganization of theinternational sales offices, and (4) the introduction of an ERP system. The new management team is targeting sales of approximately €211m in 2012, and a gross margin of approximately 10.7%, compared to an expected gross margin of 8.7% this year. The EBITDA level is expected to reach €9.7m in 2012, or 4.6% of sales, a significant increase over the 2.5% EBITDA margin expected in 2011.

Cable Production

Strong volume growth at cable producer Novkabel resulted in its first profitablequarter since privatization, with third quarter EBITDA coming in at €0.5m. Volumes reached 5,600 tons over the first nine months, a 42.7% year-on-year increase, mainly due tostrong sales in Russia where Novkabel gained several large new customers. Novkabel's nine-month EBITDA was still negative at €-0.4m. However, excluding €0.7m of one-off expenses, EBITDA would have reached €0.3m, representing a significant improvement over the negative €1.4m generated during the first nine months of 2010.

EPH and Novkabel's management have designed a relocation and investment plan to be implemented in 2012 which involves the consolidation of production from six production halls spread out over around 32ha of land, to the three most recently-built halls concentrated in an area comprising 10ha. This should generate substantial savings in energy, labour and maintenance expenses, taking the EBITDA margin to around 6% to 7% in the next couple of years and freeing up 22ha of surplus land in Novi Sad, Serbia's second largest city. Accordingly, the plan is to achieve sales of approximately €52m and €55m and EBITDA of approximately €1.1m and €2.5m, in 2013 and 2014, respectively.

Since the beginning of 2010, EPH has invested approximately €7m in Novkabel, including €2m for working capital and €5m in equipment. Over the summer, a new plastic cable line was acquired from a bankrupt company at 50% of its nominal value, and its installation is in the final stages. Moreover, a new extrusion line and equipment used to make cables for the oil drilling industry should be installed over the next few months.

To complete the consolidation plan, the remaining investment need is estimated at about €4.0m, including €0.6m for infrastructure improvements and the adaptation of buildings. The remainder would be invested in a new rubber cables line, and the relocation and refurbishment of existing production lines. This investment is also needed to meet EPH's investment obligations to the Serbian Privatization Agency pursuant to its acquisition of Novkabel in 2009.

Bakeries

Over the first nine months of 2011, the Bakery division achieved sales of €17.5m, slightly higher than the €16.7m generated over the same period last year. However, a negative EBITDA result of €0.4m during the first six months of the year resulted in the CEO being replaced over the summer, with a bakery business veteran with over twenty years of turnaround management experience brought in to improve the business. Partly as a result of improved market conditions but also due to the cost-cutting efforts of the new CEO, the gross margin increased to 41.7% over the third quarter (compared to 36.2% during the first half of 2011), while the quarterly EBITDA loss was reduced to €0.1m. Most encouraging of all, the September EBITDA reached €0.2m, and is expected to remain positive until the end of the year.

The new management team has developed an investment and relocation plan which is currently being implemented and is expected to be fully completed in 2012. This involves shutting down production at Klas's main bakery facility and transferring it to one of its two satellite Belgrade plants. The plan, which involves a total investment of €4.2m, should generate around €2.0m of savings per annum, driving the EBITDA margin from 4.5% in 2012 to 11.9% in 2014. This plan should also allow EPH to fulfil its investment commitments to the Serbian Privatization Agency, and will free up significant surplus real estate valued by CBRE at over €20m over 2008-2009, but probably worth significantly less in current market conditions.

Milling

Over the past 12 months (the milling performance is best viewed over the August-to-August cycle between harvests), the Milling division achieved its best-ever results. Excluding two demerged smaller flour mills, the division achieved sales of €11.4m during the first nine months, compared to €5.6m over the same period last year. Favourable marketconditions and a clever sourcing strategy resulted in the nine-month EBITDA reaching €2.7m, compared to €0.7m over the first nine months of 2010.

Policolor Group

Policolor ORGACHIM

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, an unlisted Romanian company, and Orgachim AD, its 75.3% owned Bulgarian subsidiary which is quoted on the Bulgarian Stock Exchange.

Financial results

(EUR '000)	2009A*	2010A*	2011B	9M 2010A**	9M 2011A**
Income statement (according to IFRS)					
Sales revenues	**71,792**	**67,187**	**79,170**	**56,326**	**59,177**
Other operating revenues	2,030	1,737	1,499	490	491
Total operating revenues	**73,822**	**68,924**	**80,669**	**56,816**	**59,668**
Total Operating Expenses	(70,609)	(67,924)	(74,914)	(53,518)	(57,519)
Operating profit	**3,213**	**1,000**	**5,755**	**3,298**	**2,150**
Operating margin	*4.4%*	*1.5%*	*7.1%*	*5.8%*	*3.6%*
EBITDA	**9,078**	**4,209**	**9,091**	**5,757**	**4,484**
EBITDA margin	*12.3%*	*6.1%*	*11.3%*	*10.1%*	*7.5%*
Financial Profit/(Loss)	(1,023)	(740)	(1,355)	(535)	(880)
Other extraordinary items		(1,214)	(100)		
Profit before tax	**2,190**	**(953)**	**4,300**	**2,763**	**1,270**
Income tax	282	(441)	(570)	(403)	7
Profit after tax	**2,472**	**(1,394)**	**3,730**	**2,361**	**1,276**
Minority interest	(163)	(28)	(528)	(411)	(168)
Profit for the year	**2,309**	**(1,422)**	**3,202**	**1,950**	**1,109**
Avg exchange rate (RON/EUR)	*4.237*	*4.210*	*4.200*	*4.184*	*4.206*

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

Policolor managed to achieve modest sales growth over the first nine months of 2011, mainly due to increased prices, as opposed to higher volumes, in an attempt to counter an eroding gross margin caused by rampant raw material inflation throughout the European chemicals sector. Consequently, the Group's EBITDA fell from €5.8m to €4.5m. The Group plans to cut costs further in 2012 by merging its Architectural and Thermo Insulation divisions, its Industrial and Automotive divisions, and its Resins and Chemicals divisions, thereby reducing its Strategic Business Units ("SBU's") from six to three.

Architectural and Thermo Insulation

The volumes sold increased mainly in the low-end segment due to the re-orientation of consumers' preferences towards cheaper products. In a shrinking market dominated by fierce competition for market share, the nine-month consolidated sales of the Architectural SBU increased from €31.1m to €33.0m (+6% year-on-year). However, the SBU's EBITDA fell 23% from €3.6m to €2.8m. As a result of focusing on the lower-cost products which sell best in a recession, the Group has slightly improved its architectural coatings' market share (the Romanian and Bulgarian coatings markets are estimated to have shrunk by up to 10% in 2011).

Automotive and Industry

The Automotive and Industrial Paints SBU's nine-month consolidated sales remained stable at €6.6m, whilst its EBITDA fell 27% from €0.8m to €0.6m. The unit has made good progress in developing and implementing new water-based auto refinish coatings, and has launched an industrial tinting system which has seen strong growth in sales.

Resins and Anhydrides

The Resins division continues to consolidate its position as the leading producer in South East Europe: sales grew to €9.7m over the first nine months (up 91% year-on-year) and the EBITDA was stable at €1.1m. Due to problems in the supply of raw materials and weak demand, the Anhydrides unit did not operate at full capacity over the first nine months, resulting in sales of €8.6m and EBITDA of €0.2m, compared to sales of €11.9m and EBITDA of €0.5m over the same period last year.

Real estate

The Group's non-core real estate comprises fourteen hectares on the outskirts of Bucharest, valued by Colliers at €21.9m in February. Management has completed the demolition of all buildings over nine hectares and intends to relocate the production of wet plasters to Bulgaria over the winter, in order to vacate a further two hectares. The remaining three hectares are still used by the Group's production ofautomotive coatings andforoffices. Colliers has been appointed to represent Policolor in the sale of this land.

Group reorganisation

In preparation for exit from its various divisions, Policolor has started the process of demerging itself into three separate companies, one owning the Romanian Architectural Coatings SBU, the Thermo Insulation business and the shareholding in Orgachim; one owning the merged Industrial and Automotive coatings business; and one owning the Bucharest land.

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 purchase 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

(EUR '000)	2009A	2010A	2011B	9M10	9M11
Combined Group Income Statement					
Total Operating Revenues	**1,587**	**2,702**	**4,642**	**2,362**	**3,470**
Debt portfolios	1,064	1,681	3,781	1,481	2,766
Agency contracts	523	1,021	861	881	704
B2C	370	928	861	792	704
B2B	153	93	0	89	0
Total Operating Expenses	**(1,490)**	**(2,320)**	**(3,799)**	**(1,727)**	**(2,901)**
Amortization of debt portfolios	(388)	(510)	(1,300)	(378)	(1,029)
Other operating expenses	(1,102)	(1,810)	(2,499)	(1,348)	(1,872)
Operating Profit	**97**	**381**	**844**	**635**	**569**
EBITDA	**132**	**435**	**910**	**674**	**611**
EBITDA margin	*8.3%*	*16.1%*	*19.6%*	*28.5%*	*17.6%*
Financial Profit/(Loss)	(5)	13	(25)	5	(42)
Profit before Tax	**92**	**394**	**819**	**640**	**527**
Income Tax	(0)	(2)	(80)	1	(53)
Profit after Tax	**91**	**392**	**739**	**641**	**474**
Net margin	*5.8%*	*14.5%*	*15.9%*	*27.1%*	*13.7%*
Avg exchange rate (RON/EUR)	*4.237*	*4.210*	*4.220*	*4.184*	*4.206*

Note: IFRS (unaudited, combined accounts)

The Group's nine month turnover increased by 47% year-on-year, from €2.4m to €3.5m, while EBITDA reached €0.6m, a 9% fall, mainly due to the start-up costs on new debt portfolios acquired at the end of last year, and a weak second quarter. However, the profitability started to improve in the second half of 2011 and the full-year 2011 EBITDA is expected to reach €0.9m, up from €0.4m in 2010.

Operations

The debt purchase business line accounted for 80% of total operating revenues, with telecom portfolios generating 93% of these revenues. Agency contracts generated 20% of total turnover, a 20% year-on-year fall due to a lower volume of cases being received from Top Factoring's main clients.

The Group acquired one banking and one telecoms portfolio in September, bringing the total number of proprietary cases loaded into its system to 525,000 and their total face value to €146m.

Prospects

Thedebt purchase market continues to throw up opportunitiesas banks and telecoms companies continue to clean up their balance sheets by selling bad debts. Top Factoring is actively searching for new acquisition opportunities, using both its own internally generated cash-flow and bank financing.

Albalact

Background

Albalact SA ("Albalact" or the "Company") is a Romanian dairy producer 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 42.7%, with the remaining 31.9% representing the free float. With Albalact's market capitalization decreasing by 22.3% over the quarter, RC2's shareholding in Albalact had a market value of €6.8m as at 30 September, compared to €8.7m at the end of the previous quarter.

Financial results

(EUR '000)	2009A*	2010A*	2011B	9M10**	9M11**
Standalone Income Statement					
Sales Revenues	**53,330**	**62,058**	**80,600**	**43,808**	**58,516**
Other operating revenues	1,557	733	1,509	362	1,076
Total Operating Revenues	**54,887**	**62,790**	**82,109**	**44,169**	**59,592**
Total Operating Expenses	(52,422)	(61,731)	(78,715)	(42,915)	(58,027)
Operating Profit	**2,465**	**1,060**	**3,395**	**1,254**	**1,565**
Operating margin	*4.5%*	*1.7%*	*4.1%*	*2.8%*	*2.6%*
EBITDA	**5,489**	**4,257**	**6,481**	**3,644**	**3,649**
EBITDA margin	*10.0%*	*6.8%*	*7.9%*	*8.2%*	*6.1%*
Financial Profit/(Loss)	(1,803)	(780)	(540)	(551)	(617)
Profit before Tax	**662**	**280**	**2,855**	**703**	**949**
Income Tax	(48)	(142)	(588)	(130)	(125)
Profit after Tax	**614**	**138**	**2,267**	**572**	**824**
Net margin	*1.1%*	*0.2%*	*2.8%*	*1.3%*	*1.4%*
Avg exchange rate (RON/EUR)	*4.237*	*4.210*	*4.220*	*4.184*	*4.206*

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

A 34% year-on-year growth in euro-denominated sales was the combined result of higher prices and an increase in volumes. Albalact's performance contrasts with that of the depressed local consumer market, with overall Romanian food retail sales falling by 8.5% year-on-year in the first nine months (according to the National Statistics Institute). The Company's EBITDA was flat at €3.6m compared to the same period last year. After financial costs of €0.6m, the net profit increased by 44% to €0.8m.

Operations

According to press reports based on the 2010 annual accounts filed with the Trade Registry, Albalact overtook Friesland to become the second largest player on the Romanian dairy market in 2010.

Meanwhile, Danone consolidated its market leadership position. In April, Albalact launched a new range of yoghurts which was well received by the market, with volumes increasing significantly in the months after the launch, helping Albalact become one of the main market players also in this category. In July, Albalact signed an agreement for the sale of 1.6ha of non-core real estate in Alba Iulia for €1.6m. This follows the divestment of the Company's dairy farm to a Dutch company for €4.7m in March.

Prospects

The Company plans to be more focused on profitability over the remaining months of 2011 and in 2012. An investment in a new fresh cheese production line is currently underway, which should allow management to launch a new range of high-margin fresh cheese products in March 2012.

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 seaside resort of Mamaia, 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)	2009A*	2010A*	2011B	9M10**	9M11**
Income Statement					
Sales Revenues	**1,489**	**1,591**	**2,033**	**1,481**	**1,501**
Other operating revenues	78	232	5	11	7
Total Operating Revenues	**1,567**	**1,823**	**2,038**	**1,492**	**1,508**
Total Operating Expenses	(2,103)	(2,111)	(1,896)	(1,607)	(1,292)
Operating Profit	**(536)**	**(288)**	**142**	**(116)**	**217**
Operating margin	*neg.*	*neg.*	*7.0%*	*neg.*	*14.4%*
EBITDA	**(306)**	**(61)**	**358**	**37**	**477**
EBITDA margin	*neg.*	*neg.*	*17.6%*	*2.5%*	*31.6%*
Financial Profit/(Loss)	(62)	(135)	(83)	(127)	(151)
Profit before Tax	**(598)**	**(423)**	**59**	**(243)**	**65**
Income Tax	(2)	(5)	0	0	0
Profit after Tax	**(600)**	**(428)**	**59**	**(243)**	**65**
Net margin	neg.	neg.	*2.9%*	*neg.*	*4.3%*
Avg exchange rate (RON/EUR)	*4.237*	*4.210*	*4.220*	*4.184*	*4.206*

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

Whilst the nine-month revenues were only up 1.1% year-on-year, the cost-cutting measures implemented this year resulted in the EBITDA reaching €477,000, compared to €37,000 over the same period last year.

Operations

The occupancy rate was 26% over the first nine months, below the 29% recorded over the same period last year, due to a poor May and June occupancy level caused by bad weather at the beginning of the season. However, the Hotel had a good July-August during which the rate peaked at 77%. The September rate was 27%, compared to 24% in September 2010.

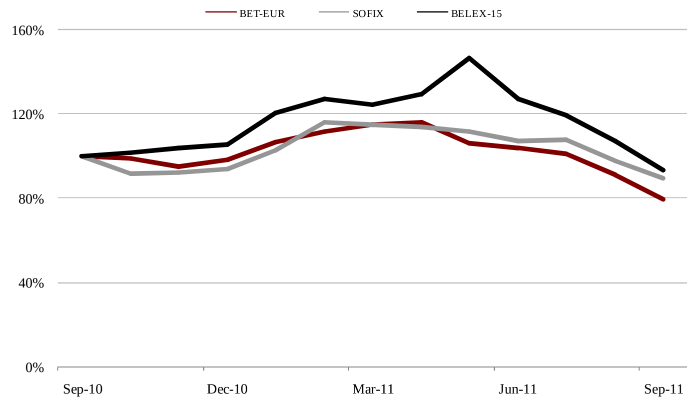
In spite of an overall 10% fall in domestic demand according to the National Tourist Agency Association, the Hotel managed to increase the average net tariff over the summer months from €33 to €39, due to a better sales mix with a higher number of "walk-in" clients. The Hotel has also better promoted its services internationally, attracting tourists from Germany, Russia and Poland, and has started gaining visibility on various online booking platforms.

Prospects

The Hotel's management does not expect corporate events to pick up during the remaining months of 2011 and the first quarter of 2012, and is making efforts to replace this business with other sources of revenues.

Capital Market Developments

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



Commentary

Over the third quarter, the Romanian, Bulgarian and Serbian stock markets continued to perform poorly. The BET-EUR fell by 23.6%, the SOFIX by 16.1% and the BELEX-15 by 26.7%.

Over the past year, the BET-EUR index has fallen by 20.5%, while the SOFIX and BELEX-15 indices fell by 10.3% and 6.6%, respectively, all in euro-terms.

By comparison, over the same period, the MSCI Emerging Market index fell by 17.1%, the MSCI Emerging Market Eastern Europe index fell by 15.9%, the FTSE100 index by 6.9%, whilst the S&P index recorded a slight increase of 0.4%.

Macroeconomic Overview

Overview

	RO	as of:	BG	as of:	SRB	as of:
GDP Growth (y-o-y)	1.6%	6M11	2.7%	6M11	2.4%	6M11
Inflation (y-o-y)	3.5%	9M11	3.3%	9M11	9.3%	8M11
Ind. prod. growth (y-o-y)	5.8%	Sep-11	1.5%	Sep-11	-0.3%	Sep-11
Trade balance (EUR bn)	-6.9	9M11	-0.6	8M11	-3.6	8M11
y-o-y	*-1.2%*		*-63.9%*		*6.2%*	
FDI (EUR bn)	1.1	8M11	0.3	8M11	1.1	8M11
y-o-y change	*-52.0%*		*-75.7%*		*-9.2%*	
Total external debt/GDP	75.5%	Aug-11	91.4%	Aug-11	70.2%	Aug-11
Reserves to short-term debt	154.4%	Aug-11	122.0%	Aug-11	1388.9%	Aug-11
Loans-to-deposits	122.3%	Sep-11	99.4%	Sep-11	126.6%	Aug-11
Public sector debt-to-GDP	38.2%	Aug-11	15.0%	Aug-11	44.4%	Sep-11

Commentary

Romania

A joint IMF and EU mission whichvisited Romania at the beginning of November for a regular review of the economyconfirmed its view that the economy would grow by 1.5% in 2011.

Over the first nine months, exports grew by 24% year-on-year, and imports by 19%. Consequently, the January to September 2011 trade deficit recorded a 1.2% year-on-year fall. Romania's January to August 2011 current account deficit was down 19.7% from €4.1bn to €3.3bn, or 2.6% of GDP, while the deficit for 2011 is expected to be 4.5% of GDP. FDI flows were €1.1bn (down 52% year-on-year), and covered 34% of the current account deficit.

Romania's CPI was up 3.5% year-on-year in September 2011, down from the 8% recorded at the end of 2010, as the base effect of the 5% VAT increase introduced in July 2010 faded away. The good 2011 harvest and weak domestic demand are the main factors behind the National Bank's decision to revise its inflation rate forecast for 2011 from 4.6% to 3.3%.

Over the first nine months, the budget deficit came in at 2.5% of GDP, comfortably within the 4.4% limit approved by Parliament in late December 2010. At the end of September, investment expenditure was up 17% year-on-year at €5.5bn. Romania's total external debt position was €96.7bn at the end of August, or 76% of estimated GDP. Public sector debt was €49.2bn at the end of August, up 6.7% year-to-date but still relatively low at 38% of GDP. Of the total public debt, 49% is RON-denominated and 42% is euro-denominated, with the balance of 9% being in various other foreign currencies. The National Bank of Romania's foreign reserves (excluding gold) amounted to €32.6bn at the end of August, or 1.5 times the short-term external debt level (€21.1bn).

The Romanian leu lost 2.8% against the euro over the third quarter. However, the leu's year-to-date depreciation was lower at 1.6%. Total domestic non-governmental credit (which excludes loans to financial institutions) amounted to €50.9bn at the end of September, and was up 5.8% since the beginning of the year. The Romanian banking system's total loans-to-deposits ratio was 122% at the end of September. Overdue loans accounted for 9.3% of the total loan stock at the end of September. In early November, the National Bank of Romania decided to lower its key interest rate from 6.25% to 6.00%, this being the first such change to the key interest rate level since May 2010. Lowering the key interest rate reflects the pattern of slowing inflation in the second half of the year.

Bulgaria

On 30th October, the ruling "GERB" (Citizens for the European Development of Bulgaria) party candidate, Rosen Plevneliev, beat the socialist Ivailo Kalfin to win the presidential elections. He is expected to take office in late January 2012.

Triggered by a 40% increase in exports, Bulgaria's economygrew by 2.7% year-on-year over the first half of the year. However, Bulgaria's quarterly GDP growth slowed down to 0.3% in the second quarter, after four consecutive quarters of over 0.5% growth.

Between January and August 2011, Bulgaria's current account balance was €1.6bn, or 4% of GDP, compared to a surplus of 0.3% over the same period in 2010. The trade balance improved from a €1.6bn deficit over January-August 2010, to a deficit of €579m over the first eight months of this year, mainly driven by the strong growth in exports. FDI inflows were low at €0.3bn over the period, a 76% year-on-year fall.

Bulgaria's CPI was up 3.3% year-on-year in September, down from 4.1% in August, as the good summer harvest eased food prices. Bulgaria's industrial production increased by 1.5% year-on-year in September.

Bulgaria's January-September 2011 budget deficit came in at 1.1% of GDP, a 46% year-on-year fall. The 2012 state budget submitted to the Bulgarian parliament for approval at the end of October provides for a budget deficit of 1.3% of GDP. The budget is based on forecast economic growth of 2.9% in 2012, up from the 2.5% expected for 2011. Bulgaria's external debt was €36bn at the end of August, or 91.4% of GDP, of which only 7% was attributable to the public sector. Public sector debt remains very low compared to other European economies at 15% of GDP. The country's reserves-to-short-term-debt ratio was 122% at the end of August.

The Bulgarian banking system had a total loans-to-deposits ratio of 99% at the end of September. Whilst loans to non-financial institutions were flat at €26bn over the nine-month period, the deposit base increased by 10% from €24bn to €26.3bn. Corporate loans increased by 3%, while consumer loans fell 3% (both being year-to-date figures). Overdue loans accounted for 21.6% of total loans at the end of September 2011, up from 12% at the end of 2010.

Serbia

Year-on-year GDP growth of 3.7% in the first quarter eased to 2.4% in the second quarter, mainly due to a fall in industrial production, partly caused by the temporary closure of U.S. Steel's plant and the Fiat factory. As a result, the National Bank of Serbia (NBS) and the IMF have revised their GDP growth forecasts for 2011 and 2012 downwards from 3.0% to 2.5%, and from 4.5% to 3.0%, respectively.

The good summer harvest caused inflationary pressures to fall during the third quarter, with inflation increasing slightly in September (+0.2%) after a flat August. In September, the year-on-year CPI came in at 9.3%, higher than the upper limit of the NBS' target range (4.9% ±1.5%).

Foreign trade volumes increased by 17.2% year-on-year during the first eight months of 2011, due to higher exports (+21.2%) and imports (+14.8%), resulting in the trade deficit widening to €3.6bn (+6.2% y-o-y).

The NBS expects low aggregate demand to contribute to a further relaxation of inflationary pressures over the coming months, and cut the key interest rate in September from 11.75% to 10.75%.

Year-to-date, the Serbian dinar appreciated against all major currencies and by 5% against the euro, supported by larger FDI inflows and the European Commission's positive recommendation on Serbia's EU candidate status.

Important Information