Reconstruction Capital II Ltd

("RC2" or the "Fund")

Quarterly Report

December 31st 2011

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Statistics

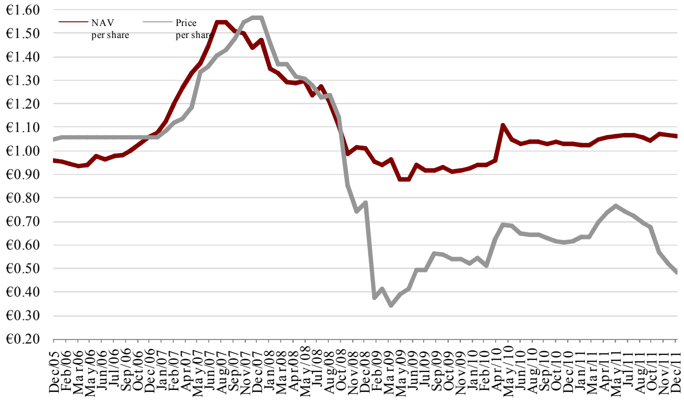
NAV per share (€)	1.0605
Share price (€)	0.4800
Total NAV (€ m)	106.1
Mk Cap (€ m)	48.0
# of shares (m)	100.0
NAV return since inception	10.87%
12-month NAV CAGR	3.32%
NAV annualized Return*	1.74%
NAV annualized Volatility*	13.22%
Best month (NAV)	15.60%
Worst month (NAV)	-10.52%
# of months up (NAV)	41
# of months down (NAV)	31

** since inception*

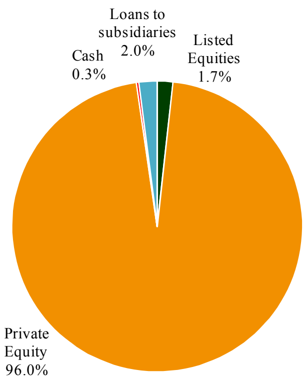
RC2 NAV returns

	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%	2.63%
Nov	-4.09%	3.03%	0.46%	-1.15%	-0.25%
Dec	2.46%	-0.60%	1.08%	-0.06%	-0.49%
YTD	36.74%	-31.43%	-8.38%	11.07%	3.32%

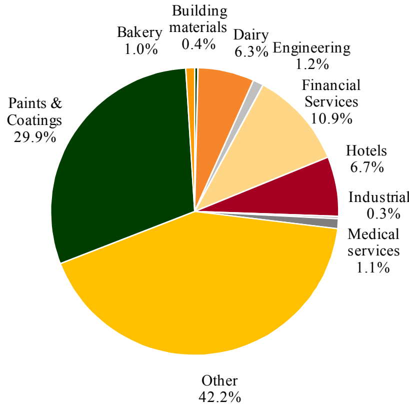
Share price / NAV per share (€)



Portfolio Structure by Asset Class

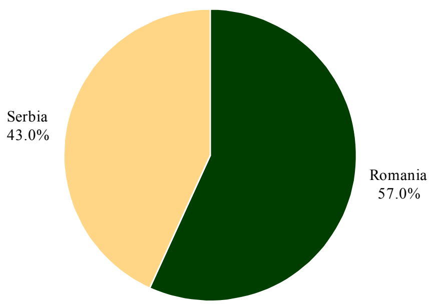


Equity Portfolio Structure by Sector



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 fourth quarter of 2011, RC2's NAV per share increased by 1.9% ending the period at €1.0605.

EPH's Copper Processing business had a weak second half, mainly due to a decrease in volumes towards the end of the year because of the economic contraction in Europe and falling copper prices (which impact the value of raw material stocks). Overall, the business posted sales of €219.4m in 2011 and EBITDA of €4.8m. The new management team which joined in the summer has put together a turnaround plan for the business aimed at doubling the EBITDA in 2012, based on increased scrap metal procurement, price increases in certain geographical markets and product areas, better hedging of metal price fluctuations, and a number of operational improvements. EPH's Milling division had its best result yet in 2011, generating EBITDA of €3.0m over the year, driven by high wheat prices and an average inventory cost below market prices. Novkabel, EPH's cable production company and Klas, EPH's Bakery division, both returned to profitability during the second half of 2011. EPH has developed and is in the process of implementing relocation and investment plans at both the Cables and Bakery divisions. Management anticipate that these plans will enhance profitability and release substantial surplus real estate for sale.

Policolor Group increased its consolidated sales by 9% to €73.5m in 2011, but the EBITDA fell 25% from €4.2m to €3.2m, mainly caused by consumers' preferences moving towards cheaper architectural paints, raw material price inflation and weak anhydride sales. For 2012, although overall sales are expected to fall slightly, the Group is expecting a significant improvement in its EBITDA level to €6.7m, mainly due to a combination of improved raw material purchasing, price increases, and the cost savings resulted from the merger of six divisions into three.

Top Factoring had a very strong year, with its sales doubling to €5.4m and its EBITDA more than tripling to €1.2m. It is expected to continue to experience strong growth in 2012.

Albalact, which is publicly traded, has not yet released its full year results for 2011. Over the year, it became the second largest player on the Romanian yoghurt market (traditionally not the strongest product area of the company) and managed to integrate Raraul, its 99% owned subsidiary which was acquired in 2008, into its own operations.

Although Mamaia's 2011 overall revenues and its occupancy rate were basically unchanged over the previous year, cost-cutting and an improved sales mix led to an improvement in the EBITDA from a loss of €61,000 in 2010 to a profit of €450,000 in 2011.

At the end of the quarter, the Fund had cash and cash equivalent balances of approximately €0.3m, compared to €1.3m at the end of September.

Yours truly,

New Europe Capital

East Point Holdings Ltd

Background

East Point Holdings Ltd ("EPH" or the "Group") is a Cyprus-based holding company 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 are due to exit the business completely by early 2012 in exchange for non-core assets. 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.

Copper Processing

(EURm)	2009A*	2010A*	2011A**	2012B
Income Statement				
Net Sales	164.4	232.2	219.4	215.6
EBITDA	8.2	6.3	4.8	10.1
EBITDA margin	*5.0%*	*2.7%*	*2.2%*	*4.7%*
Profit after Tax	3.2	(1.9)	(4.9)	3.4
Net margin	*2.0%*	*-0.8%*	*-2.2%*	*1.6%*

*Note: * audited ** unaudited management accounts*

During the second half of 2011, lower volumes coupled with a decrease in copper prices and high average inventory cost put pressure on the gross margin. Consequently EBITDA for the year was a modest €4.8m, compared to the €6.3m generated in 2010.

The 2012 budget is based on a turnaround plan developed by the new management team appointed in the summer of 2011. Although sales are expected to fall to approximately €215.6m as a result of terminating less profitable product lines, significant improvements to operations are planned which should significantly enhance profitability, these include: (1) an improved product mix, selective price increases across EU markets, higher volumes on the more profitable CIS and German markets, and increased direct sales to end-users are expected to generate an additional €1.5m at EBITDA level; (2) the increased use of copper scrap is expected to generate additional cost savings of around €1.4m(management has already secured additional copper scrap from Russia and Serbia, and is currently investigating possibilities of importing copper scrap from EU markets); (3) the elimination of losses on inventories through better hedging operations is expected to save an additional €1.8m; and (4) the commissioning of a new horizontal casting machine, planned for June 2012, and a new quality control system, backed by a new ERP system which is currently being implemented, is expected to generate €0.6m of savings through reduced energy consumption and improved material management. As a result, management is targeting EBITDA of approximately €10.1m, or 4.7% of sales, for 2012, well above the 2.2% EBITDA margin generated in 2011.

EPH is currently in advanced negotiations with its bankers to convert approximately €60m of bank debt, most of which is annually rolled over, into a combination of short term and long terms maturities, in order to strengthen its balance sheet.

Cable Production

In 2011, Novkabel, EPH's cable producer, experienced a strong increase in sales, mainly as a result of strong growth in Russia, where the company acquired several large new customers. While domestic sales remained stable, exports doubled, resulting in total sales increasing by 50.9% year-on-year. In the second half, an improved product mix and increased sales in Russia improved the direct profit (sales minus raw materials) by around €3.2m, returning Novkabel to profitability over the period for the first time since its privatization in 2009. However, this was insufficient to cover the losses generated in the first half, caused by lower production levels and high fixed costs.

(EUR '000)	2009A*	2010A*	2011A**	2012B
Income Statement				
Net Sales	20,347	23,693	36,779	41,030
EBITDA	(1,349)	(2,372)	(387)	493
EBITDA margin	*-6.6%*	*-10.0%*	*-1.1%*	*1.2%*
Profit after Tax	(428)	(174)	(387)	(1,097)
Net margin	*-2.1%*	*-0.7%*	*-1.1%*	*-2.7%*

*Note: * audited ** unaudited management accounts*

For 2012, management is targeting sales of €41.0m, mainly through further exports growth. The new plastic cables line installed in August 2011 is expected to greatly improve Novkabel's competitiveness on EU markets. Consequently, management is projecting sales to the EU to grow from 600 tons in 2011 to 1,500 tons in 2012. The oil rubber cables programme, planned to become fully operational in the second half of 2012, is expected to generate an additional 600 tons of exports to Russia.

Despite the budgeted increase in sales to Russia, the 2012 gross margin is expected to decline slightly from the current 20.6% to 20.0%, due to lower margins on the EU markets, which are more competitive. Furthermore, €0.6m of profitability improvements coming from better operational efficiencies are expected to be partially offset by higher transportation costs (€0.2m), resulting in an overall EBITDA target for 2012 of €0.5m.

Since the beginning of 2010, EPH has invested over €7m in Novkabel, as part of its privatization agreement with the Serbian government. Out of the remaining €4m of investment obligations, management intends to invest €3.2m in 2012 in order to complete its plan of consolidating production into three of its six current plants, freeing up 22ha of real estate on the outskirts of Novi Sad. The full effect of cost savings coming from the production consolidation plan is expected to be seen in 2013, with EBITDA reaching €2.5m.

Bakeries

The new CEO, who started in July, managed to return the company to profitability in the last quarter of 2011, after reducing the EBITDA loss to €0.1m in the third quarter. However, this was not enough to offset the losses generated during the first half of 2011, caused by high wheat prices and temporary price controls on standard bread prices. Consequently, EBITDA for the year came in at a negative €0.4m, down from €-0.1m in 2010.

(EUR '000)	2009A*	2010A*	2011A**	2012B
Income Statement				
Net Sales	**25,504**	**22,111**	**20,260**	**19,471**
EBITDA	**3,280**	**(139)**	**(438)**	**882**
EBITDA margin	*12.9%*	*-0.6%*	*-2.2%*	*4.5%*
Profit after Tax	**4,100**	**(2,734)**	**(1,286)**	**(1,804)**
Net margin	*16.1%*	*-12.4%*	*-6.3%*	*-9.3%*

*Note: * audited ** unaudited management accounts*

The relocation plan, which involves shutting down the main production facility in central Belgrade and moving production to a satellite plant in the north of the city, started in October and isexpected to be finalized in April 2012. The fall in 2012 sales reflects some disruption caused by the relocation. However, management expects the new and reconditioned equipment installed at its new location to generate cost savings of over €1.2m in 2012, mainly through lower payroll costs, energy savings and reduced repair and maintenance expenses. As a result, management is targeting sales of approximately €19.5m and EBITDA at €0.9m for 2012.

Milling

Zitomlin, EPH's flour mill and grain silo located on the Danube in central Belgrade, generated sales of €13.8m in 2011, a 38.6% year-on-year increase, mainly driven by higher wheat prices (an increase of40% year-on-year) and larger volumes sold (an increase of 7.7%).Prior to the wheat price increase due to the weak 2010 harvest, management had substantially increased its inventory levels, which allowed it to carry an average inventory cost below market prices until the next harvest during the summer of 2011.

(EUR '000)	2009A*	2010A*	2011A**	2012B
Income Statement				
Net Sales	**11,959**	**15,066**	**13,845**	**13,169**
EBITDA	**1,506**	**2,412**	**2,996**	**1,769**
EBITDA margin	*12.6%*	*16.0%*	*21.6%*	*13.4%*
Profit after Tax	**(3,681)**	**(735)**	**1,836**	**757**
Net margin	*-30.8%*	*-4.9%*	*13.3%*	*5.7%*

*Note: * audited ** unaudited management accounts*

The company also increased sales of excess storage capacity to third party traders, further improving operating margins. As a result of these developments, Zitomlin registered its best-ever results in 2011, generating EBITDA of €3.0m. Given the wheat prices stabilization in the second half of 2011, management projects sales of €11.9m and EBITDA of €1.8m in 2012.

Real Estate

A new real estate manager for the Group was recruited at the end of 2011 to prepare the excess real estate of EPH for sale. The main production facility of the Bakery business, which is being vacated over the first half of 2012, was valued by CBRE at €7.5m in May 2011. A second plot owned by the Bakery business on the outskirts of Belgrade, which is not being used at present, was valued at €4.4mby CBRE in May 2011. On the other hand, Novkabel's production facilities are spread out over 40 ha in the industrial area of Novi Sad, Serbia's second largest city, which was valued at €22.5m by CBRE. The production consolidation plan is expected to free-up approximately 22ha of this real estate.

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, an unlisted Romanian company, and Orgachim AD, its 75.3% owned Bulgarian subsidiary which is quoted on the Bulgarian Stock Exchange. In order to streamline the organization and sales channels and to create sellable units reflecting the interests of potential strategic buyers, the Policolor Group was reorganized into three business units (from six) in late 2011 by the mergers of the Architectural Paints and Insulation Material divisions; the Auto and Industry divisions; and the Resins and Anhydrides divisions.

Group Financial results

(EUR '000)	2009A*	2010A*	2011A**	2012B
Income statement (according to IFRS)				
Sales revenues	**71,792**	**67,187**	**73,517**	**71,108**
Other operating revenues	2,030	1,737	623	1
Total operating revenues	**73,822**	**68,924**	**74,140**	**71,110**
Total Operating Expenses	(70,609)	(67,924)	(74,389)	(67,333)
Operating profit	**3,213**	**1,000**	**(249)**	**3,777**
Operating margin	*4.4%*	*1.5%*	*-0.3%*	*5.3%*
EBITDA	**9,078**	**4,209**	**3,162**	**6,733**
EBITDA margin	*12.3%*	*6.1%*	*4.3%*	*9.5%*
Financial Profit/(Loss)	(1,023)	(740)	(1,200)	(785)
Other extraordinary items		(1,214)	-	-
Profit before tax	**2,190**	**(953)**	**(1,449)**	**2,992**
Income tax	282	(441)	(0)	(388)
Profit after tax	**2,472**	**(1,394)**	**(1,450)**	**2,604**
Minority interest	(163)	(28)	97	45
Profit for the year	**2,309**	**(1,422)**	**(1,353)**	**2,649**
Avg exchange rate (RON/EUR)	*4.237*	*4.210*	*4.238*	*4.300*

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

Over 2011, the Group's consolidated sales increased by 9% from €67.2m to €73.5m, mainly due to price increases and a doubling of the sales of resins. However, the operating margin was affected by inflation of raw material prices, and weak demand for anhydrides. Overall, the EBITDA level fell 25% from €4.2m to €3.2m.

For 2012, although overall sales are expected to fall slightly due to less resins sales as a result of a fire in the resins facility in early 2012, the Group is expecting a significant improvement in its EBITDA level to €6.7m, mainly due to a combination of improved raw material purchasing, price increases, and the cost savings resulted from the merger of six divisions into three.

Architectural Paints

Sales grew by 4% in 2011 but the profitability was affected by the migration of consumers towards cheaper products, and high raw material price inflation due to capacity closures in Europe. The market for architectural paints is estimated to have shrunk slightly in 2011 across both Romania and Bulgaria, and is expected to remain stable in 2012.

Auto Refinish and Industrial Coatings

In spite of strong competition in the market leading to an erosion of prices in the car refinish market, Klarachieved sales of €8.7m over 2011, representing 6.3% growth over the previous year, whilst its profitability was in line with the previous year.

Chemicals (Resins and Anhydrides)

This division comprises two separate activities: the production of anhydrides (which are used in plastics and resins) and the production of resins. Less than 10% of the anhydrides production is used internally for the manufacture of resins, whilst approximately two thirds of the resins production is used for the Group's own coatings production. Although the combined turnover of both activities grew by 18% in 2011 fuelled by strong growth in the sales of resins to third parties, sales of anhydrides were affected by weak demand in this very cyclical product area. In early January 2012, the resins department was damaged by a fire. Whilst the business is covered by insurance, management is currently assessing various interim solutions for the manufacture of resins, both for its internal use and for external clients.

Real Estate

Policolor's Bucharest real estate comprises 14ha of land on the eastern periphery of Bucharest. The land is 14 km from the city centre, with good tram, road and underground connections to the centre of town. It neighbours a retail centre with retailers Metro, Obi and Decathlon among its tenants. Demolition works on 11ha of the land started in January 2010 and are now complete; the remaining 3ha is still used for production of Policolor's Automotive and Industrial Coatings. Policolor has applied to re-zone the land from industrial to commercial use, and is working with Colliers to attract several retailers and developers onto the site.

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	2011A	2012B
Combined Group Income Statement				
Total Operating Revenues	**1,587**	**2,702**	**5,401**	**10,365**
Total Operating Expenses	**(1,490)**	**(2,320)**	**(4,209)**	**(6,913)**
Operating Profit	**97**	**381**	**1,192**	**3,452**
EBITDA	**132**	**435**	**1,249**	**3,519**
EBITDA margin	*8.3%*	*16.1%*	*23.1%*	*34.0%*
Financial Profit/(Loss)	(5)	13	(143)	(248)
Profit before Tax	**92**	**394**	**1,050**	**3,204**
Income Tax	(0)	(2)	(80)	(320)
Profit after Tax	**91**	**392**	**970**	**2,884**
Net margin	*5.8%*	*14.5%*	*18.0%*	*27.8%*
Avg exchange rate (RON/EUR)	*4.237*	*4.210*	*4.238*	*4.300*

Note: IFRS (unaudited, combined accounts)

The Group continued to grow strongly in 2011, with turnover increasing twofold from €2.7m to €5.4m, and EBITDA more than tripling from €0.4m to €1.2m driven by the expansion of the debt purchase line. The debt purchase line accounted for 82% of total operating revenues in 2011, with telecom portfolios generating 68% of these revenues. Agency contracts generated 18% of total turnover.

Operations

In 2011, the Group acquired one banking and three telecoms portfolios, bringing the total number of proprietary cases loaded into its system to 620,000,with a total face value of €167m. The portfolios acquired in 2011 accounted for 30% of the Group's turnover.

Prospects

The Group's impressive growth rate is expected to continue in 2012 with the budget targeting sales almost doubling (from €5.4m to €10.4m), and the EBITDA almost tripling to €3.5m. The growth is expected to be generated by collections on existing proprietary portfolios and new acquisitions (estimated at €3.2m in 2012) to be financed by internally generated cash flow and bank financing. The budget for the agency business line assumes no new mandate agreements and fewer cases being externalized to collection agencies.

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 0.4% over the quarter, RC2's shareholding in Albalact had a market value of €6.7m as at 31 December, compared to €6.8m 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)*

Albalact has not yet released its full 2011 results. An analysis of its nine month results was included in the September quarterly report.

Operations

The Company launched a new range of yoghurts in April 2011 under its flagship "Zuzu" brand, which was well received by the market. According to press reports quoting independent market research firm Nielsen Research, Albalact became the second largest player on the Romanian plain yoghurt market in the third quarter, with a market share of 5.4%.

In the last quarter, the Company finalized the integration of its 99%-owned subsidiary Raraul into its ERP system, facilitating a more efficient cost control, production planning and management reporting system.

In December, Albalact participated in a capital increase undertaken by Raraul, subscribing the €4.9m it had advanced to the company. The cash had been used to finance the new cheese production facility and cover Raraul's working capital needs.

Prospects

Market players do not expect significant changes in the Romanian dairy market in 2012, with retailers continuing to put pressure on producers' profit margins. In 2012, Albalact intends to focus on increasing the share of higher value added products in its product mix, mainly yoghurt and fresh cheese. In the first quarter of 2012, Albalact intends to finalize its €3m investment in the fresh cheese production facility at its Raraul factory, and a new range of fresh cheese–based products is expected to be launched in April.

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 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*	2011A**	2012B
Income Statement				
Sales Revenues	**1,489**	**1,591**	**1,653**	**2,083**
Other operating revenues	78	232	7	
Total Operating Revenues	**1,567**	**1,823**	**1,660**	**2,083**
Total Operating Expenses	(2,103)	(2,111)	(1,544)	(1,867)
Operating Profit	**(536)**	**(288)**	**116**	**217**
Operating margin	*neg.*	*neg.*	*7.0%*	*10.4%*
EBITDA	**(306)**	**(61)**	**450**	**482**
EBITDA margin	*neg.*	*neg.*	*27.1%*	*23.1%*
Financial Profit/(Loss)	(62)	(135)	(278)	(116)
Profit before Tax	**(598)**	**(423)**	**(163)**	**101**
Income Tax	(2)	(5)	0	(16)
Profit after Tax	**(600)**	**(428)**	**(163)**	**85**
Net margin	*neg.*	*neg.*	*neg.*	*4.1%*
Avg exchange rate (RON/EUR)	*4.237*	*4.210*	*4.238*	*4.300*

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

Although the Hotel's operating revenues fell from €1.8m to €1.7m during a difficult year (with decreased turnover recorded by all seaside hotels according to the Romanian National Tourist Agency Association), cost-cutting and an improved sales mix led to an improvement in EBITDA from a loss of €61,000 in 2010 to a profit of €450,000 in 2011.

The 0.8% annual depreciation of the leu against the euro generated a foreign exchange loss of €0.2m, which, together with the interest expense, resulted in total financial expense of €0.3m, and a bottom line loss of €163,000, better than the previous year's loss of €428,000.

Operations

The overall occupancy rate of 22% was the same as in the previous year. However, the off-season rate of 14% over the cold months was encouraging, and compares to the 9% achieved during the previous year. The increase over the cold months was the result of a number of long term contracts signed with corporate clients.

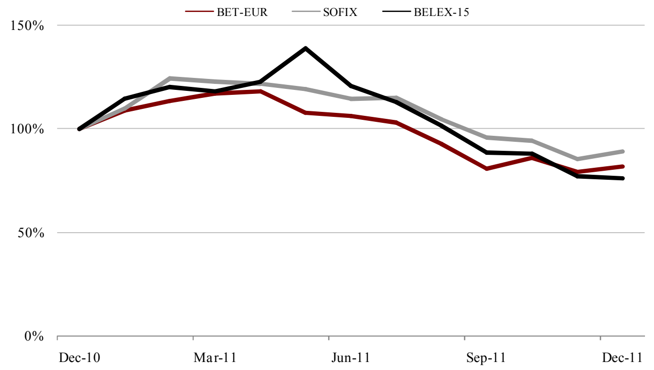
The average net tariff increased from €32 to €37 (an increase of17% year-on-year), being the result of a better sales mix, with a higher number of "walk-in" clients which pay higher rates compared to travel agencies.

Prospects

Over 2012, the Hotel's management plans to continue working on the sales mix and cost controls in order to improve its margins. The 2012 budget is built on the assumption of an occupancy rate of 27%, an improvement on 2010's 22%, as well as an 8.5% year-on-year increase in food and beverage revenues. Consequently, the Company expects sales revenues of €2m (25% up year-on-year), and a 7% improvement in the EBITDA level.

Capital Market Developments

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



Commentary

Over the fourth quarter, the Romanian, Bulgarian and Serbian stock markets continued to perform poorly. The BET-EUR index increased by 1.0%, while the SOFIX andBELEX-15 indices fell by 7.2% and 14.3%, respectively.

Over 2011, all three indices fell significantly. The BET-EUR index fell by 18.3%, and the SOFIX and BELEX-15 indices by 11.1% and 24.1%, respectively, all in euro-terms.

By comparison, during 2011, the MSCI Emerging Market index fell by 17.9%, the MSCI Emerging Market Eastern Europe indexby20.9%,and the FTSE100index by 3.1%, whilst the S&P index increased by 3.1%.

Macroeconomic Overview

Overview

	RO	as of:	BG	as of:	SRB	as of:
GDP Growth (y-o-y)	2.5%	FY11	1.6%	FY11	0.5%	9M11
Inflation (y-o-y)	3.1%	FY11	2.0%	FY11	7.0%	FY11
Ind. prod. growth (y-o-y)	1.4%	Dec-11	-0.6%	Dec-11	1.0%	Dec-11
Trade balance (EUR bn)	-9.7	FY11	-1.8	FY11	-4.2	11M11
y-o-y	*2.0%*		*-33.2%*		*-12.5%*	
FDI (EUR bn)	1.9	FY11	1.1	FY11	1.5	11M11
y-o-y change	*-13.6%*		*-40.1%*		*98.7%*	
Total external debt/GDP	77.0%	Dec-11	91.0%	Dec-11	73.6%	Nov-11
Reserves to short-term debt	144.4%	Dec-11	129.3%	Nov-11	1666.7%	Nov-11
Loans-to-deposits	119.1%	Dec-11	98.6%	Dec-11	124.6%	Nov-11
Public sector debt-to-GDP	33.4%	Dec-11	15.3%	Dec-11	44.7%	Nov-11

Commentary

Romania

Romania's GDP grew by 2.5% in 2011, helped by a good harvest and growing exports. For 2012, the IMF is projecting growth in the range of 1.5% to 2%, stimulated by improved domestic demand and a better absorption of EU structural funds. The EU funds absorption rate was 6.3% from accession to the end of 2011, up from 3.5% at the end of 2010, but still a very low level.

Romania's CPI increase at the end of 2011 was 3.1%, down from the 3.5% recorded at the end of September, and within the target of 3.3% set by the National Bank of Romania ("NBR"). This is the result of the successful disinflation process of the last few years, and provides a stable domestic macroeconomic climate. The NBR has set the 2012 target inflation rate at 3%. The 2011 trade deficit increased by 2% compared to the previous year (from €9.5bn to €9.7bn), whilst the current account deficit came in at €5.7bn. FDI flows were €1.9bn (down 14% year-on-year), and covered 34% of the current account deficit. The Romanian leu lost only 0.8% against the euro in 2011 in the context of turmoil due to the sovereign debt crisis on European markets.

The 2011 budget deficit of €5.7bn was equivalent to the 4.5% of GDP agreed with the IMF. For 2012, the Romanian Government has set a target deficit of 1.9% of GDP. The fiscal consolidation has allowed Romania to successfully place €1.1bn of 10-year dollar bonds at a yield of 6.875% in early February. Romania's total external debt position was €98.6bn at the end of December, or 77% of estimated GDP. The Ministry of Finance estimates public sector debt at 33% of GDP at the end of 2011, one of the lowest levels in the EU. The NBR's foreign reserves (excluding gold) amounted to €33.2bn at the end of 2011, or 1.4 times the short-term external debt level (€23bn).

Total domestic non-governmental credit (which excludes loans to financial institutions) amounted to €51.6bn at the end of 2011, and was up 5.7% year-on-year. The Romanian banking system's total loans-to-deposits ratio was 119% at the end of 2011. Overdue loans accounted for 9.5% of the total loan stock and increased by 27% year-on-year (from €3.8bn to €4.9bn). Positively, overdue loans fell by 2.7% month-on-month in December. In February 2012, the NBR decided to lower its key interest rate from 5.75% to 5.00% on the grounds of low inflation, in order to stimulate corporate lending.

Bulgaria

After modest GDP growth of 0.3% in 2010, Bulgaria's economy grew by 1.6% in 2011. The increase was mainly triggered by a 29% year-on-year growth in exports. For 2012, the IMF is projecting GDP growth of 1.3%, based on exports still growing but at a slower pace given the turmoil in Europe, and an improvement in the level of investments and the absorption of EU funds. The absorption rate was 19% in 2011, up from 10% in 2010.

Bulgaria's CPI rate was up 2% year-on-year in 2011, one of the lowest in Europe and down from 4.5% in 2010. The base effect of energy and fuel prices were the main contributors to the fall in the inflation rate.

In 2011, Bulgaria achieved a current account surplus of €0.7bn, or 1.9% of GDP, compared to a deficit of 1.3% in 2010. The improvement in the current account balance was the result of a lower trade balance which improved from a deficit of €2.8bn in 2010 to a deficit of€1.8bn in 2011. FDI inflows were low at €1.1bn over the year, a 40% year-on-year fall.

Bulgaria's 2011 budget deficit came in at 2.1% of GDP, a 43% year-on-year fall. The 2012 state budget provides for a budget deficit of 1.3% of GDP. The budget is based on forecast economic growth of 2.9% in 2012. Bulgaria's external debt was €35.4bn at the end of 2011, or 91% of GDP. Bulgaria's public sector debt was 15% of GDP, one of the lowest in Europe. Of the total public debt, 29% is leva-denominated and 53% is euro-denominated, with the balance of 18% being in various other foreign currencies. The country's reserves-to-short-term-debt ratio was 129% at the end of

November. Bulgaria has to redeem bonds of €816m in January 2013 and to cover this amount the country has tapped both local and international markets. It successfully issued a 7 year €35m Eurobond in January 2012. Bulgaria plans to continue with further issues this year for amounts of between €500m and €1bn.

The Bulgarian banking system had a total loans-to-deposits ratio of 99% at the end of December, unchanged over the last quarter of 2011. Whilst loans to non-financial institutions increased by 2.6% year-on-year (from €26bn to €26.6bn), the deposit base increased by 12.5% (from €24bn to €27bn). Corporate lending increased by 5.7% year-on-year. Overdue loans accounted for 21.9% of total loans at the end of December, up from 12% at the end of 2010, but down from 22.1% in November.

Serbia

During the third quarter of 2011, Serbia's GDP annual growth slowed to 0.5%, down from 2.5% in the first half of 2011. The economic slowdown was mainly driven by a fall in manufacturing (-1.6%), a slight decrease in construction activity (-0.6%) and a fall in wholesale and retail trade (-7.7%). Restrictive bank lending during the last quarter of 2011, and a risk of contagion from the Eurozone crisis, reduced the National Bank of Serbia's ("NBS") 2012 GDP growth expectations from 2% to 1.5%.

However, despite the large budget deficit(5.25% of GDP), Serbia's current-account deficit is smaller and its cash budget reserves greater than during the previous global crisis, whilst its banking sector remains well-capitalized.

Industrial production grew by 1.0% over 2011. The production of coal and electricity reached a high due to the modernization of two power plants near Belgrade, counteracting the fall in manufacturing, mostly driven by lower production of textiles, furniture and basic metals.

In December, the year-on-year CPI came in at 7.0%. During 2011, inflation showed substantial volatility (from a maximum 14.7% in April to 7.0% in December) driven by a good agricultural season and swings in economic activity, from a recovery in the first half of the year to stagnation in the third quarter, and a likely fall in GDP in the fourth quarter. Despite the risk of excessive dinar weakening in 2012, and the regulated price segment increasing in a pre-election period, the NBS's target inflation range for 2012 (4.0% ±1.5%) seems reasonable, given the low aggregate demand and weak bank lending.

During the second half of 2011, weaker foreign demand and the sovereign debt crisis in Europe resulted in a fall in Serbia's exports; in particular after US Steel decided to reduce production at its local plant. Over January – November, foreign trade volumes grew by 14.8% year-on-year, driven by growth in both exports (+16.0) and imports (+14.0%). Consequently, the trade deficit widened to €5.3bn, reflecting the deterioration in the export-import ratio.

Despite a positive recommendation from the European Commission in October, Germany blocked Serbia's EU candidacy in early December. However, given the recent support received from German and Austrian foreign ministers, followed by progress in negotiations with Kosovo, Serbia has good chances to receive candidacy status in March.

Important Information