



Issue 11: Jan-Mar, 2007

XS Capital

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Key Events:

- Three Projects**

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Latest Developments

The Fund

The fund is currently invested in three projects as can be seen in figure 1. The first project is a commercial and retail block at the Residential Park Sofia which is fully owned by the fund. The other two investments are residential developments in Bucharest carried out through Limited Partnerships.



(The XS Building in Sofia)



(Sample of the mezzonettes in XS C.P.I.)

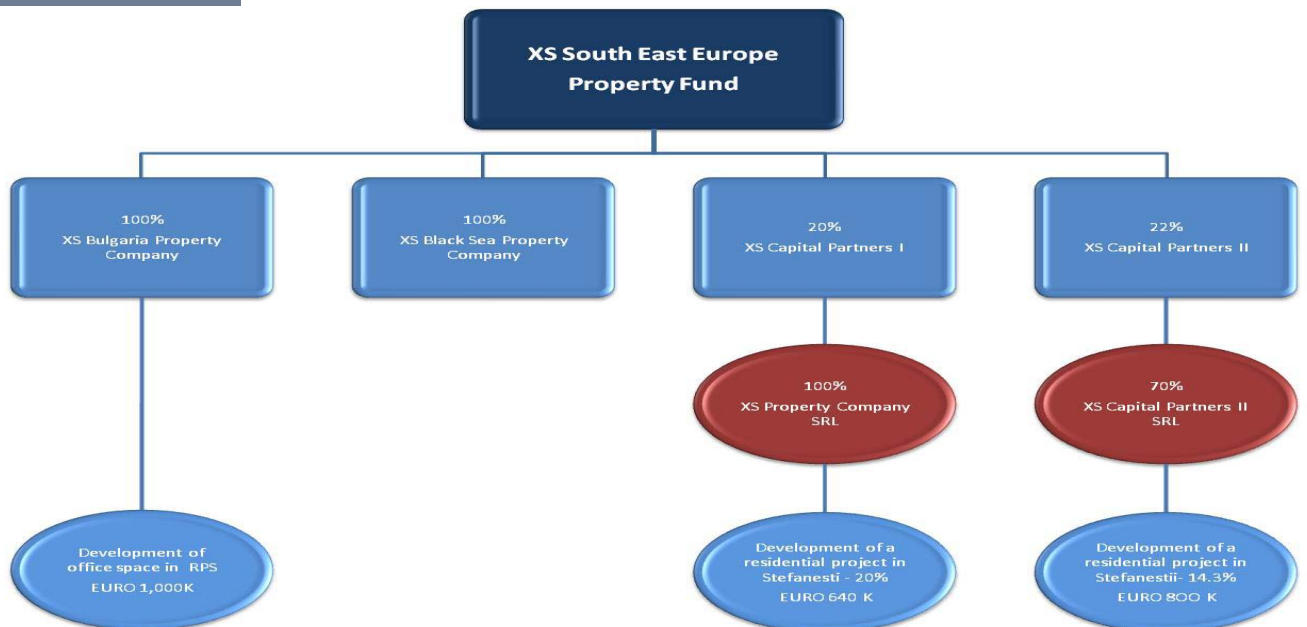
The Fund has committed €1million in the form of a loan to its subsidiary XS Bulgaria Property Co that has undertaken the development of retail office space in the Residential Park Sofia (RPS). The project is located in the heart of the second face of Lindner's development (South Sofia) with a size of approximately 6,000sqm. Colliers International conducted a feasibility study of the project where they estimated the Net Present Value of the project at €2,069,196 (the calculation was carried out with the NPV method and by assuming a discount rate of 8.5% and a Terminal Cap Rate of 7.5%). The project is expected to be completed on May 2008.

XS Capital Partners I, LP has committed equity of €3.2million and has initiated the construction of a residential project located at Stefanestii De Jos. This area is considered to be an upcoming area for residential developments. Located in the North East of Bucharest, it provides close proximity to the centre whilst at the same time offers the advantage of living in the outskirts. Only recently, Fadesa, one of the largest property developers in Spain acquired 640,000sqm in the area where it plans to invest up to €1 billion. The project commenced by the LP, will be stretched on a 9.400 m2 plot of land.

It is expected to be completed in 2009. The project's estimated IRR is 50%.

XS Capital Parnters II, LP has committed equity of €5.6million and is again located in Stefanestii De Jos. The project again has a residential focus and will be developed in a 37,000sqm plot of land. With an estimated IRR of 51% this project has the same promising outlook as the project kicked off by XS Capital Partners I.

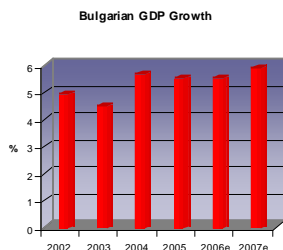
Figure 1: XS South East Property Fund Portfolio Structure



Booming Economies still going strong!

Bulgaria: FDI is providing and will continue to provide cover for the current account deficit.

Bulgaria is reaping the benefits of macroeconomic stability and structural reform efforts with concrete GDP growth, falling unemployment and modest inflation levels.



(Source: Fitch Ratings)

The country has a mounting current account deficit and external debt that is supported by increasing consumption. Specifically, imports for 2006 grew by 15.2% on an annualized basis, while exports grew by 9%. The deficit is projected to persist in 2007 due to delayed restructuring by producers

of steel and copper. FDI is providing and will continue to provide cover (nearly 80%) for the current account deficit.

The Bulgarian government is a big supporter of keeping a lid on its spending and increasing revenue collection efforts. It was no surprise then, when the country reached a record budget surplus in 2006 of 3.7% of GDP. Reuters statistics were predicting a 6.2% growth in GDP for 2006; the actual growth reached a slightly lower percentage of 6.1% which can be credited to the tight fiscal policy and the increase in the budget surplus. With the current account deficit projected to remain broadly unchanged, and the planned sizeable increase in real public spending in 2007 in the context of buoyant private demand, the authorities remain firmly committed to tightening the fiscal stance, should external risks warrant. The IMF Mission to Bulgaria issued a statement in mid-December 2006, suggesting a steady GDP growth rate of 6.1-6.2% for 2007. The IMF advocated that the ongoing steady growth is sustained because of the steady bank credit growth and EU-accession related flows.

Romania: Widening of account deficit and inflationary pressures come to life in 2007

Romania managed to sustain strong output growth during 2006 while substantial disinflation took place and unemployment fell sharply. While prospects remain positive, there is no room for complacency for Romania to bridge the significant gap that still exists with EU living standards. The confluence of positive factors that led to the positive developments in 2006 cannot be counted on to continue. Since Romania's accession to the EU on January 1st, investment and consumption have risen, causing the budget deficit to exceed EU limits.

Inflationary pressures declined in 2006 (4.9%). Nonetheless, core inflationary pressures are building and the current account deficit is widening. Driven by the ongoing strength of aggregate demand, core inflation's declining trend has stalled. Strong credit growth has paralleled a widening current account deficit, suggesting that excess demand pressures will continue. IMF's Romanian Mission head, Van der Mensbrugge, said that the current account deficit

of 1.6% of annual GDP in the first eight months of 2006. However, pressures on current spending during the course of the year 2006 have led to an increase in the deficit target to 2.5%. If the government's spending plans materialise and last December's sharp increase in spending is repeated, this would represent a significant fiscal relaxation. Moreover, given an already-stretched capacity to absorb funds earmarked for infrastructure, this loosening threatens to spill into current spending, rather than capital expenditure.



(Source: Fitch Ratings)

Should these prophecies about the widening of account deficit and inflationary pressures come to life in 2007, there will be an increased risk of a loss in market confidence and sudden capital outflows.

Other News

Pan-European Oil Pipeline (PEOP) signed in Zagreb

Representatives of Croatia, Romania, Serbia, Slovenia, Italy and the European Commission signed in Zagreb on Tuesday 3rd April, a ministerial declaration on the Pan-European Oil Pipeline (PEOP), a project to supply oil from the Caspian region to the European market, that is, from the Romanian Black Sea port Constanta via the said countries to the Trans Alpine Line oil pipeline near Trieste.

depending on the pipeline's capacity, is expected to range between 1.3 and 2.2 billion US dollars, Sanader said. Furthermore Croatian investments in the project would range from 550 to 980 million dollars, depending on the pipeline's capacity. Keeping in mind analysts' estimations of an increased oil demand (up to 41%) in the next 25 years, we are safe to say that the signatories of POEP are in for the deal of their lives!

Program to aid Bulgaria's economic development until 2013

A national programme will aid Bulgaria in its attempts to increase competitiveness and speed up economic growth in the period from 2007 to 2013.

Deputy Economy and Energy Minister Nina Radeva presented the programme during a seminar on new business opportunities related to Bulgaria's EU entry.

PIPELINE TO PUMP OIL FROM ROMANIA TO ITALY

The PEOP, estimated to be some 1,856 kilometers long, will run through Romania, Serbia, Croatia, Slovenia and Italy. The length of the Croatian section is 435 kilometers. Croatian Prime Minister Ivo Sanader, who attended the signing ceremony, said that the PEOP project was of strategic importance for Croatia and other countries involved in its development, and that their economies were expected to benefit from it.



Croatia's direct economic benefit,

The program targets the development of small and medium-sized companies in Bulgaria, which are the main force behind economic growth in the country.

Radeva said that the program is the first attempt of the Economy and Energy Ministry to create a system for financial support for small and medium-sized companies. Financial resources will come from the European Regional Development Fund and from the national budget.



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