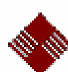
Reconstruction Capital II Ltd

Quarterly Report

31 March 2009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Statistics

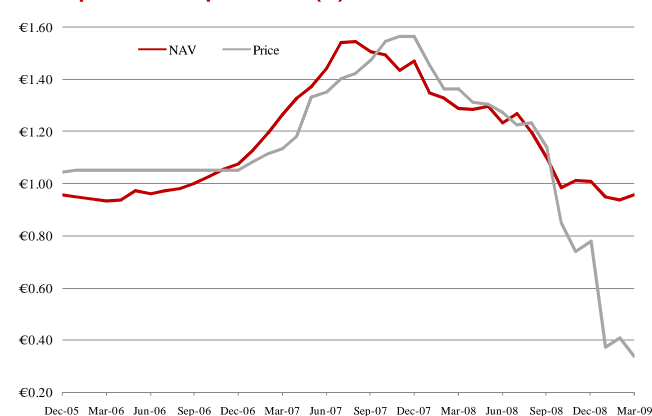
NAV per share (€)	0.9596
Share price (€)	0.3400
Total NAV (€ m)	96.0
Mk Cap (€ m)	34.0
# of shares (m)	100.0
Return since inception	0.32%
12-month CAGR	-25.56%
Annualized Return*	0.10%
Annualized Volatility*	14.31%
Best month	6.93%
Worst month	-10.52%
# of months up	21
# of months down	18

** since inception*

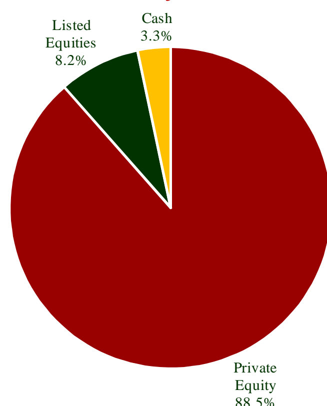
RC2 NAV returns

	2006	2007	2008	2009
Jan	-0.61%	4.70%	-8.27%	-5.65%
Feb	-0.73%	6.17%	-1.48%	-1.51%
Mar	-0.87%	5.90%	-3.03%	2.39%
Apr	0.44%	5.05%	-0.26%	-
May	3.73%	3.08%	0.93%	-
Jun	-1.25%	5.19%	-4.75%	-
Jul	1.23%	6.93%	2.85%	-
Aug	0.61%	0.22%	-5.55%	-
Sep	2.18%	-2.50%	-8.34%	-
Oct	2.74%	-0.69%	-10.52%	-
Nov	2.80%	-4.09%	3.03%	-
Dec	1.70%	2.46%	-0.60%	-
YTD	12.47%	36.74%	-31.43%	-4.86%

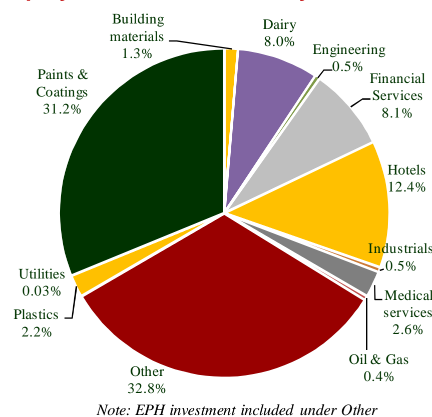
Share price / NAV per share (€)



Portfolio Structure by Asset Class

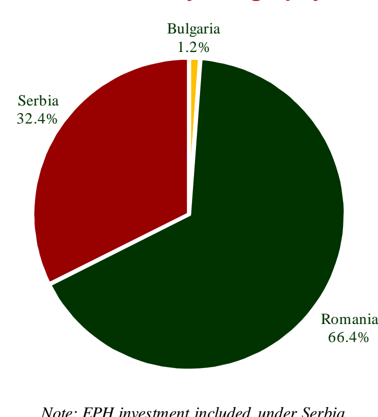


Equity Portfolio Structure by Sector



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

Concerns about a collapse in the economies of Eastern Europe, which generally failed to differentiate amongst the various countries involved, have so far proved to be exaggerated. In particular, whilst their banking systems are proving pretty resilient (and much healthier than those of many "developed" markets) the main issues which the countries that RC2 targets in South East Europe have to address is a decline in export markets (especially the EU, the main export market), and a drying up of finance in the form of credits and FDI, which historically has been crucial in fuelling economic growth.

Trade and balance-of-payment imbalances have in those countries with fluctuating currency rates been to a certain extent already addressed by currency devaluation (-6.3% in Romania and -4.1% in Serbia over the last quarter, in both cases against the EUR). For example, in February the Romanian trade deficit fell from €3.0bn to €1.4bn (-54.5% year-on-year). In Bulgaria, where thecurrency peg to the EUR has survived intact, the adjustment in the trade deficit has been less drastic (-41.8% in the first two months of 2009), but the imbalances of the private sector are compensated by the government continuing to run a budget surplus (0.8% of GDP in the first two months of 2009).

Those theorists who predicted a collapse in the economies of the region due to a withdrawal of FDI and credit from foreign banks have so far been proved wrong. Western (in particular Austrian) banks simply have too much to lose from such a scenario. In Romania, FDI was actually up over January-February 2009 compared to the previous year (+38.1%). Furthermore, the transition to a world with less easily available credit from the private sector has been cushioned by two important "rescue" packages announced in March 2009: one for Romania from the IMF, the EU and the European Bank of Reconstruction and Development ("EBRD") amounting to €20bn; and one for Serbia from the IMF amounting to €3bn. The fact that Romania has the lowest public sector debt in the EU (around 14% of GDP) suggests it is well placed to absorb this additional borrowing from multilateral institutions.

Stock markets in the region fell over the first two months of the year (with the Romanian BET-EUR losing 39.7%, the Bulgarian SOFIX 26.5% and the Serbian BELEX15 28.8% in euro terms), but in Romania and Bulgaria began to rise again in March, resulting in quarterly falls of 23.7% and 22% for the Romanian and Bulgarian indices, respectively, while the Serbian index lost 36.2% over the past three months. This has clearly had an effect on RC2's NAV per share, which fell by 7.10% over January-February, and then appreciated by 2.39% in March, the first such monthly appreciation since November 2008.

Over the past quarter, with hardly any money to invest pursuant to the return of approximately €12.5m to shareholders as aresult of the share buyback effected in December, the Investment Advisers have focussed on the Fund's existing private equity investments. Work at EPH has been intense, including finalizing the entry of a third party investor into the Group's Bakery business. This has culminated in the

Message from the Investment Manager and Advisers (cont'd)

signature of an agreement in late December 2008 whereby the German private equity fund Deutsche Entwicklungsgesellschaft ("DEG") committed to invest €15m in the business by means of a capital increase based on a pre-money valuation of €45m. The completion of the first tranche of DEG's investment took place in early April 2009. In the case of Policolor, the squeeze-out and delisting process, which was completed on 6th April 2009, took place in parallel with an intense restructuring programme under the new CEO who joined in October.

The Fund did not sell any shares held under its Trading Programme, the Investment Manager having taken the view that equity markets were oversold during the period on the basis of unduly pessimistic concerns about the state of the East European economies.

At the end of the quarter, the Fund had total cash balances of €3.2m. These are being kept to meet the Fund's ongoing working capital requirements. They can be supplemented by sales of shares held under the Trading Programme should funds be needed for follow-on investments in existing Private Equity positions.

Yours truly,

New Europe Capital

East Point Holdings Ltd

Background

On 8 October 2008, RC2 acquired a 21.3% shareholding in East Point Holdings Limited ("EPH" or the "Group") for a total consideration of €30m, of which €25.3m represented new shares and €4.7m existing shares. EPH is a Cyprus-based holding company with significant business interests across South East Europe. 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, Milling, Copper Processing, Bakeries, River Shipping, Real Estate and Other. RC2 has the right to convert its shares in EPH into shares in sub-holding companies mirroring its business lines pursuant to a reorganization programme agreed with EPH and its shareholders.

Overview

EURm	2007A*	2008A**
Income statement (according to IFRS)		
Sales	379.6	481.9
COGS	(348.8)	(410.6)
Gross profit	30.8	71.2
SG&A expenses	(17.6)	(37.7)
Other operating income/(expense)	15.6	(16.1)
EBITDA	28.8	17.5
EBIT	20.9	12.1
Net interest income (expenses)	(13.9)	(12.2)
FX gain (loss)	(0.5)	(8.2)
Share of profit (loss) of associates	(0.3)	(0.7)
Net income before tax	6.1	(9.1)
Income tax	(0.4)	(1.3)
Net income/(loss)	5.8	(10.4)
Minority interest	(0.7)	0.2
Net income after minority interest	5.1	(10.2)

*Note: * audited, restated from USD to EUR at yearly average exchange rate*
*** unaudited management accounts*

Unaudited summary Group financials for 2008 are shown above. The Group, which has acquired a number of companies from the Serbian state over the past years, is actively restructuring and turning around those operations. However, as certain recently acquired companies were consolidated into EPH's financial statements, they acted as a drag on the EBITDA level. Behind the figures, one can observe that the bulk of EPH's businesses performed well in 2008, with the Group seeing enhanced EBITDA levels at its Agri, Bakery, and River Shipping businesses. The Agribusiness continued to generate most of the cash for the Group and management expects that it should have an even better year in 2009, whilst the Bakery and Milling operations were reasonably profitable. EPH's Copper Processing Business, which could have been badly affected given its international nature and its dependence on the construction and automotive industries, has held up remarkably well, with sales in the last quarter of 2008 down only 7% against budget (and 5% higher than the previous year), and orders actually up year-on-year in the first quarter of 2009. However, the River Shipping Business was adversely affected by a decline in demand from the steel industry and although its EBITDA level was better than 2007, it still came in at a modest €1.9m.

The financial results were impacted by two large items in the second half of the year which resulted in an overall loss:

- the fall in copper prices at year-end (65% below the year-high and 55% below the yearly average) which caused a €7.8m impairment in the value of copper stocks.
- An €8.2m forex loss at Group level, much of this being a non-cash item resulting from the Serbian subsidiares having debts in foreign currency (a large part of the sales of these companies also being in euros).

On 23 December 2008, DEG, a German private equity fund, committed to invest €15m by means of a capital increase in Klas, the sub-holding company for EPH's Bakery business, implying a pre-money valuation of €45m. The first tranche of DEG's investment (€9.5m) entered the Company in April 2009.

In March 2009, EPH completed the acquisition of Novkabel, a large state-owned copper cable producer. This is an important acquisition for EPH, due to the potential synergies with its copper processing business and the high real estate potential of the company which owns 43 ha of land close to Novi Sad, Serbia's second largest city. Because EPH had previously purchased 85% of the outstanding debt of the company at a discount to its nominal value, it was able to purchase the company for the symbolic amount of €0.1m, whilst making investment commitments of €11.5m over the next five years.

Agribusiness

Introduction

EPH's Agribusiness, which comprises the trading of cereals and the operation of cereal storage facilities along or near the Danube, including Silotrans, EPH's flagship silo in Constanta Port, is dependent on an imbalance in the supply and demand for cereals across South Eastern Europe. In a typical year, the region's harvest produces an excess of cereals over local consumption, resulting in EPH, which operates one of the best and most integrated networks of storage facilities in the region, exporting part of the surplus. In a year with a very bad harvest, the region will import cereals, again making use of EPH's storage facilities. The worst situation for EPH is one of a balance between the regional supply and demand, which happens relatively rarely. Conditions in 2008 were mixed, with the drought in 2007 severely limiting exports during the first half of the year, whilst a bumper harvest in the summer of 2008 resulted in record exports in the second semester and first quarter of 2009.

Financial Results

During 2008, based on management accounts, the Agribusiness generated a turnover of €133.9m and a profit before tax of €4.0m. On the trading side, a portion of the 2008 profit resulted from EPH taking a long position over the winter of 07/08. However, the 2008 result was negatively affected by a €1.2m stock impairment charge related to the fall in the price of wheat in the third quarter and the €1.0m default of a client.

Operations

In terms of proprietary volumes, the Company sold 0.9m tons of grains in 2008, up 250% year-on-year. A further 0.2m tons of third party throughput bought the total volumes handled by Silotrans to 1.1m tons. This is a record figure in Silotrans' 10-year history in spite of the adverse impact of the 2007 drought which resulted in only 0.1m tons of total throughput in the first half of 2008. Silotrans is the market leader for cereals in the port of Constanta with an estimated 25% market share.

Prospects

For 2009, management estimates that the entire throughput at Silotrans will be proprietary, reaching 1.4m tons, a 58% increase compared to the 0.9m tons the trading operations sold in 2008.

In spite of the climatic fluctuations affecting the yearly harvest, over time the structural trend is for agricultural yields in South East Europe to converge towards Western European levels (currently agricultural yields per hectare in Romania are about half the level in France). This should result in EPH's storage and trading capabilities becoming of increasing strategic importance.

EPH's future business plan involves the construction of a new storage unit alongside its existing Silotrans unit in Constanta port, for which EPH has already obtained a concession on land adjacent to a pier in the port. The project, which would add 80,000 tons of vertical grain storage to Silotrans' existing 100,000 tons, and 70,000 tons of flat soybean meal storage, would involve an interconnection with Silotrans' existing facility in order to allow for greater flexibility and speed in the loading and unloading of vessels. The main rationale for the investment is the structural deficit of soyameal in South East Europe, which results in the need for imports, primarily from South America. The new investment would reduce the business' dependence on the fluctuations in the South East Europe cereals harvest, and would also integrate well with EPH's River Shipping Business, as barges could travel upstream with soymeal and downstream with cereals.

Milling

Introduction

EPH owns and operates four grain mills in Serbia, each of which has its own cereal storage facility. One is also integrated with a pasta factory, which is a joint venture with Mitsides, a Cyprus-based pasta producer.

Financial results

Based on management accounts, the milling operations generated sales attributable to EPH of €35.4m in 2008 and EBITDA of €4.6m, resulting in an EBITDA margin of 13% which was positively influenced by a sharp increase in flour prices in the first half of the year, whilst the average purchase price of wheat was low. However, the default of one the largest suppliers of wheat whose production had been pre-financed by EPH, and a €2.1m forex loss relating to local currency depreciation, brought the net income level to €92,000,

Operations

Total attributable output was up 8.9% year-on-year, reaching 88,100 tons. New milling technology at the joint venture with Mitsides resulted in higher quality flour, and output increasing from 44,500 tons to 55,400 tons (up 24%). Management expects pasta sales to be significantly higher in 2009, driven both by exports and by sales on the domestic market. Although the investment upgrade at specialty corn flour mill Zitoprodukt Backa Palanka was concluded in the late summer of 2008, it was too late to secure any contracts for the year. However, the mill recently signed a contract with a local client for the supply of 4,500 tons over 2009.

Prospects

The plan for the milling business, which is still run as a series of independent companies, is to integrate them as a single business unit, which should result in better planning and higher use of the capacity levels of the different mills with only minor investment upgrades.

Bakeries

Background

The successful delisting of Klas, EPH's main Belgrade-based bakery, and its acquisition of an 87% shareholding in BPI, EPH's second bakery in Belgrade, has resulted in the decision to make Klas the Sub-Holding company for the Bakery business. Klas also has investments in two regional bakeries in Southern Serbia: Zitopek (25%) and Izvor (46%). In December 2008, DEG signed an agreement to invest €15m in two tranches into Klas for an overall shareholding of 25.1%, which implies a pre-money valuation of €45m. Disbursement of the first tranche, amounting to €9.5m, was effected at the beginning of April. The purpose of the DEG investment and the loan is to build a new state-of-the-art bakery facility for the Belgrade area, for which a plot of land has already been acquired by EPH. Accordingly, €7.5m will be used by Klas to purchase part of that plot of land from EPH, resulting in an inflow of cash at holding company level. DEG has also agreed to waive any profits which result from the re-development of Klas' existing bakery facility in central Belgrade, resulting in all such profits accruing directly to EPH.

Financial Results

In 2008 according to management accounts, the Bakery Business, excluding Zitopek, generated consolidated sales of €30.9m, whilst operating income expanded by 23% from €1.8m to €2.3m. Over the period, the net profit was up 24% from €1.9m to €2.3m. Total attributable EBITDA for the year amounted to €4.1m.

Operations

Over the year, Klas and BPI produced 33,000 tons of bread products, a slight decrease compared to the previous year. During 2008, the retail network was rebranded and substantial investment was made into the overhaul of Klas' outlets.

Prospects

Management is targeting a production increase to 34,500 tons in 2009 but expects sales in euros to be flat, due to the anticipated weaker dinar. However, there is definitely upside to this forecast as two large new contracts were signed in recent months.

The construction of the new bakery facility on the outskirts of Belgrade is designed to centralize all Belgrade operations under one roof, maximise a number of operating synergies between Klas and BPI, and free up the main existing production facility of Klas, which is located in a residential area in central Belgrade. Accordingly, the project should produce a strong enhancement in Klas' EBITDA over the coming years. The details of the project are still being worked out with the help of external consultants. The new strategy for the business will also probably involve a switch in the product mix towards frozen products; an extension of the Bakery Business' retail outlets, and their externalization into a separate company.

Copper Processing

Background

The business consists of an 81% shareholding in Valjaonica bakra Sevojno ("VBS"), a producer of semi-finished and special copper and copper alloy products based in Sevojno, western Serbia, and ancillary trading activities.

Financial Results

From an operating perspective, 2008 was a good year when the EBITDA level began to reflect a number of operating improvements reflecting the restructuring programme underway. However, based on the unaudited management accounts, EBITDA was reduced from €13.5 to €5.7m due to a €7.8m impairment charge for the devaluation of copper stocks, as a result of the sharp fall in copper prices in the second half of 2008. The combined effect of the impairment of the copper stocks and a €4m forex loss resulted in an overall net loss before tax of €5.2m. Nevertheless, what is particularly important is that in the last quarter of 2008 and first quarter of 2009 sales were not particularly affected by the worldwide recession, with orders for the first quarter of 2009 actually up year-on-year. There are a number of reasons for this. Firstly, a number of direct competitors have gone out of business and VBS has been able to capture part of their market share. Secondly, the fall in copper prices has resulted in a number of industries which had started to use cheaper substitute products returning to copper. Thirdly, EPH is planning to sell increased quantities to the Russian market which has been neglected so far, taking advantage of the free trade agreement between Serbia and Russia.

Prospects

Accordingly, it is management's view that the outlook for 2009 is positive with EBITDA expected to increase from €5.7m to €9m, and production levels expected to increase by 3.8% to 35,300 tons, whilst on the financing side, lower copper prices should substantially reduce working capital expenses.

Novkabel

In January 2009, EPH signed an agreement with the Serbian Privatization Agency to purchase 93% of the share capital of Novkabel for a total consideration of €0.1m and investment commitments of €11.4m over 5 years. Prior to signing the agreement, EPH had acquired over 85% of Novkabel's outstanding debt. Novkabel is a manufacturer of cables for the telecommunication and electrotechnical industries, located on a 43ha plot of real estate in Novi Sad. Whilst Novkabel will be an important element in EPH's ongoing copper processing business, the present report does not include a review of its performance as the deal did not close until 16 March 2009.

River Shipping

Background

Dating back to 1829, DDSG-Cargo ("EDDSG") is an Austrian-based river transportation group which was acquired by EPH in 2007. During the last quarter, Darby Overseas (part of Templeton Group), which has provided mezzanine finance to EPH to fund the acquisition of EDDSG, has exercised its option to take a 15% shareholding in Gilten, the sub-holding company for EDDSG. Accordingly, EPH now has an 85% shareholding.

Financial Results

Over 2008, total cargo volume was up 11% at 3.0m tons and freight revenues were up 27%, reaching €67.6m. EBITDA increased from -€0.1 to €1.9m year-on-year (up from -€9.5 in 2006). However, the high level of debts of the river shipping division resulted in a negative bottom line of €12.6m. Due to lower demand from the steel industry, management expects lower revenues but higher EBITDA in 2009, being the result of EDDGS implementing a strict line balance policy (up versus downriver) and strong restructuring efforts. Indeed, as an immediate response to the drop in cargo volumes upstream, EDDSG has mothballed part of its fleet and dismissed excess shipping crews in order to operate less barges but loaded with cargoes in both directions.

Prospects

With the help of an international headhunting firm, a new CEO with almost 20 years of experience in logistics has been appointed and is due to start on June 1st.

In the long term, EDDSG should benefit from the planned extension of Silotrans in the port of Constanta, as it would enable the shipping business to achieve a balanced trade involving the shipping of

soymeal up the Danube and cereals downstream, lessening its recession-hit steel business.

Real estate

With the exception of DEG’s entry in Klas, which shall free up for re-development Klas’ main production facility in central Belgrade, there were no significant changes in EPH’s real estate portfolio.

Other business

Bioenergy Point, a 95%-owned renewable energies subsidiary of EPH, successfully commissioned a wood pellet (beech wood) factory at the end of November 2008. Part of the investment has been financed by a long-term €2.4m loan from a Serbian government agency at a subsidized 1% interest rate. Since February 2009, the company has been working in three shifts producing 100 tons per day and managed to sign off-take agreements for the entire production of 2009 with several customers.

Policolor Group

Background

The Policolor Group ("Policolor" or the "Group") is the leading producer of coatings in Romania and Bulgaria. The Group comprises Policolor S.A., a Romanian company formerly quoted on the Bucharest Stock Exchange, and Orgachim AD, its 64%-owned Bulgarian subsidiary which is quoted on the Bulgarian Stock Exchange. RC2 has shareholdings in both companies, and over the quarter, pursuant to a squeeze out and delisting process undertaken with the Romanian Investment Fund Ltd (RIF), the owner of 60%, increased its shareholding in Policolor from 38.4% to 40%. The squeeze-out and delisting process was completed on 6 April 2009 and Policolor is now a private company RC2's direct shareholding in Orgachim remained unchanged at 2.4% during the quarter.

Financial results

(EUR '000)	2007A*	2008A**
Income statement		
Sales revenues	**94,643**	**99,086**
Other operating revenues	1,671	4,704
Total operating revenues	**96,314**	**103,790**
Total Operating Expenses	(96,021)	(106,343)
Operating profit	**293**	**(2,553)**
Operating margin	*0.3%*	*neg.*
EBITDA	**6,335**	**3,117**
EBITDA margin	*6.6%*	*3.0%*
Financial Profit/(Loss)	(955)	(2,443)
Profit before tax	**(661)**	**(4,996)**
Income tax	(1,341)	174
Profit after tax	**(2,003)**	**(4,822)**
Profit margin	*neg.*	*neg.*
Minority interest	(1,143)	623
Profit for the year	**(3,146)**	**(4,199)**
Avg exchange rate (RON/EUR)	*3.337*	*3.683*

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

2008 was a bad year for a number of reasons: product returns amounted to €3.7m whilst provisions for obsolete inventories amounted to a further €0.9m, both being partly due to changes in environmental legislation which resulted in some products becoming obsolete; the devaluation of the leu resulted in a foreign exchange loss of €1.2m; furthermore, the global economic downturn resulted in an impairment in the value of chemical stocks due to a fall in international prices (€0.7m), whilst provisions for doubtful clients amounted to €0.5m and for restructuring charges a further €0.2m.

Above all, the 2008 results reflect the growing inability of the previous management team to run the Group profitably in spite of the dynamism in sales they achieved over the period 2004-2007, and explain the decision of the Investment Adviser to replace the Group CEO in the Summer of 2008.

Operations

Since he arrived in October 2008, the new Group CEO has already undertaken a number of restructuring measures which management believes should have a direct impact on the Group's profitability in 2009, as follows:

- Group employees have been reduced from 1,600 in December 2008 to 1,271, a fall of 26%;
- The Bulgarian decorative paints facility is in the process of being modernised with equipment at a total cost of €1.4m;
- In order to simplify production, all manufacturing of decorative paints has been moved to the Bulgarian coatings plant, while the production of automotive paints, industrial paints and wet plasters has been concentrated in Bucharest;
- The Group has given up manufacturing products where it is not competitive, either because of the cost of logistics or because it lacks the necessary economies of scale;
- The Group is reducing working capital levels by keeping consignment stock at its distributors.

Group Organization

Policolor is a diversified coatings group which produces Architectural, Industrial and Automotive Coatings, Resins, and Anhydrides. The previous management team diversified the Group further by extending its operations into insulation systems for houses (including wet and dry plasters, mortars and EPS panels). Finally, the Group owns substantial surplus real estate, comprising 14ha in eastern Bucharest, of which only a small part is being used at present.

Under the new management team's restructuring plan, Policolor and Orgachim's core activities have been re-organized into six strategic business units (SBU's) operating across both Romania and Bulgaria: Architectural, Industrial, and Automotive Coatings, Insulation Systems, Resins and Chemicals (anhydrides). In addition, two further activities are being reorganized into separate operations: retail (the group operates 14 shops) and transportation (to date, Policolor has handled most of its own logistics).

The creation of different SBU's is designed to enable maximum flexibility in terms of an eventual exit from a particular activity, as each SBU has been made into a self sufficient unit which can easily be incorporated into separate companies. This has already happened with the Insulation Systems SBU, which now operates as two companies: one in Romania and one in Bulgaria.

Albalact

Background

Albalact S.A ("Albalact" or the "Company") is a quoted Romanian dairy producer in which RC2 has acquired a significant stake under its Private Equity Programme. With Albalact's market capitalization having dropped by 13.5% over the quarter, RC2 continued to buy shares on the market, increasing its shareholding by 0.8% over the period. RC2 now owns 25.3%, whilst the Ciurtin family owns around 48%, and 26.7% represents the free float. Based on market prices as at 31 March, RC2's shareholding in Albalact had a market value of €7.4m compared to a cost of €13.3m. However, this understates the profitability of this investment as between February and August 2007 RC2 sold 7.6% of the company at an average price corresponding to a market capitalization of €129m, generating a realized profit of €8m.

Financial results and 2009 Budget

(EUR '000)	2007A*	2008A*	2009B	1Q08**	1Q09**
Income Statement					
Sales Revenues	**46,339**	**51,741**	**66,667**	**12,517**	**14,462**
Other operating revenues	4,178	3,630	0	246	218
Total Operating Revenues	**50,517**	**55,370**	**66,667**	**12,764**	**14,680**
Total Operating Expenses	(47,743)	(53,310)	(62,222)	(12,397)	(13,658)
Operating Profit	**2,774**	**2,060**	**4,445**	**367**	**1,022**
Operating margin	*5.5%*	*3.7%*	*6.7%*	*2.9%*	*7.0%*
EBITDA	**5,251**	**4,918**	**7,333**	**1,037**	**1,743**
EBITDA margin	*10.4%*	*8.9%*	*11.0%*	*8.1%*	*11.9%*
Financial Profit/(Loss)	(1,630)	(1,832)	(1,735)	(91)	(460)
Profit before Tax	**1,144**	**228**	**2,710**	**276**	**562**
Income Tax	(174)	(63)	(461)	(49)	(73)
Profit after Tax	**970**	**165**	**2,249**	**227**	**489**
Net margin	*1.9%*	*0.3%*	*3.4%*	*1.8%*	*3.3%*
Avg exchange rate (RON/EUR)	*3.337*	*3.683*	*4.200*	*3.689*	*4.266*

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

2008 was an atypical year during which the EBITDA margin fell from 10.4% to 8.9% mainly due to problems related to the transfer of most production to a new factory in the first part of the year. Over April-July 2008, part of the new fresh milk processing equipment was not able to cope with the planned capacity increase. As a result, products had to be recalled from the market due to quality issues, and new and old production plants had to operate in parallel, resulting in short-term hikes in personnel, raw material and transportation costs. These technical problems were gradually resolved over the Summer, and from September onwards the product quality and sales volumes were back on track. Furthermore, in mid-2008 the Company launched a cost efficiency program focussed on employee and logistics expenses. The result of these actions was seen in the Company's performance over the fourth quarter, when the EBITDA margin reached 14%. However, the net profit for the year was hit by the devaluation of the domestic currency, as the majority of the Company's loans are euro-denominated.

The 2009 budget reflects the fact that the company now has a state of the art production facility running smoothly and also incorporates the effects of the acquisition of Raraul, a cheese producer. Indeed , the Company's performance is back on track in the first quarter of 2009, with a 15% year-on-year and a 17.9% quarter-on-quarter increase in sales, and an EBITDA margin of 11.9%, resulting in the net profit more than doubling from €0.2m in the first quarter of 2008 to €0.5m.

Operations

Before the opening of the new factory in the Summer of 2008, Albalact's sales force had been used to operating in an environment where the bottleneck was production as opposed to sales. Now that the Company has the capacity to produce as many products as the market can absorb, the management's focus has changed to enhancing sales, and improving the distribution and logistics functions. Albalact completed its investment in a new Bucharest logistics centre in April 2009, this being an important milestone in improving inventory management and product availability on the shelf.

In October 2008, Albalact acquired a 77% shareholding in Raraul SA ("Raraul"), a smaller dairy processor specialized in cheese products, for €3.7m. Based in north-eastern Romania, Raraul has the advantage of being located in one of Romania's best milk collection areas. The transaction was closed in December, following its approval by the Romanian Competition Council. Much of the Company's focus for 2009 will be on the integration of Raraul. Following its acquisition by Albalact, Raraul will focus entirely on cheese production. In addition, one of the first measures taken by Albalact was to reduce Raraul's number of employees by almost 25%. The factory's production capacity is due to increase by 70% from June, following an investment of €2m mainly directed at cleaning and upgrading the buildings and existing equipment, as well as moving all cheese production equipment from Albalact's old factory in the centre of Alba Iulia.

Albalact is continuing to invest in the development of its dairy farm in order to double its output to 30,000 litres/day, compared to 12,000 at present. The cost of the investment is €2m, of which €1m is due to be financed by non-reimbursable grants from the EU.

Mamaia Resort Hotels

Mamaia Resort Hotels SRL (the "Company"), in which RC2 has a 63% shareholding, and which is the owner and operator of the Golden Tulip Mamaia Hotel (the "Hotel") next to Constanta in Romania, has been operating according to plan since RC2's investment in March 2008, having had a strong 2008 summer season. The main problem has been a delay in finishing its conference centre due to lack of funds, which in turn has resulted in lower than expected out-of-season business. This was due to unexpected maintenance expenses incurred when the Hotel was taken over, which consumed funds which had originally been dedicated to the conference centre refurbishment. Currently, the Company is in the process of negotiating a working capital facility, and has applied for an investment facility in order to complete its conference centre, as the viability of the Hotel as an all-year-round operation is dependent on it having a functioning conference centre. The Hotel has already received strong bookings for the 2009 summer season from agencies, in a sign that it will not experience falling demand due to the worldwide recession.

Financial results

(EUR '000)	2007A*	2008A*	2009B
Income Statement			
Sales Revenues	**1,140**	**1,643**	**2,845**
Other operating revenues	120	144	0
Total Operating Revenues	**1,260**	**1,787**	**2,845**
Total Operating Expenses	(1,320)	(2,113)	(2,371)
Operating Profit	**(60)**	**(326)**	**474**
Operating margin	*neg.*	*neg.*	*16.7%*
EBITDA	**144**	**(109)**	**694**
EBITDA margin	*11.4%*	*neg.*	*24.4%*
Financial Profit/(Loss)	(593)	(155)	n.a.
Profit before Tax	**(653)**	**(481)**	n.a.
Income Tax	0	0	n.a.
Profit after Tax	**(653)**	**(481)**	n.a.
Net margin	*neg.*	*neg.*	n.a.
Avg exchange rate (RON/EUR)	*3.337*	*3.683*	*4.200*

*Note: * IFRS (audited)*

The one-off expenses incurred in preparing the Hotel for the 2008 summer season after the change of ownership and management negatively affected the net result which, although the Hotel was on budget in terms of revenues, shows a loss of €0.5m for 2008. However, both overall revenues (up 42%) and the bottom line show an improvement over the previous year, validating the Investment Adviser's choice of management team. Including the out-of-season months, the average occupancy rate stood at 30% (with a peak of 83% in August).

Prospects

The Company's management is targeting revenues of €29m in 2009 (a 59% increase on the previous year) and an EBITDA of €0.7m. This assumes an average annual occupancy rate of 34%. The tariffs inherited from the old management team have been renegotiated with local tourist agencies. By the end of March, €1m worth of accommodation contracts for the summer season were already signed with such agencies. By comparison, total accommodation revenues amounted to €0.9m in 2008. In order to boost the domestic tourism sector, the Romanian Government has recently passed a law giving companies the possibility to remunerate employees with "holiday vouchers", which are fully tax deductible and can only be used in Romania. The 2009 budget is also based on the assumption that the Hotel's conference centre will open in October 2009, thereby boosting revenues in the winter months (the average occupancy rate for the last quarter of 2009 is expected to reach 23%, compared to 3.8% in 4Q08). The Company, which is entirely debt-free, is negotiating a loan to support its working capital needs and to finance the completion of its conference centre.

Romar

Background

The Romar Group ("Romar") continues to have a good market position in private medical services in Romania, especially Occupational Health Services ("OHS") where it is the market leader. RC2 and Romar's founder have decided to put the company up for sale by means of an organized sale process. A local investment banking boutique has been appointed to handle the sale and a number of expressions of interest have already been received from private equity funds and strategic investors.

Financial results

(EUR '000)	2007A*	2008A**	2009B
Combined Income Statement			
Total Operating Revenues	**7,789**	**7,597**	**8,285**
Total Operating Expenses	(7,431)	(7,828)	(7,677)
Operating Profit	**358**	**(231)**	**608**
Operating margin	*4.6%*	*neg.*	*7.3%*
EBITDA	**733**	**93**	**951**
EBITDA margin	*9.4%*	*neg.*	*11.5%*
Financial Profit/(Loss)	(93)	(79)	(25)
Earnings before Tax	**265**	**(310)**	**583**
Income Tax	(77)	-	n.a.
Earnings after Tax	**187**	**(310)**	**n.a.**
Net margin	*2.4%*	*neg.*	*n.a.*
Avg exchange rate (RON/EUR)	*3.337*	*3.683*	*4.200*

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

In 2008, sales decreased slightly in euro terms, from €7.8m to €7.6m. OHS remained the most important revenue generator, accounting for 52.8% of sales, with contracts with public insurance houses (mainly for laboratory services) coming second at 26.5% of total sales. A positive development was as increase in "walk-in" sales from €1.2m in 2007 to €1.5m in 2008. The operating loss is mainly the result of the expansion of Romar's network of policlinics. For example, rent and utilities expenses increased by 36% year-on-year.

The financial results exclude Evolution Med, a private medical company acquired by Romar in 2007. In 2007, Evolution made a net loss of €1.8m, and in the first eleven months of 2008 lost a further €0.5m. In order to stop the losses generated by the acquisition of Evolution Med, the company was transferred back to its former owner in the first quarter of 2009.

Operations

Currently, Romar operates 17 clinics in 12 cities across Romania (up from 16 clinics in 2007), as well as 9 laboratories. In 2008, Romar opened five new clinics. Anticipating the effects of the deterioration of the economic climate on the consumption of medical services, Romar has recently finalized an agreement with Romania's National Health Insurance House ("CNAS"), whereby it can provide consultations by specialist doctors that are reimbursed by the CNAS. Beforehand, Romar's relationship with the CNAS had been based almost exclusively on laboratory services.

Prospects

The Romanian private healthcare market is in its infancy and remains an attractive growth proposition. In addition, it is considered to be less sensitive to a recession than other sectors. Furthermore, Romar's positioning on the lower end of the market is a competitive advantage in an increasingly cost conscious environment. Romar, through its very wide network in terms of territorial coverage, is by far the largest provider of OHS in Romania, serving an array of large companies. OHS are mandatory by law and therefore to a certain extent recession-proof. Romar's client base provides an excellent opportunity for cross-selling value-added services to existing customers.

Top Factoring

Top Factoring, the receivables collection business where RC2 has a 92.3% shareholding, had a disappointing year in terms of overall profitability, but made progress in terms of improving its operating efficiency and cost controls. The loss in 2008 was mainly generated by over-paying for a package of receivables it purchased, but also because only towards the end of the year did it really start to improve its collection process and cost controls. For 2009, management expects the Company to break even, with some upside if it manages to buy a receivables package at a favourable price due to the much improved market conditions (less players bidding up prices due to the worldwide financial crisis).

Financial results and 2009 budget

(EUR '000)	2007A*	2008A*	2009B
Income Statement			
Total Operating Revenues	**694**	**1,205**	**1,294**
Total Operating Expenses	(913)	(1,883)	(1,265)
Operating Profit	**(220)**	**(678)**	**29**
EBITDA	**(213)**	**(641)**	**59**
Financial Profit/(Loss)	110	(15)	(6)
Profit before Tax	**(109)**	**(693)**	**23**
Income Tax	0	0	(4)
Profit after Tax	**(109)**	**(693)**	**19**
Avg exchange rate (RON/EUR)	*3.337*	*3.683*	*4.200*

*Note: * IFRS (audited)*

The main source of revenues continued to be collections from the two packages of receivables acquired from Vodafone in December 2006 and December 2007, respectively. The first Vodafone package generated total revenues of €0.8m in 2007-2008. 2008 was the last year over which the cost of the package was amortized. The second Vodafone package generated revenues of €0.8m in 2008. The acquisition cost will be fully expensed by the end of 2009. Agency contracts generated revenues of €0.2m, 48% higher than in 2007. In 2008, Top Factoring's clients for this line of business were Avon Cosmetics, Rompetrol, Volksbank, Unicredit, Romanian Television, Fin Group, GE Money and Zapp Mobile, a telecoms operator.

After the cost of amortizing the two Vodafone packages (80% of total revenues), the largest cost items were personnel expenses and postal and telecommunication costs, which accounted for 31.2% and 20.5% of revenues, respectively.

Financial results (cont'd)

The budget for 2009 was built on the relatively conservative assumption that Top Factoring will not gain any new B2C clients in 2009, but will be able to make the existing accounts profitable. Accordingly, the predicted increase in B2C revenues is triggered by higher volumes from Top Factoring's existing clients.

The program of operational improvements that was initiated in 2008 has started to bear fruits: in the first quarter of 2009, total revenues amounted to €0.3m, up 74% on the same period last year.

Operations

In August 2008, Top Factoring implemented a new call-centre software which increased its operators' time spent talking on the phone from 30% to 45% per hour. In early March 2009, Top Factoring upgraded its call-centre software by adding a predictive dialling facility. Predictive dialling is a computerized system that automatically dials batches of telephone numbers for connection to agents assigned to collection campaigns. The aim of the predictive dialling facility is to improve the rate to 70-75% per hour. The new collection software also helped the Company improve the quality of its reporting system, a useful tool for the cost control and operating efficiency programs.

In September 2008, the Company set up a B2B collection department which managed to collect €0.2m from 80 contracts entered into by the end of the year. This is an important new source of revenues for the Company which should increase in importance over time.

Bulgarian Stock Exchange

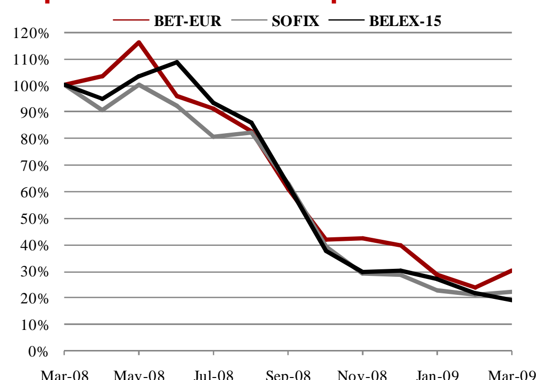
In 2007, RC2 acquired 1.8% of the company (the "BSE") which operates the Bulgarian Stock Exchange for €482,953. The BSE is 44% owned by the Bulgarian state, 34% owned by Bulgarian brokerage firms and banks, and the balance is owned by a combination of institutions and private individuals.

In 2008, the BSE was negatively affected by the ongoing global financial crisis, resulting in revenues falling from €4.9m to €2.4m and the net profit from €2.7m to €0.3m. Due to its relatively small size, the investment is valued at cost by the Fund.

(EUR '000)	2007*	2008**
Income Statement		
Revenues	**4,886**	**2,359**
Operating Expenses	**(2,057)**	**(2,271)**
Profit from operations	**2,828**	**88**
Financial income/(expenses), net	156	222
Profit before income tax	**2,984**	**310**
Income tax expense	(300)	(32)
Net profit for the year	**2,685**	**279**
Avg exchange rate (BGN/EUR)	*1.956*	*1.956*

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

Capital Market Developments



Commentary

For the first time this year, regional stock markets, with the exception of Serbia, showed encouraging signs of recovery in March. The BET-EUR increased by 26.6% in March, whilst the SOFIX was up by 6%. Nevertheless the recovery was not strong enough to offset the sharp decline over the first two months of 2009 with the BET-EUR and SOFIX being down 23.7% and 22.0% over the quarter. Serbia's Belex-15 lost ground throughout the period, decreasing by 36.2% in euro terms over the quarter.

Macroeconomic Overview

Overview

	RO	as of:	BG	as of:	SRB	as of:
GDP Growth (y-o-y)	7.1%	FY08	6.0%	FY08	5.4%	FY08
Inflation (y-o-y)	6.7%	3M09	4.9%	3M09	9.9%	3M09
Ind. prod. growth (m-o-m)	-0.6%	Feb-09	5.6%	Feb-09	-2.3%	Feb-09
Trade deficit (EUR bn)	1.4	2M09	0.7	2M09	0.4	2M09
y-o-y	*-54.5%*		*-41.8%*		*-38.0%*	
FDI (EUR bn)	1.4	2M09	0.4	2M09	0.4	Feb-09
y-o-y change	*38.1%*		*-29.5%*		*-40.4%*	
Total external debt/GDP	58.9%	Feb-09	99.6%	Feb-09	75.5%	Feb-09
Reserves to short-term debt	123.5%	Feb-09	91.5%	Feb-09	448.4%	Feb-09
Loans-to-deposits	134.0%	Feb-09	116.7%	Feb-09	126.0%	Feb-09

Commentary

Romania

At the end of March, Romania reached an agreement with the IMF, the EU, the World Bank and the European Bank for Reconstruction and Development (EBRD) for a €19.5bn financing package. Romania is thus the sixth country in the region to receive an international financing package, after Hungary, the Ukraine, Belarus, Latvia and Serbia. The IMF is due to provide €12.95bn under a two-year stand-by agreement to be disbursed in quarterly tranches, with the first tranche of €5bn to be drawn in May; the EU will lend €5bn; the World Bank €1bn; and the EBRD and other multilaterals a further €1bn. The reason for taking the loan as acknowledged by both the IMF and the Romanian authorities is to weather the effects of the decline in private capital inflows. The bulk of funds should add to the National Bank of Romania's forex reserve. The fact that Romania has the lowest public sector debt in the EU (around 14% of GDP in 2008) suggests it is well placed to absorb this additional borrowing from multilateral institutions. The loans are to be repaid over a period of between three and five years starting two years from disbursement, and carry an interest rate of 2-2.5% (the EU loan) and 3.5% (the IMF loan).

The IMF has secured a formal agreement with nine of the eleven foreign-owned Romanian banks, with a combined 70% share of Romanian banking assets, that their parents will not withdraw cash from their Romanian affiliates and that they will provide additional capital to support their local operations. As a result, the National Bank of Romania's role of injecting funds into the domestic banking system is eased.

In the last quarter of 2008, Romania's economic pace slowed to 2.9% year-on-year, bringing the full-year GDP growth to 7.1%. The growth was primarily driven by increases in the agricultural and construction sectors of 21.7% and 26.1%, respectively. With private consumption expected to hit negative territory in 2009, as was signalled by a 2.6% year-on-year decrease in private consumption in the last quarter of 2008, the IMF has projected the Romanian economy to shrink by 4% in 2009.

In March, Romania's CPI was up 6.7% year-on-year, down from 6.9% in February. The IMF is projecting the inflation rate to reach 4.5% over 2009, down from 6.3% in 2008 in line with the National Bank's forecast of 4.5%.

In the first quarter, the leu lost 6.3% against the euro, with the Romanian currency reaching its lowest level at the end of January. The IMF agreement has calmed nervous forex markets, with the leu

appreciating by almost 2% from the date of the announcement of the financial aid package to the end of April.

The Romanian Government is targeting a budget deficit of 4.6% of GDP for 2009, in line with the IMF agreement. According to the Romanian Minister of Finance, investments in infrastructure and the environment to stimulate the economy are seen at approximately €8.5bn, or 7% of projected GDP. According to the media, the 2009 first quarter fiscal deficit widened to €1.8bn, or 1.6% of GDP, due to a 6.2% year-on-year fall in budget revenues and a 14.2% year-on-year increase in expenses.

Romania's January-February 2009 current account deficit stood at €0.6bn, 76% lower than the same period in 2008. FDI flows, which stood at €1.4bn (up 38.1% year-on-year), fully covered the deficit. The IMF expects the current account deficit to fall from 12.6% of GDP in 2008 to 7.5% of GDP in 2009. Over January–February 2009, Romania's trade balance recorded a deficit of €1.4bn, down 54.5% from €3.0bn the previous year. A slowdown in demand from West European countries (the EU accounted for 77% of Romania's exports and 73% of its imports in the first two months of 2009) led to a decrease in exports (-26% year-on-year). On the other hand, Romania experienced an even stronger downturn in imports (-36% year-on-year).

Romania's total external debt position stood at €71.7bn at the end of February, or 58.9% of estimated 2009 GDP. At the end of 2008, the external debt position was 53.4% of GDP. Of the total external debt, 34% was banking debt. Public and publicly guaranteed external debt stood at €10.9bn, or 9% of estimated 2009 GDP. The National Bank of Romania's foreign reserves (excluding gold) were €25.1bn at the end of March. The short-term external debt was €20.3bn at the end of February, bringing the reserves to short-term debt ratio to 123.5%, while the short-term debt to GDP ratio was around 17%.

At the end of March, total domestic non-governmental credit (which excludes loans to financial institutions) reached €47.8bn, a 2.1% monthly fall. Of this, 41% was leu-denominated and the balance of 59% was in foreign currencies. The Romanian banking system's total loans-to-deposits ratio was around 131% at the end of March. As expected, the financial crisis took its toll on asset quality, with 59.4% of loans classified as "standard" at the end of February, compared to 61.6% in December 2008.

After the IMF-led financial aid package, the National Bank of Romania decided to maintain its key interest rate unchanged at 10%, while cutting the minimum reserve ratio on foreign-denominated liabilities with residual maturities over two years from 40% to 0%. The moves are intended to stimulate medium-term lending, while reducing pressure on the leu.

Bulgaria

Whilst the Bulgarian economy achieved GDP growth of 6 % in 2008, the global recession is expected to hit Bulgaria in 2009, with the IMF projecting a 3.5% fall in GDP due to a slowdown in the former engines of the Bulgarian economy, including construction, real estate and financial intermediation.

Bulgaria's CPI was up 4.9% year-on-year in March, a fall from the 7.8% recorded at the end of 2008. The IMF sees CPI growth over 2009 coming in at 1.5%.

Political commitment to the currency's peg to the euro remains strong and the arrangement is expected to remain in place, although Bulgaria's large external debt remains a source of vulnerability. Out of a total external debt of €36.5bn (approximately 100% of GDP) at the end of February, only 11% was attributable to the public sector. At the end of February, the public debt was €4bn, or 11% of estimated 2009 GDP. The reserves-to-short-term-debt ratio was 91.5% at the end of February, while short term debt accounted for 35.8% of GDP. The Bulgarian banking system has a total loans-to-deposit ratio of around 117%, computed at the end of February. Considering a fall in FDI inflows and reduced access to private sector loans, it is likely that Bulgaria will require some measure of external financial assistance from the IMF and the EU.

For a country which usually records a budget surplus (3% in 2008), Bulgaria's budget has not done so well this year. In February, the budget registered a €0.2bn deficit, placing the January-February budget surplus at only 0.8% of GDP as compared to 0.9% a year ago. The prospects, uncommon in recent years in Bulgaria, of a budget deficit begin to threaten. IMF officials have stated that Bulgaria might end up with a 1% budget deficit in 2009.

However, as the global economic crisis has deepened, Bulgaria's current account deficit has shrunk: over January-February, Bulgaria's current account deficit stood at €0.6bn, or 1.8% of GDP, compared to a €1.5bn deficit over the same period in 2008, or 4.3% of GDP. FDI inflows stood at €0.4bn over the first two months of 2009 and covered 66.7% of the current account deficit, compared to 43.7% over the same period of 2008. The IMF has projected a current account deficit of 12.3% of GDP in 2009. The trade deficit over the first two months of 2009 stood at €0.7bn, down 41.8% on the same period last year. Imports slowed by 32.3% year-on-year, compared to exports which fell by only 27.4%.

Serbia

During 2008, real GDP grew by 5.4% year on year, after a sharp slowdown in the last quarter when GDP growth fell to 2.8%. The global economic crisis has already had a negative impact on Serbia's economy, sharply slowing output growth and putting the local currency under pressure in recent months.

The government has successfully negotiated a new two-year stand-by agreement with the IMF worth €3bn, in addition to the USD 516m which it had initially secured. The new deal will oblige the authorities to perform a significant fiscal tightening, in order to narrow the large budget and current-account deficits.

During recent months, the National Bank of Serbia ("NBS") has spent considerable reserves to ensure a controlled and gradual devaluation of the currency, which fell by 6.5% compared to the euro during the first quarter of 2009. Without the NBS intervention, the dinar would probably have fallen further. However, a further correction in the exchange rate might be unavoidable; according to the Economist Intellgence Unit, a 10% depreciation is expected in 2009.

The NBS has carried out two successive repo rate cuts, from 17.75% to 16.5% in January, and then to 14% in April. However, with inflationary pressures building up in 2009 and the risk of further depreciation of the dinar, additional cuts in interest rates are not likely to happen.

As a result of the increasing prices of services and non-food goods, retail price inflation has been rising in the first quarter of 2009, reaching 9.9% year-on-year in March 2009. However, the decline in the prices of agricultural products and most commodities is expected to have a positive influence over the short to medium term.

Industrial production contracted by 18.7% year-on-year in the first two months of 2009. The industries suffering the most are those producing, intermediate and capital goods – chemicals, basic metals mineral products and electrical machinery. The construction sector has also been severely hit by the crisis.

The current-account deficit more than halved year-on-year, reaching USD 441.7m over the first two months of 2009, as a result of falls in imports and exports by 59% and 65% year-on-year, respectively. However, the overall balance was positive, primarily due to the sale of the government's stake of 51% in Naftna Industrija Srbije for €400m. In addition, the current-account deficit was also financed by trade and short-term loans, amounting to USD 469m.

Based on the disappointing revenue performance in recent months, it is clear that the original forecast of a budget deficit of 1.8% of GDP is unrealistic. According to the Economist Intelligence Unit, if the €1bn of budget savings required by the IMF are not met, the budget deficit could reach 5.5-6% of GDP in 2009.

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