Reconstruction Capital II Ltd

("RC2" or the "Fund")

Quarterly Report

March 31st, 2010

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Statistics

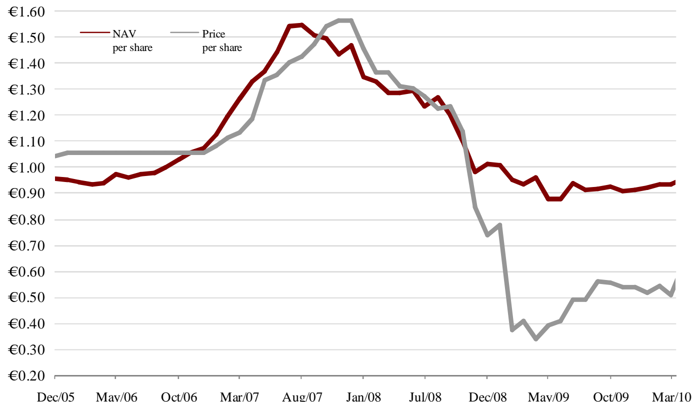
NAV per share (€)	0.9564
Share price (€)	0.6250
Total NAV (€ m)	95.6
Mk Cap (€ m)	62.5
# of shares (m)	100.0
Return since inception	-0.01%
12-month CAGR	-0.33%
Annualized Return*	0.00%
Annualized Volatility*	13.34%
Best month	6.93%
Worst month	-10.52%
# of months up	30
# of months down	21

** since inception*

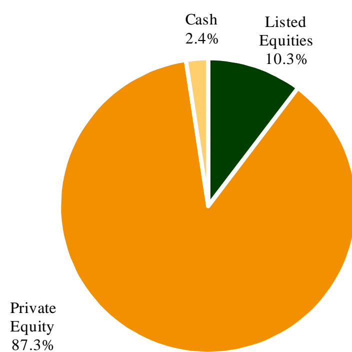
RC2 NAV returns

	2006	2007	2008	2009	2010
Jan	-0.61%	4.70%	-8.27%	-5.65%	1.36%
Feb	-0.73%	6.17%	-1.48%	-1.51%	0.03%
Mar	-0.87%	5.90%	-3.03%	2.39%	2.07%
Apr	0.44%	5.05%	-0.26%	-8.40%	-
May	3.73%	3.08%	0.93%	-0.26%	-
Jun	-1.25%	5.19%	-4.75%	3.08%	-
Jul	1.23%	6.93%	2.85%	1.08%	-
Aug	0.61%	0.22%	-5.55%	0.23%	-
Sep	2.18%	-2.50%	-8.34%	1.20%	-
Oct	2.74%	-0.69%	-10.52%	-1.79%	-
Nov	2.80%	-4.09%	3.03%	0.46%	-
Dec	1.70%	2.46%	-0.60%	1.08%	-
YTD	12.47%	36.74%	-31.43%	-8.38%	3.50%

Share price / NAV per share (€)

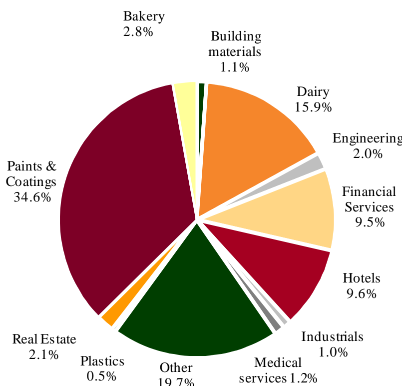


Portfolio Structure by Asset Class



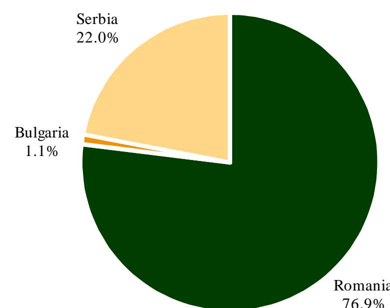
Note: Cash equivalents included under Cash

Equity Portfolio Structure by Sector



Note: EPH investment included under Other

Portfolio Structure by Geography



Note: EPH investment included under Serbia

Message from the Investment Manager and Advisers

Dear Shareholders

Whilst RC2's NAV per share increased by a modest 3.5% over the first quarter, its share price increased by a healthy 20.2%, thereby narrowing its discount to NAV from 43.7% to 34.7%. This is a significant improvement over last year, when the discount to NAV peaked at 64.6%.

At Policolor, in spite of a 16% year-on-year fall in sales during the first quarter, the EBITDA level increased by €0.4m as a result of the successful restructuring programme completed in 2009. This programme has greatly reduced fixed costs, enabling the Group to improve its performance even at times of very reduced sales.

With the exception of a strong performance at its Copper Processing business, the consolidated year-end results of EPH were disappointing and came in substantially below both the budget and the nine months results. RC2 spent much of the first quarter negotiating taking over a higher stake in this business due to the difficulties in monetizing its put against the company and its other shareholders. In March, RC2 acquired an 11.1% direct shareholding in Klas, EPH's bakery business, for €2.7m.

In spite of a flat Romanian dairy market in 2009, Albalact managed to outperform its peers with its sales increasing by 3.1% in EUR-terms to €60.6m. Albalact's strong performance continued over the first quarter of 2010, with its net profit margin more than doubling from 3.3% to 7.0%.

At Mamaia Resort Hotels, cost-cutting efforts reduced losses during the low season, and the management focussed on the opening of a new conference centre, which, based on firm bookings, should generate incremental revenues of at least €0.5m over 2010.

Top Factoring, the Fund's receivables collection business, had an excellent first quarter. Turnover increased by 213% year-on-year from €0.3m to €0.9m, resulting in the EBITDA increasing from breakeven to €0.4m.

The general economic recovery in all of the Fund's target countries is still fragile. However, public sector debt remains amongst the lowest in Europe, and in March Romania's €1bn eurobond issue carrying a yield of 5.17% was 4.5 times oversubscribed. Furthermore, the Romanian government has announced that it intends to cut the budget deficit dramatically by cutting public sector wages, a precondition for the disbursement of the next IMF standby-loan tranche. The Romanian leu gained 3.3% against the euro over the first quarter of 2010.

At the end of March, the Fund, which has no gearing, had cash balances of approximately €1.7m, compared to €4.8m on 31st December.

Yours truly,

New Europe Capital

Policolor Group

Background

The Policolor Group ("Policolor" or the "Group") is the largest producer of coatings (architectural, automotive and industrial) in Romania and Bulgaria, as well as a producer of insulation materials, resins and specialty chemicals. The Group comprises Policolor SA, an unlisted Romanian company, and Orgachim AD, its 64%-owned Bulgarian subsidiary which is quoted on the Bulgarian Stock Exchange. RC2 has shareholdings in both companies: 40% in Policolor and 2.4% in Orgachim.

Financial results

(EUR '000)	2008A*	2009A**	2010B	Q1 09A**	Q1 10A**
Income statement (according to IFRS)					
Sales revenues	**100,632**	**70,314**	**82,064**	**13,709**	**11,522**
Other operating revenues	2,002	5,658		355	211
Total operating revenues	**102,634**	**75,972**	**82,064**	**14,063**	**11,733**
Total Operating Expenses	(105,678)	(71,871)	(73,644)	(15,288)	(12,144)
Operating profit	**(3,044)**	**4,101**	**8,420**	**(1,225)**	**(411)**
Operating margin	*-3.0%*	*5.4%*	*10.3%*	*-8.7%*	*-3.5%*
EBITDA	**2,619**	**8,805**	**12,578**	**(10)**	**348**
EBITDA margin	*2.6%*	*11.6%*	*15.3%*	*-0.1%*	*3.0%*
Financial Profit/(Loss)	(1,773)	(972)	(1,272)	(436)	(103)
Restructuring costs	-	(2,177)	(330)	-	-
Profit before tax	**(4,818)**	**953**	**6,818**	**(1,661)**	**(514)**
Income tax	443	(194)	(1,091)	(23)	(4)
Profit after tax	**(4,375)**	**759**	**5,727**	**(1,684)**	**(518)**
Minority interest	646	645	(1,317)	388	82
Profit for the year	**(3,729)**	**1,404**	**4,410**	**(1,296)**	**(436)**
Avg exchange rate (RON/EUR)	*3.683*	*4.237*	*4.200*	*4.266*	*4.116*

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

Policolor's activity is highly seasonal, with the first quarter of the year being the weakest due to the low level of construction activity during the winter months. The first quarter of 2010 was particularly bad in terms of sales due to bad weather, a very weak construction sector, and decreased activity at Policolor's industrial clients. However, even though the Group's consolidated sales decreased by 16% year-on-year, the EBITDA level increased by €0.4m. This is a testament to the strong restructuring efforts undertaken last year which greatly reduced the fixed costs of the business, and is particularly satisfying as the Group's gross margin was negatively influenced by a generalized increase in the price of raw materials.

Operations

The Architectural business unit ("SBU") recorded consolidated sales of €3.5m compared to €4.7m the year before. In order to maintain its market leader position, in March the Architectural SBU launched nation-wide campaigns in Romania and Bulgaria to promote the launch of new water-based products. In particular the Group opened the new season by launching a new decorative paint (named "Spor with Silver" in Romania and "Leko with Silver" in Bulgaria), which benefits from a permanent anti-bacterial effect, increased resistance and no smell. The Architectural SBU has also opened the "Policolor Gallery", a new concept shop which is expected to form the basis of its future retail development.

Over the first quarter, the Thermo-Insulation SBU, which is the one most exposed to new buildings, was severely affected by the crisis in the construction industry, as many projects started before the credit crisis were completed in 2009 and hardly any new ones were started. The SBU recorded net sales of €1.2m, which was only 36% of the result achieved during the same quarter last year. Nevertheless, the quarterly EBITDA loss remained unchanged at around €-350,000.

Sales at the automotive SBU fell by 19% compared to the first quarter of last year from €1.8m to €1.5m. However, the EBITDA increased almost threefold from €107,000 to €311,000, and the EBITDA margin increased from 6% to 21%.

The Industrial paints SBU achieved consolidated sales of €920,000 in the first quarter, down 23% compared to last year's first quarter sales of €1.2m. In order to gain market share, the SBU has continued its effort to launch new environmentally-compliant water-based industrial coatings as well as new environmentally-compliant coatings for wood, metals and road markings.

The two chemicals divisions of the Group performed in line with expectations. The Resins SBU achieved consolidated quarterly sales of €632,000 (5% higher than last year) and doubled the EBITDA from €63,000 to €139,000. Meanwhile, the Specialty Chemicals (Anhydrides) SBU achieved quarterly sales of €3.8m (10% higher than last year) and reported an EBITDA of €382,000 compared to a loss of €111,000 in the first quarter of 2009.

Policolor owns a 14 hectare site in the eastern periphery of Bucharest, of which only a small part is used for its operations. The attractiveness of its Bucharest site has increased due to the Metro group opening its biggest "Real" hypermarket in Romania on the land adjacent to Policolor's. In order to improve the saleability of its free land, Policolor has initiated a relocation process within its site and started the procedures to demolish its unused buildings. This should completely free up 8ha of surplus real estate by year end.

East Point Holdings Ltd

Background

East Point Holdings Ltd ("EPH" or the "Group") is a Cyprus-based holding company with significant business interests across South East Europe in which RC2 acquired a 21.3% shareholding in 2008. The bulk of the Group's operations are in Serbia and Romania, but it is also active in other countries, including Hungary and Austria, and has a network of sales, procurement and representative offices in New York, Moscow, Frankfurt, Beijing and Sofia. EPH operates along the following main business lines: Agribusiness (Cereals Trading and Storage), Milling, Bakeries, Copper Processing, Cable Production, River Shipping, Real Estate and Other.

Overview

Under RC2's original investment agreement, RC2 had the right to put its shares in EPH back to EPH and its founding shareholders (the "Put Option") if a reorganisation of the Group into its various business lines (the "Reorganisation") had not taken place by 8 December 2009.

Because EPH was unable to complete the required Reorganisation in time, RC2 was able to exercise its Put Option and did so as a protective measure in early 2010. Following this exercise, RC2 commenced negotiations with the Group and its other shareholders and, after examining all options and with particular regard to the difficulties in monetising its claim derived from the Put Option, it determined that the most beneficial solution was to seek to exchange its claim under the Put Option for additional shares in EPH. The negotiations were finalized in April and details of their final outcome will be included in RC2's April Monthly Report.

Financial Results

(EUR m)	2008A	2009A*	2010B
Income statement (accoring to IFRS)			
Sales	462.1	414.1	497.8
COGS	(398.6)	(346.2)	-
Gross Profit	63.5	67.9	-
EBITDA	**17.5**	**14.2**	**28.0**
EBITDA margin	*3.8%*	*3.4%*	*5.6%*
EBIT	**2.6**	**(1.5)**	**10.6**
EBIT margin	*0.6%*	*-0.4%*	*2.1%*
Net interest income (expense)	(14.5)	(13.3)	(13.7)
FX gain (loss)	(6.4)	(6.1)	(2.4)
Share of profit (loss) of associates	0.2	(0.9)	0.3
Income/(loss) before taxes	**(18.1)**	**(21.8)**	**(5.2)**
Income tax (expenses)/benefit	(0.5)	(1.3)	0.4
Net income/(loss)	**(18.6)**	**(23.1)**	**(4.8)**
Minority interest	(0.3)	(1.7)	(0.7)
Net income after minority interest	**(18.3)**	**(21.4)**	**(5.6)**

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

The Group has released its consolidated management accounts for 2009. Whilst the Copper business performed well throughout the year, the Agribusiness disappointed in the fourth quarter and ended the year significantly below budget. However, the bulk of the losses for the year was generated by high financial costs, mainly interest and forex charges. The highly indebted River Shipping business suffered from €6.3m of finance charges, whilst the Group also suffered from €6.1m of forex charges, mainly due to falls in the local currencies of EPH's main countries of operations – in particular Serbia where the Dinar lost 7.6% over 2009. Of these, only €0.9m represent realized losses, as the bulk result from the translation of intercompany foreign exchange liabilities which do not get eliminated on consolidation. The accounts also take into account the first time consolidation of Novkabel AD ("Novkabel"), the cables producer which was acquired in March 2009 which reported negative EBITDA of €1.9m.

The Group's revised budget for 2010 forecasts sales of €497.8m and EBITDA of €28.0m, EBIT of €10.6m and a net loss of €5.6m. However, there is considerable upside to this if the Group manages to deleverage its balance sheet and deconsolidate its River Shipping business by bringing in a partner to this business line.

Agribusiness

Although the total throughput at Silotrans, EPH's flagship silo in Constanta port, was practically unchanged compared to the 1.1m tons achieved the previous year, EPH's Agribusiness suffered in the second half of the year, as two suppliers and one client reneged on their contracts, and stocks were not released by farmers in anticipation of higher prices, particularly in Hungary. Consequently, the EBITDA declined by 69% reaching €2.5m whilst the net effect on the bottom line was a loss before tax of €1.9m (€6.2m lower than the previous year). For 2010, management expects sales of €163.4m, EBITDA of €7.0m, EBIT of €4.8m and a net profit before tax of €2.2m.

Copper Processing

In spite of weak demand during the first two months of 2009, total output increased by 5.9% to 36,000 tons in 2009, the best result ever since privatization, as the business successfully managed to take away market share from a number of competitors which were badly affected by the economic crisis. Robust product demand, efficiency gains and the reversal of the steep fall in copper prices led to a strong EBITDA recovery from -€1.8m to €11.3m. This affected the bottom line where the business generated a profit before tax of €1.6m compared to an €11.7m loss before tax the previous year. For 2010, management is budgeting sales of €187.2m, EBITDA of €12.6m, EBIT of €9.5m and a net profit before tax of €4.6m. The Copper Processing business has continued to grow in 2010, production at EPH's copper mill VBS increasing by 26.4% year-on-year to 8,512 tons during the first quarter. Total exports reached 7,688 tons in 1Q 2010, representing a 13.6% year-on-year increase, while the domestic market recorded a 4.2% year-on-year increase, resulting in an overall sales increase of 12.4%.

Cable Production

Novkabel was acquired by EPH partly as a turnaround project and partly due to its real estate potential over 2007 - 2009. EPH took operational control in March 2009. 2009 was a very difficult year for Novkabel which saw its output drop by 24%, mainly due to the economic recession which resulted in a collapse in infrastructure spending, but also due to intense competition on the local market. Despite efforts by the new management to turn the company around, EBITDA came in at €-1.9m, down from €1.1m in 2008. For 2010 management expects a moderate volume increase to 7,100 tons and an 18% increase in sales to €26m. Further personnel restructuring is envisaged to downsize the headcount from 800 to 600 which should reduce labour costs by 11%. The new management team put in place by EPH is hoping to achieve breakeven in 2010. Investments in measuring equipment, installation cables and oil rubber cables, which are planned for 2010, should improve the overall product quality and cost competitiveness of Novkabel's products as well expand its product assortment and thus allow the penetration of new markets – especially in Russia and the CIS.

River Shipping

In 2009, the compounding effect of lower volumes and lower freight rates led to a 36% sales decline from €67.8m to €43.1m. Despite several restructuring and cost saving measures by the new management team, EBITDA came in at zero, down from €1.9m in

2008. For 2010, the management expects sales of €61.9m and an EBITDA of €6.5m.

Bakeries

EPH's Bakeries business line consists of a controlling stake in Klas one of Serbia's largest industrial bakers. As RC2 has made a direct investment in this company, this investment is reviewed separately on page 7.

Milling

Based on management accounts, EPH's milling operations (excluding the recently sold Mitsides Point AD) generated sales of €11.4m during 2009, down from €27.9m in 2008, representing a 59.3% year-on-year decline, mainly as a result of lower wheat prices. The EBITDA level was €1.6m in 2009, down from €3.5m in 2008.

Albalact

Background

Albalact SA ("Albalact") is a Romanian dairy producer quoted on the RASDAQ section of the Bucharest Stock Exchange in which RC2 has acquired a 25.4% stake under its Private Equity Programme. A local entrepreneur and his family own 46.7%, with the remaining 27.9% representing the free float. With Albalact's market capitalization having slightly increased by 2.9% over the quarter, as of 31 March 2010 RC2's shareholding in Albalact had a market value of €149m, compared to €14.5m at the end of the previous quarter.

Financial results

(EUR '000)	2008A*	2009A**	2010B	1Q09***	1Q10***
Income Statement					
Sales Revenues	**51,741**	**53,330**	**60,623**	**14,462**	**15,658**
Other operating revenues	2,496	1,557	0	218	322
Total Operating Revenues	**54,236**	**54,887**	**60,623**	**14,680**	**15,980**
Total Operating Expenses	(52,163)	(52,422)	(57,179)	(13,658)	(15,053)
Operating Profit	**2,074**	**2,465**	**3,444**	**1,022**	**927**
Operating margin	*3.8%*	*4.5%*	*5.7%*	*7.0%*	*5.8%*
EBITDA	**4,856**	**5,489**	**6,688**	**1,743**	**1,722**
EBITDA margin	*9.0%*	*10.0%*	*11.0%*	*11.9%*	*10.8%*
Financial Profit/(Loss)	(1,860)	(1,803)	(670)	(460)	398
Profit before Tax	**214**	**662**	**2,773**	**562**	**1,325**
Income Tax	(52)	(48)	(458)	(73)	(204)
Profit after Tax	**162**	**614**	**2,315**	**489**	**1,121**
Net margin	*0.3%*	*1.1%*	*3.8%*	*3.3%*	*7.0%*
Avg exchange rate (RON/EUR)	*3.683*	*4.237*	*4.200*	*4.266*	*4.116*

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

Albalact has released its results for the year ended 31 December 2009 and for the first quarter of 2010.

In 2009, Albalact registered an 18.1% growth in its RON-denominated sales, and a 3.1% increase in euros. Accordingly, the company outperformed the Romanian dairy sector, which was flat in value terms at €1.1bn, according to a press statement by the Romanian milk processors' association.

In spite of a difficult trading environment, with retail prices hit by a fight for market share, the EBITDA margin also saw an improvement in 2009, mainly as a result of improved distribution and logistics (a new Bucharest logistics centre was inaugurated in April 2009 to serve southern Romania) and the relocation of production to a new plant. Overall, the net profit came in at €0.6m, up from €0.2m in 2008.

The Company has continued to grow in the first quarter of 2010, with sales up 8% year-on-year in euro terms. Although the reported operating margin was lower, this was due to a change in the Company's accounting policy which resulted in approximately €0.5m of additional expenses with key accounts being accrued in the first quarter. In previous years, these expenses were booked later on in the year. The net profit for the quarter was €1.1m, more than twice the level achieved in the same quarter of 2009, helped by a strengthening RON.

Operations

In 2009, Albalact processed approximately 63.3m litres of milk, 13.1% more than in 2008. 94.6% of its raw material came from dairy farms and individual producers, whilst 5.4% was covered by Albalact's own farm. The Company focused on increasing the proportion of raw milk it collects from dairy farms as opposed to individual producers, in order to reduce collection costs and to improve its milk quality.

In March 2010, Mr. Raul Ciurtin, the President of the Board of Directors of Albalact, and a member of the family that owns 46.7% of its equity, replaced Traian Simion as the company's CEO. Mr Ciurtin's involvement has been critical to the Company's development since his family acquired the business back in 1999 and transformed it from a small regional milk producer to the largest independent player on the Romanian dairy market.

Prospects

The Company's 2010 budget targets a 13.7% growth in sales to €60.6m and a 21.8% increase in the EBITDA level, resulting in an improvement in the bottom line from €0.6m to €2.3m. Albalact intends to focus on increasing both the volumes sold to retail clients and the number of retail clients it serves through a more efficient sales and distribution network. Following the completion in November 2009 of its investment programme at Raraul (the cheese producer acquired in October 2008), Albalact is also focussing on increasing its sales of cheese products. These have a significant growth potential in a highly fragmented sub-segment of the dairy 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 Romania's premium Mamaia seaside resort next to Constanta. In March 2008, RC2 acquired 63% of the Company, with the remaining 37% being owned by a Romanian entrepreneur.

Financial results

(EUR '000)	2008A*	2009*	1Q09**	1Q10**
Income Statement				
Sales Revenues	**1,643**	**1,489**	**16**	**41**
Other operating revenues	144	78	3	0
Total Operating Revenues	**1,787**	**1,567**	**19**	**41**
Total Operating Expenses	(2,113)	(2,103)	(305)	(268)
Operating Profit	**(326)**	**(536)**	**(286)**	**(226)**
Operating margin	*neg.*	*neg.*	*neg.*	*neg.*
EBITDA	**(109)**	**(306)**	**(250)**	**(178)**
EBITDA margin	*neg.*	*neg.*	*neg.*	*neg.*
Financial Profit/(Loss)	(155)	(62)	(3)	(20)
Profit before Tax	**(481)**	**(598)**	**(290)**	**(246)**
Income Tax	0	(2)	-	-
Profit after Tax	**(481)**	**(600)**	**(290)**	**(246)**
Net margin	*neg.*	neg.	neg.	neg.
Avg exchange rate (RON/EUR)	*3.683*	*4.237*	*4.266*	*4.116*

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

The Company has focussed on cutting costs during the low-season by reducing both the number of employees and the level of wages, resulting in a decrease in its monthly staff costs from an average of €75,000 during the high season to €15,000 in the winter months. In order to cut the cost of utilities, only 15% of the rooms are kept open during the low season. These measures contributed to the EBITDA loss over the first quarter falling by almost a third.

Operations

Construction works at the conference centre which started at the end of December 2009 were finalized at the end of April 2010, when the centre hosted its first event. The conference centre has a capacity to seat over 400 persons in 6 separate halls spread out over approximately 1,200 sqm; a dedicated area for coffee breaks and meals (both inside and on a large open-air terrace facing the sea); and an on-site bar and lounge area. All spaces are equipped with modern multimedia equipment. The building and fitting out of the conference centre was financed by a €1.6m loan.

Based on firm bookings received to date, the average occupancy rate over the extended summer season (May-September) is expected to be 55%, slightly better than the 52% achieved in 2009.

Prospects

With the help of the revenues generated by the conference centre, the Company aims to break even in terms of cash generation in 2010. So far, the Hotel has already received indicative bookings for conference events which should generate €0.5m in revenues (including accommodation and F&B) in 2010. Accordingly, the conference centre represents the main growth driver for the Hotel in the low season.

Top Factoring

Background

Top Factoring ("Top Factoring" or the "Company") is a Romanian receivables collection company in which RC2 owns a 93% shareholding. The remaining 7% is owned by the Company's CEO. The debt acquisition part of the business is now being undertaken by an SPV owned by RC2 (Glasro Holdings Ltd) which sub-contracts the debt collection process to Top Factoring.

Financial results

(EUR '000)	2008A*	2009A**	1Q09**	1Q10**
Income Statement				
Total Operating Revenues	**1,205**	**1,587**	**297**	**929**
Debt portfolios	993	1,064	203	648
Agency contracts	212	523	95	281
B2C	139	370	77	214
B2B	73	153	17	67
Amortization of debt portfolios	(774)	(388)	(95)	(124)
Total Operating Expenses	**(1,883)**	**(1,490)**	**(319)**	**(552)**
Operating Profit	**(678)**	**97**	**(21)**	**377**
EBITDA	**(641)**	**132**	**(12)**	**388**
EBITDA margin	*neg.*	*8.3%*	*neg.*	*41.7%*
Financial Profit/(Loss)	(15)	(5)	(0)	1
Profit before Tax	**(693)**	**92**	**(21)**	**378**
Income Tax	0	(0)	-	-
Profit after Tax	**(693)**	**91**	**(21)**	**378**
Net margin	*neg.*	*5.8%*	*neg.*	*40.7%*
Avg exchange rate (RON/EUR)	*3.683*	*4.237*	*4.266*	*4.116*

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

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

The Top Factoring Group moved into profit in 2009 and was strongly profitable in the first quarter of 2010. During the quarter, collection from the four debt packages acquired from Vodafone amounted to €0.6m, of which 77% was generated by the last two portfolios which were acquired in July and December 2009, respectively. The first two portfolios acquired in December 2006 and December 2007 continued to generate income and performed above budget: the combined collections amounted to €150,000 in 1Q10 compared to €200,000 in 1Q09. Agency contracts generated €281,000 of revenues in the first quarter of 2010, significantly above the €95,000 achieved during the same quarter of 2009.

Operations

Top Factoring has started to develop a field collection network as an additional collection tool. At the end of March, the network comprised 18 field collectors, covering almost half the country. The plan is to build up the network to a target of 71 collectors covering the entire country over the first nine months of 2010. The

field collection network is particularly useful for the debt purchase side of the business (which generally involves processing lower quality receivables), but is also a sales tool when negotiating agency contracts. The field collection department is expected to generate profits from its first year of operations.

Prospects

Considering the ongoing fragile economic outlook, with companies looking for ways to increase the liquidity of their balance sheets, Top Factoring expects an increasing number of opportunities to acquire debt portfolios in 2010.

Klas

Background

On 12 March 2010, RC2 acquired a 11.1% stake in Klas DOO ("Klas"), the holding company for EPH's Bakeries business, for a consideration of €2.7m. Klas is the parent of Belgrade-based Beogradska pekarska industrija ("BPI") and owns minority stakes in two other regional bakeries in central and southern Serbia, Izvor Paracin AD and Zitopek Nis AD. Klas is the market leader in Serbia with an approximate market share of 20% in Belgrade alone. Klas' retail network in the Belgrade area comprises c. 50 shops.

Financial results

(EUR '000)	2008A	2009A	1Q09*	1Q10*
Income Statement				
Sales Revenues	**29,307**	**26,022**	**6,277**	**5,978**
Other operating revenues	115	853	39	151
Total Operating Revenues	**29,423**	**26,875**	**6,316**	**6,129**
Total Operating Expenses	27,400	25,643	5,993	6,243
Operating Profit	**2,022**	**1,233**	**323**	**(115)**
Operating margin	*6.9%*	*4.6%*	*5.1%*	*-1.9%*
EBITDA	**3,830**	**2,852**	**720**	**301**
EBITDA margin	*13.0%*	*10.6%*	*11.4%*	*4.9%*
Financial Profit/(Loss)	(211)	(297)	(47)	(3)
Profit before Tax	**1,811**	**935**	**276**	**(118)**
Income Tax	(179)	(27)	(31)	(21)
Profit after Tax	**1,632**	**909**	**246**	**(139)**
Net margin	*5.5%*	*3.4%*	*3.9%*	*-2.3%*

Note: Consolidated financial results excluding associates Izvor AD Paracin and Zitopek AD Nis
** management accounts*

Despite a 5.3% increase in revenues in local currency terms in 2009, Klas posted an 8.7% decline in euro-denominated revenues, from €29.4m to €26.9m. The decline was mostly driven by local currency depreciation, which fell by 13.3% compared to the 2008 average exchange rate.

The EBITDA fell by 25.6% in EUR-terms, from €3.8m in 2008 to €2.8m in 2009. The main reason for the EBITDA fall was the 21.3% increase in other expenses, most notably rental and marketing expenses due to the opening of new stores in 2009.

Operations

Pursuant to an international search, a new CEO was appointed in February 2010 who was previouslythe deputy general manager at United Bakeries, the largest industrial bakery group in the Czech Republic, Slovakia and Hungary.

Over the first quarter of 2010, despite an 18.2% increase in output from 9,010 tons to 10,650 tons, sales came in at €6.1m, slightly below the €6.3m achieved over the same period last year. The EBITDA level decreased by 58.1% year-on-year from €0.7m to €0.3m. The main reason for the EBITDA decline was lower bread prices on the domestic market.

Prospects

Under the leadership of the new CEO, management is currently preparing a restructuring plan to be presented to the Klas board in July. This will propose staff reductions as well as the outsourcing of logistics. However, it will also address the long term plan to relocate all Belgrade production to a new location, thereby freeing up the current production facility in downtown Belgrade.

Romar

Background

RC2 owns a 40% shareholding in the Romar Group ("Romar"), with the company's founder (the "Founder") owning the balance of 60%. In late 2008, RC2 and the Founder put the company up for sale by means of an organised sale process but were unable to sell the business. RC2 is currently analysing all its options for this investment.

Financial results

(EUR '000)	2007A*	2008A**	2009A**
Combined Income Statement			
Total Operating Revenues	**7,789**	**7,597**	**6,342**
Total Operating Expenses	(7,431)	(7,828)	6,458
Operating Profit	**358**	**(231)**	**(116)**
Operating margin	*4.6%*	*neg.*	*neg.*
EBITDA	**733**	**93**	**249**
EBITDA margin	*9.4%*	*neg.*	*3.9%*
Financial Profit/(Loss)	(93)	(79)	(227)
Earnings before Tax	**265**	**(310)**	**(343)**
Income Tax	(77)	-	-
Earnings after Tax	**187**	**(310)**	**(343)**
Net margin	*2.4%*	*neg.*	*neg.*
Avg exchange rate (RON/EUR)	*3.337*	*3.683*	*4.237*

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

The 2009 combined results of Romar Group's six operating companies indicate sales of €6.3m, down 16.5% year-on-year in euro terms.

In spite of an overall difficult economic environment, Romar's profitability improved, with the EBITDA margin increasing from 1.2% in 2008 to 3.9% in 2009. The 2009 loss was unchanged at €0.3m.

Bulgarian Stock Exchange

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

Financial results

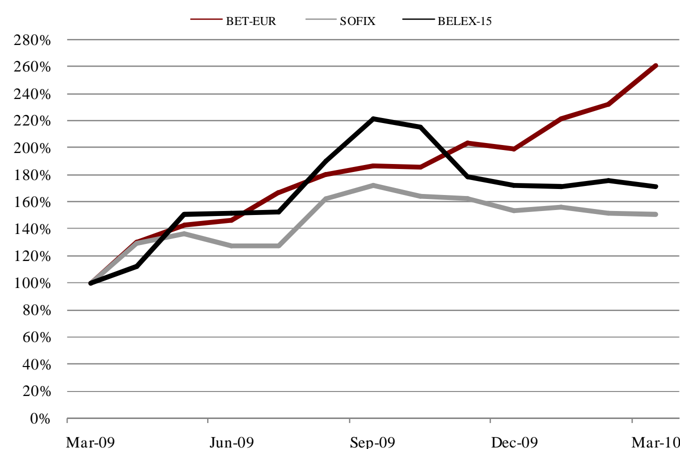
(EUR '000)	2007*	2008*	2009**
Income statement			
Revenues	**4,886**	**2,359**	**1,314**
Total Operating Expenses	(2,057)	(2,271)	(1,549)
Operating Profit	**2,828**	**88**	**(235)**
Operating margin	*57.9%*	*3.7%*	*neg.*
EBITDA	**2,993**	**301**	**(9)**
EBITDA margin	*61.3%*	*12.7%*	*neg.*
Financial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

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

The unaudited results for 2009 show a 44% year-on-year fall in sales from €2.4m to €1.3m, and a loss of €43,000 compared to a profit of €310,000 in 2008, mainly due to much lower activity on the Bulgarian stock market.

Capital Market Developments

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



Commentary

During the first quarter, the Romanian market (BET-EUR) increased by 30.8% in euros, whilst the SOFIX and BELEX-15 indices lost 1.4% and 0.5% respectively.

By comparison, the MSCI Emerging Market index and the MSCI Emerging Market Eastern Europe index were up by 8.1% and 12.7% respectively, whilst the FTSE100 and S&P indices increased by 4.5% and 11.1%, all in euro terms.

Macroeconomic Overview

Overview

	RO	as of:	BG	as of:	SRB	as of:
GDP Growth (y-o-y)	-2.5%	3M10	-4.0%	3M10	-2.9%	FY09
Inflation (y-o-y)	4.2%	3M10	1.3%	3M10	4.7%	3M10
Ind. prod. growth (y-o-y)	-0.4%	Feb-10	1.7%	Mar-10	2.8%	Mar-10
Trade deficit (EUR bn)	1.0	2M10	0.3	2M10	1.2	3M10
y-o-y	*-34.0%*		*-55.2%*		*-12.5%*	
FDI (EUR bn)	0.5	2M10	0.0	2M10	0.3	3M10
y-o-y change	*-64.9%*		*-95.0%*		*-55.9%*	
Total external debt/GDP	*63.0%*	Feb-10	*107.3%*	Feb-10	74.7%	Mar-10
Reserves to short-term debt	203.5%	Feb-10	99.3%	Feb-10	461.5%	Feb-10
Loans-to-deposits	119.3%	Mar-10	109.8%	Mar-10	119.7%	Mar-10
Public sector debt-to-GDP	28.7%	Mar-10	14.8%	Feb-10	31.5%	Mar-10

Commentary

Romania

An IMF mission visited Romania at the beginning of May to assess the evolution of the economy. The main issue discussed was the need to decrease the budget deficit as the fiscal outlook is still fragile, with the budget deficit coming in at €2bn, or 1.5% of GDP, over the first quarter. Following talks with the IMF, the Romanian Government announced its decision to cut public sector wages by 25%, and pensions and unemployment benefits by 15%. The 2010 budget provides for a fiscal deficit of 5.9% of GDP. The IMF will disburse the next tranche (€0.9bn) of its €13bn loan only after the government applies these drastic cost-cutting measures.

In 1Q10, Romanian GDP fell by 2.5% year-on-year, with the IMF revising its growth forecast for the year downwards from 0.8% to 0.5%.

Inflation has continued to fall: the CPI was up 4.2% year-on-year in March 2010, down from 4.7% at the end of 2009. Although the labour market is still weak, with the unemployment rate at 8.3% at the end of February (up from 8.1% in January), industrial production showed signs of improvement with a 4.3% month-on-month increase in February.

Romania's January-February 2010 current account deficit was €0.8bn, up 64.3% year-on-year, mainly influenced by a 68.5% year-on-year decrease in current transfers (from €1bn to €0.3bn). FDI flows, which stood at €0.5bn (-64.9% year-on-year) covered only 61.8% of the current account deficit. Over the same period, the trade deficit fell by 34% to €1.0bn, with exports increasing by 21.8%, while imports inched up by 6.2%.

Over the quarter, the Romanian leu gained 3.3% against the euro on the grounds of improved political stability, appealing real interest rates and the resumption of the IMF package. In February, the IMF disbursed the third and fourth tranches (a combined €2.5bn) of the €13bn support loan which was approved in March 2009. The next tranche of €0.9bn will be entirely allocated to the National Bank's reserves.

Romania's total external debt position stood at €82.3bn at the end of February 2010, or 63% of estimated 2010 GDP. Public debt amounted to €36.8bn at the end of March 2010 (or 28.7% of GDP), a 12.3% year-to-date increase. The Romanian state successfully issued €1bn of eurobonds at the beginning of March 2010. The bonds have a maturity of five years and were priced at a 5.17% yield. The issue was 4.5 times oversubscribed. The National Bank of Romania's foreign reserves (excluding gold) were €32bn at the end of March. Short-term external debt was €14.6bn at the end of February, resulting in an attractive reserves-to-short-term-debt ratio of 203.5%.

The economic recovery is still fragile, with total domestic non-governmental credit (which excludes loans to financial institutions) increasing slightly from €47.3bn at the end of 2009 to €48.7bn at the end of March 2010. Bad loans amounted to 5.2% of total loans at the end of March, a 34% year-to-date increase. The Romanian banking system's total loans-to-deposits ratio was around 119% at the end of the first quarter.

Bulgaria

The recession deepened in Bulgaria, with 1Q10 GDP falling by 4% year-on-year. However, industrial production increased by 1.7% year-on-year in March, mainly triggered by a 6.3% year-on-year increase in the manufacturing sector.

Bulgaria's CPI was up 1.3% year-on-year in March, higher than the 0.9% recorded the previous month. The increase was mainly triggered by price increases for tobacco and fuel (up 26.4% and 21% year-on-year, respectively). However, domestic demand remains low with the labour market continuing to be thin. The unemployment rate stood at 10.1% at the end of March, up from 6.7% a year before, and up from 9.1% in December 2009.

Bulgaria's January-February 2010 current account deficit was €0.2bn, or 0.5% of GDP, an 82% year-on-year fall. Over the period, FDI inflows were a derisory €28m, representing a 95% fall compared to the previous year. FDI inflows covered only 18% of the current account deficit. The IMF sees the current account deficit at 6.3% of GDP in 2010, down from almost 8.6% in 2009. The trade deficit, which came in at €0.3bn in January-February 2010, fell by 55.2% year-on-year. Since about 10% of Bulgaria's exports go to Greece, the Greek economic crisis could have an impact on Bulgaria's economic growth.

The 2009 budget deficit came in at 3.9% of GDP, significantly higher than the initially announced 1.9%. The 2010 deficit is expected to be around 3% of GDP. Bulgaria registered a budget deficit of €0.7bn in the first two months of 2010, or 2% of GDP. While fiscal deficits are problematic for all economies, the situation in Bulgaria is worsened by the fact that these imbalances could affect the stability of the currency board regime. Therefore, the Bulgarian government is focussing on cost cuttings as well as lower state spending on investments.

Out of a total external debt position of €37bn (107.3% of GDP) at the end of February 2010, only 11.5% was attributable to the public sector. The country's reserves-to-short-term-debt ratio was 99.3% at the end of February.

The Bulgarian banking system had a total loans-to-deposit ratio of approximately 110% at the end of March. While the deposit base has increased from €22.1bn to €22.8bn year-to-date, total loans decreased from €25.2bn to €25.0bn over the same period. Overdue loans amounted to 7.8% of all loans to non-financial institutions at the end of March, up from 6.4% at the end of 2009.

Serbia

According to consensus estimates (the National Bank of Serbia, the Economist Intelligence Unit ("EIU") and Raiffeisen Research), real GDP contracted by 2.9% year-on-year in 2009. This represents the lowest year-on-year GDP decline across the region, with the exception of Poland (+1.7%) and Albania (+4.0%). Weak growth of around 1% is expected in 2010, followed by a higher rebound in 2011, in line with a stronger pick-up in Western Europe, as 55% of Serbia's exports go to the EU.

Industrial production continued its gradual upward trend (+ 2.8%) over the first three months of the year, compared to the same period last year. In January alone, the increase was 3.6% year-on-year. This was driven by a slight pick-up in foreign demand for basic metal products. However, local demand remains weak, undermining a sustainable growth in production.

As at March, the CPI increased by 4.7% year-on-year. Although it remained under the target range for March (5.5% - 9.5%), the possible lagging effect of the dinar's depreciation coupled with food price increases might drive inflation upwards. The CPI is expected to reach 6% in 2010 and 5% in 2011.

The Serbian dinar has lost ground against the euro, depreciating from 95.89 to 99.76 during the first quarter of 2010. The depreciation can be attributed to a number of causes, in particular the low level of private capital inflows, the gradual easing of monetary policy, and a decrease in the dinar's share of the banking sector's mandatory reserves.

The current account deficit reached €0.7bn in March, representing a 25.9% year-on-year fall. The main driver was the 3.9% year-on-year decrease in imports, coupled with a 9.8% year-on-year increase in exports.

In March, the National Bank of Serbia (NBS) decided to ease monetary policy further, by lowering the key interest rate twice by a total of 100 bps. The two cuts decreased the reference rate from 9.5% to 8.5%, its historical low. Furthermore, the NBS's Monetary Board passed a new decision reducing the banks' mandatory reserves from 10% to 5% in local currency, and from 45% to 25% in foreign currencies, further easing monetary policy.

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