Reconstruction Capital II Ltd

Quarterly Report

September 30th, 2008

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Statistics

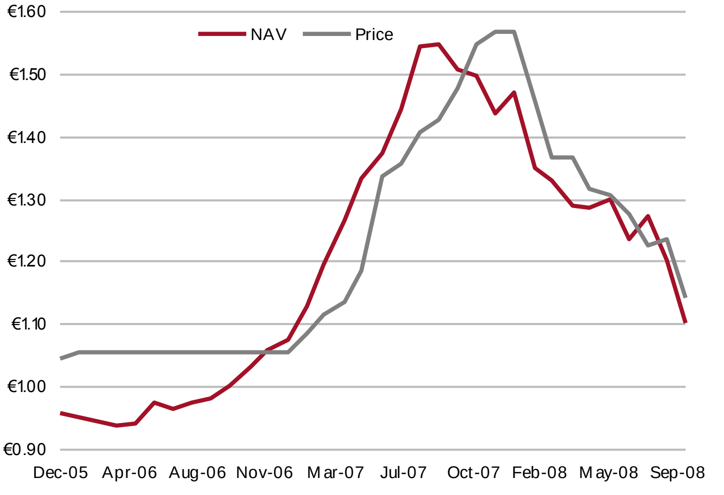
NAV per share (€)	1.1007
Share price (€)	1.1400
Total NAV (€ m)	124.0
Mk Cap (€ m)	128.5
# of shares (m)	112.7
Return since inception	15.08%
12-month CAGR	-26.98%
Annualized Return*	5.24%
Annualized Volatility*	13.42%
Best month	6.93%
Worst month	-8.34%
# of months up	19
# of months down	14

** since inception*

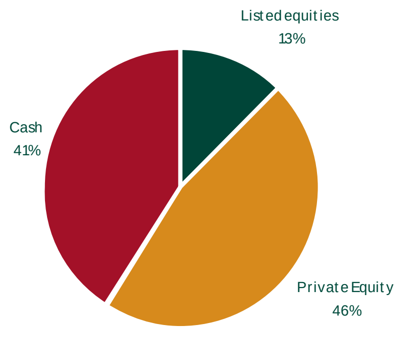
RC2 NAV returns

	2006	2007	2008
Jan	-0.61%	4.70%	-8.27%
Feb	-0.73%	6.17%	-1.48%
Mar	-0.87%	5.90%	-3.03%
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%	-
Nov	2.80%	-4.09%	-
Dec	1.70%	2.46%	-
YTD	12.47%	36.74%	-25.17%

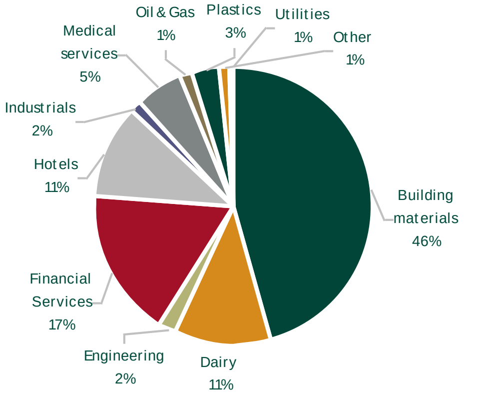
Share price / NAV per share (€)



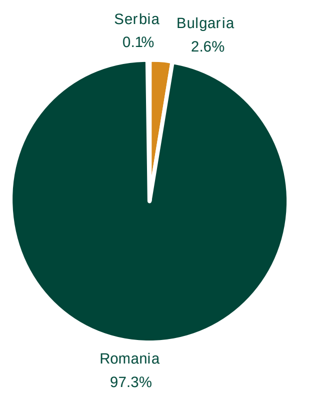
Portfolio Structure by Asset Class



Equity Portfolio Structure by Sector



Portfolio Structure by Geography



Message from the Investment Manager and Advisers

Dear Shareholders

Overall, financial markets suffered a crushing third quarter, with emerging markets falling the most. In EUR terms, the MSCI Emerging Markets index fell by 19.0%, the MSCI Emerging Markets Eastern Europe index by 32.5%, the FTSE100 by 2.8% whilst the S&P500 was marginally (1.9%) up on the back of the USD strengthening against the EUR. At the same time, the Romanian BET lost 36.3%, the Bulgarian SOFIX 15.9% and the Serbian BELEX-15 was down by 21.0%.

The relative fall of the Romanian market is the most surprising, given the fact that of the three economies under review it appears to be the best equipped to weather the storm of the international credit crisis. Whilst Romania's current account deficit stood at 14% of GDP in 2007, and is expected to remain around that level in 2008, the external debt level (EUR 65.6bn at the end of June) remained moderate at 41.4% of estimated 2008 GDP (compare that to 96.0% in the case of Bulgaria and 62.2% in the case of Serbia, or over 100% for Latvia and Estonia). Furthermore, Romania's economy has continued to grow at an annualized rate of 8.8% over the first half of 2008, and FDI actually grew in 2008 to cover 65% of the current account deficit at the end of August 2008. Of the three economies, Bulgaria appears to be the most vulnerable, due to falling FDI resulting from a bias towards real estate investment, whilst the country's currency board gives it less flexibility in managing its economy. Whilst Serbia has its own structural imbalances, it may turn out to benefit from its lesser integration with the world economy.

RC2's portfolio is increasingly a private equity one, with recent deals involving Antares (February 2008), Policolor (June 2008), and most recently East Point Holdings (October 2008 - please see below) bringing the share of Private Equity holdings as a percentage of total NAV from 18.0% at the beginning of the year to approximately 70% at present, taking into account the EPH acquisition which closed after the end of the third quarter. This has certain advantages. Firstly, exits are not expected to take place through the stock exchange - on the contrary, practically all the Private Equity holdings are being prepared for trade sales. Furthermore, in the case of the companies in which RC2 has invested, they are not p`articularly overleveraged, and access to bank financing has not been a problem. Sure, many of the investee companies represent restructuring projects or early stage growth companies, and they all have their operating problems, but this is quite normal for such a portfolio and unrelated to the worldwide credit crunch. Importantly, RC2 itself has avoided leverage to finance acquisitions and has at present EUR 18.7m in cash (pursuant to the EPH acquisition), equal to approximately 15% of September NAV.

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

However, because a large portion of RC2's Private Equity portfolio (68.5%) is quoted, that, combined with a fall in the value of the Trading Portfolio, has resulted in RC2's NAV declining by 11.0% over the quarter, which, although substantially less than the MSCI Emerging Markets Eastern Europe Index (-32.5%), was still disappointing. Due to the increasingly private equity nature of the portfolio, short term fluctuations in NAV resulting from the quoted portion of the portfolio tell only part of the story. The real success or failure of the fund's various investment projects will be determined when exits occur, preferably to strategic investors.

It is prudent to assume that public markets in the region will remain weak over coming years, although the underlying economies of the region should continue to grow, albeit at a lesser pace than in the past. Accordingly, we believe that there is at present a great opportunity to take public companies private, and then to work on their operations in preparation for a trade sale. Currently, RC2 is working on the delisting of Policolor with a view to preparing it for a trade sale.

Over the third quarter, RC2 continued to take advantage of Albalact's lower share price by acquiring a further 1.9% shareholding, and now holds 19.2% of the company. Combined with the 46% shareholding held by the Ciurtin family, this represents a combined stake of 65% which could be sold to a trade buyer at some point in the future. RC2's shareholding in Policolor increased by 0.7% to 38.3% over the quarter as a result of market purchases. At this company, a new CEO with over forty years experience in the coatings industry was appointed in October. His mission is to continue the restructuring process, tighten cost controls and prepare the group for exit.

The investee companies' underlying businesses are on track for the year, except for Romar, where performance continues to be disappointing. The Investment Adviser is in the process of assessing how to improve corporate governance and management at this company, whilst exploring a trade sale.

Events after September:

On October 8th, RC2 acquired a 21.33% shareholding in East Point Holdings Limited ("EPH") by means of a subscription of new shares and a purchase of existing shares at a total cost of EUR 30m. EPH is a Cyprus-based holding company with significant business interests across South East Europe. The majority of the Group's assets are based in Serbia and Romania, but it also owns subsidiaries in other countries, including Hungary and Austria, and operates along the following main business lines: agribusiness, copper processing, bakeries, river shipping and real estate. In 2007, EPH recorded sales of $520.3m and an operating profit of $28.6m. A detailed analysis of EPH will be included in the next Quarterly Report.

Yours truly,

New Europe Capital

Policolor Group

The Policolor Group (the "Company") is the leading producer of coatings in Romania and Bulgaria. The group comprises Policolor S.A., a Romanian company quoted on the Bucharest Stock Exchange, and Orgachim AD, its 64%-owned Bulgarian subsidiary which is listed on the Bulgarian Stock Exchange. RC2 has shareholdings in both companies, and over the quarter increased its shareholding in Policolor from 37.6% to 38.3%, whilst its shareholding in Orgachim remained unchanged at 2.4%. RC2's shareholdings in Policolor and Orgachim had a market value of EUR 31.2m as at 30 September, which compares to a cost of EUR 32.3m.

RC2's strategy for its investment in the Policolor group is to collaborate closely with the Romanian Investment Fund (RIF), which owns a 57.2% shareholding in Policolor, to reorganize the group and prepare it for exit. As at 30 September 2009, both funds owned 95.5% of Policolor and a squeeze-out process has already started. This process should result in the two funds owning 100% of Policolor, with RC2 holding a 40% shareholding and RIF holding a 60% shareholding. The process should be completed by the end of the first quarter of 2009, following which Policolor will cease to be a listed company. A demerger of Orgachim's chemicals business and the sale of excess real estate is also planned, which would allow the group to focus exclusively on its core coatings business.

Policolor and Orgachim have not released any results since the last Quarterly Report. Policolor is due to announce its third quarter results on November 14th, while Orgachim is due to announce third quarter results on November 5th.

Achille Bardelli was appointed the new Group CEO on October 15th. Mr Bardelli started his career as a chemist and has over 40 year of experience in the paints industry. Notably, he built up and arranged the sale of Salchi, one of Italy's leading industrial coatings companies, to BASF, and most recently he has headed up a restructuring programme at Akzo Nobel's Italian unit. Mr Bardelli's main objectives will be further rationalizing production at the group's Romanian and Bulgarian plants, increasing EBITDA levels and preparing the Group for exit.

Albalact

Introduction

Albalact (the "Company") is a quoted Romanian dairy producer in which RC2 has acquired a significant stake under its Private Equity Programme. RC2 took advantage of a 25.5% drop in Albalact's market capitalization over the quarter and increased its shareholding from 17.3% to 19.2%. Based on 30 September prices, RC2's shareholding in Albalact had a market value of EUR 8.4m compared to a cost of EUR 10.8m.

At the end of the quarter, Albalact was 46% owned by the Ciurtin family, 19.2% by RC2 and the rest (34.8%) represents the free float. The strategy of RC2 is to work alongside the Ciurtin family to bring the Company to exit over a 1-2 year time horizon. Currently, the Company is undergoing a powerful investment programme aimed at growing sales, enhancing the Company's operating profitability, assuring the Company's growing raw material needs and strengthening its distribution and logistics. In April, the Company inaugurated a new production facility; in August a new ERP system was introduced; in October, the Company announced the acquisition of Raraul SA, a smaller dairy producer specialized in cheese products; whilst a new logistics and distribution centre for the Bucharest area is due to open in December. As such, Albalact is going through a growth phase at present. Nevertheless, its 2008 results have been affected by teething problems relating to its investment programme, in particular the opening of the new production facility, which resulted in higher operating cots as both plants had to operate in parallel for a period of time.

Financial results

(EUR '000)	2006A	2007A	1H07	1H08
Income Statement (according to RAS)				
Sales Revenues	**28,965**	**46,389**	**22,454**	**24,253**
Other operating revenues	1,467	4,183	2,105	2,632
Total Operating Revenues	**30,431**	**50,572**	**24,559**	**26,886**
Total Operating Expenses	28,634	47,795	21,901	26,399
Operating Profit	**1,798**	**2,777**	**2,658**	**487**
Operating margin	*6.2%*	*6.0%*	*11.8%*	*2.0%*
EBITDA	**3,146**	**5,257**	**3,692**	**1,806**
EBITDA margin	*10.9%*	*11.3%*	*16.4%*	*7.4%*
Financial Profit/(Loss)	279	(1,632)	(237)	(167)
Profit before Tax	**2,077**	**1,145**	**2,421**	**319**
Income Tax	368	174	364	56
Profit after Tax	**1,709**	**971**	**2,057**	**263**
Net margin	*5.9%*	*2.1%*	*9.2%*	*1.1%*
Avg exchange rate (RON/EUR)	*3.525*	*3.334*	*3.331*	*3.671*

Source: Albalact

In the first half of the year, RON-denominated sales increased by 19.0% year-on-year, corresponding to an 8.0% year-on-year increase in EUR terms. However, the Company's profitability was affected by delays in commissioning the new production facility and, between April and June, part of the 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 problems, and new

Financial results (cont'd)

and old production plants had to operate in parallel, resulting in short-term hikes in personnel and raw material costs. However, these problems were resolved in September and the Company is back on track in terms of production, sales volumes and the quality of its end-products.

Monthly sales are expected to reach EUR 4.7m in September, up from a monthly average of EUR 4m over the second quarter, while December sales should reach EUR 6m. Also, the Company has initiated a cost control analysis focussed on personnel, administrative and logistics costs, using a new ERP system which started functioning in August 2008. However, due to the production issues outlined above, the shareholders approved a revised 2008 budget at an EGM in September which targets sales of EUR 52m (down from EUR 59.8m in the original budget) and a net profit of EUR 0.9m (down from EUR 3.1m). Also in September, Albalact shareholders approved new loans worth EUR 6.3m, primarily to finance the acquisition of Raraul. The marketing budget for 2008 is EUR 2.3m, whilst the Company plans to spend EUR 4m to promote its products in 2009.

Market and Competition

Dairy products are defensive goods with relatively inelastic demand. Therefore, in spite of the economic downturn, Albalact should be able to withstand a slowdown in growth due to the worldwide credit crunch. According to a market study performed by MEMRB, an international FMCG retail audit company, at the end of June Albalact was the Romanian market leader in the fresh milk and butter segments (with 21.5% and 23.4% market shares, respectively), followed by Friesland which came a distant second (16.1% and 15.7% market shares, respectively). Importantly, Albalact has continued to gain market share in these segments. Albalact is also the second largest producer of UHT milk (24.2% market share) after Dorna Lactate, now owned by French giant Lactalis. In terms of yoghurt, Albalact is in the fifth place with a 3.2% market share.

Operations

Farm: Albalact is continuing to invest in the development of its dairy farm in order to double its output to 13% of the milk required for its processing operation. In 2009, following the completion of the current investment programme, the farm should have a daily production of 30,000 litres, compared to 12,000 at present. The cost of the investment is EUR 2m, of which 50% is due to be financed by non-reimbursable grants from the EU.

Operations (cont'd)

Cheese: Cheese production has started in the old factory with some local specialty cheeses already being sold on the Romanian market. Furthermore, to strengthen its position on this segment of the market, Albalact acquired 77% of Raraul, a local diary and cheese producer from north-eastern Romania, in October. In 2007, Raraul recorded sales of EUR 4.9m, primarily from the sale of traditional Romanian cheeses. Albalact management plans to invest up to EUR 2.0m to increase Raraul's cheese output and to consolidate its market share in its geographical region. The Raraul acquisition also gives Albalact access to a well established raw material collection network which will expand its access to good quality and competitively-priced milk.

Logistics: As part of its cost cutting programme, the logistics function was externalized over the summer, with the Company's own fleet of trucks having been sold off. In addition, a new logistics centre for the Bucharest area is due to open in November which should allow the Company to improve its inventory management and obtain better access to the most important market for dairy products in Romania. Albalact aims to establish another logistics centre in north-eastern Romania. The acquisition of Raraul underlines the Company's drive to penetrate that local market.

Mamaia Resort Hotels

GOLDEN TULIP MAMAIA

Mamaia Resort Hotels (formerly named Antares Hotels SRL) is the owner and operator of the 290-room Golden Tulip Mamaia Hotel (the "Hotel") located in Mamaia, Romania's premium holiday resort on the Black Sea coast and in close vicinity to the city of Constanta. In March 2008, RC2 acquired a 63% shareholding in Mamaia Resort Hotels from a distressed seller for a total consideration of EUR 8m. The main motivation behind the acquisition was the possibility to buy an asset at a discounted price due to the excessive leverage on the asset under the previous majority owner. In August, RC2 commissioned a fair valuation of the real estate assets comprising the Hotel and free land adjacent to it, which resulted in a valuation of EUR 18m. This compares with an implied asset valuation of EUR 8m at which the acquisition was made. RC2's plan is to enhance the performance of the Hotel by appointing a new professional management team, including it in the Golden Tulip global reservations system, and then operating it on an all-year basis, exploiting its proximity to Constanta city centre. (Constanta is the third-largest city in Romania and Europe's fourth largest commercial port). The next stage in the business plan includes investing in a conference centre (November 2008 – April 2009) and the development of an "aparthotel" block of flats on the free land adjacent to the Hotel (2009-2010), for which planning permission is currently being sought.

Financial results

(EUR '000)	2006A	2007A	9M07	9M08
Income Statement (according to RAS)				
Sales Revenues	**1,287**	**1,140**	**1,151**	**1,610**
Other operating revenues	42	-	4	90
Total Operating Revenues	**1,329**	**1,140**	**1,155**	**1,700**
Total Operating Expenses	1,259	991	895	1,373
Operating Profit	**70**	**149**	**260**	**327**
Operating margin	*5.5%*	*13.1%*	*22.6%*	*20.3%*
EBITDA	**196**	**317**	**323**	**471**
EBITDA margin	*15.3%*	*27.8%*	*28.1%*	*29.3%*
Financial Profit/(Loss)	(264)	(667)	(372)	(170)
Profit before Tax	**(194)**	**(518)**	**(112)**	**157**
Income Tax	-	-	-	-
Profit after Tax	**(194)**	**(518)**	**(112)**	**157**
Net margin	*neg.*	*neg.*	*neg.*	*9.8%*
Avg exchange rate (RON/EUR)	*3.525*	*3.334*	*3.292*	*3.641*

Source: Mamaia Resort Hotels, 9M07 results are according to IFRS

The Hotel was re-opened in May 2008 pursuant to its acquisition by RC2 and its appointment of a new management team. Accordingly, the YTD financial results reflect operations over the summer as the Hotel had been closed since the beginning of the year. In addition,

Financials results (cont'd)

the turnover level does not reflect the Hotel's potential over the summer as the new management "inherited" an old tariff structure which had been sold to tourist agencies the previous year. New tourist agency contracts for the 2009 summer season have already been signed, reflecting an average rate increase of approximately 30% in EUR terms. The profitability of the Hotel was also negatively affected by a number of one-off expenses which were required to prepare the Hotel for the season, such as upgrading the heating system, refurbishing the pool; reconfiguring and upgrading the IT system and telephone switchboard; and the introduction of a new management information system for the food & beverages department.

In terms of occupancy rates, the summer months are obviously the highest, with occupancy levels trailing off between September and May. The investment adviser estimates that the Hotel is financially viable based on an average yearly occupancy rate of at least 33%. This year, August was the peak month,

Financials (cont'd)

when the occupancy rate jumped to almost 90%, translating into EUR 0.5m in sales. In September 2008, the occupancy rate was approximately 30%, translating into sales of EUR 0.2m. Over April-September 2008, the average occupancy rate stood at 41.9%, compared to 36.1% a year ago.

Operations

Immediately after RC2's entry, Peacock Hotels, a professional local Hotel management Company, was appointed to run the Hotel not just as a beach resort open in the summer months, but also as a business

Operations (cont'd)

Hotel serving the city of Constanta. As part of a franchise agreement with Golden Tulip Hotels, the Hotel was included in the Golden Tulip reservation system in August 2008.

In order to boost its corporate events business, the Hotel intends to refurbish part of its premises as a conference centre. The design of the conference centre has been finalized and construction is due to start shortly. Completion is expected in April 2009. The cost of this investment is estimated at EUR 0.8m and is due to be financed by bank loans.

Romar

The Romar group of companies (the "Company") comprises a holding company in Cyprus and 7 operating subsidiaries in Romania. RC2 injected EUR 4m into the group and now owns a 40.0% shareholding, currently valued at cost based on fair value accounting. Romar is one of Romania's leading private healthcare companies, and the national leader in occupational health services. Clients include Arcelor Mittal, the Romanian Post Office and Carrefour. In addition to occupational health services, the Company operates a network of 27 policlinics and 7 laboratories in the country. In July 2007, Romar acquired Evolution Med, a private medical services company, for EUR 1.9m. Evolution Med owns a clinic in the northern part of Bucharest and the shell of an unfinished hospital in the north of Bucharest. The main reason for the acquisition was for Romar to gain time in the establishment of its own hospital. RC2's strategy is to exit the investment to a trade buyer, given the high level of interest in this growing sector of the Romanian economy. Currently, RC2 is in discussions with the majority owner and manager of the business to improve corporate governance standards, merge the businesses into a single operating entity in Romania, and recruit a new senior management team.

Financial results

(EUR '000)	2006A	2007A	1H07	1H08
Combined Income Statement				
Total Operating Revenues	**8,848**	**7,901**	**3,427**	**3,616**
Total Operating Expenses	8,134	7,425	3,379	3,949
Operating Profit	**714**	**477**	**48**	**(333)**
Operating margin	*8.1%*	*6.0%*	*1.4%*	*neg.*
EBITDA	**1,087**	**853**	**219**	**(192)**
EBITDA margin	*12.3%*	*10.8%*	*6.4%*	*neg.*
Financial Profit/(Loss)	18	(72)	-	(34)
Earnings before Tax	**732**	**405**	**48**	**(367)**
Income Tax	186	86	20	12
Earnings after Tax	**546**	**319**	**28**	**(379)**
Net margin	*6.2%*	*4.0%*	*0.8%*	*neg.*
Avg exchange rate (RON/EUR)	*3.525*	*3.334*	*3.331*	*3.671*

Source: Romar, according to RAS, except for 2006 financials which are under IFRS

Note: Excludes Evolution Med

Due to the de-merger process completed in September 2006, Romar's 2006 results are not comparable with those of the following periods. Furthermore, the results presented above do not include Evolution, which was acquired mainly for its real estate assets. However, due to financing difficulties, the hospital building is still a shell and the Company does not have the necessary resources to complete it. Evolution is now a loss maker and the rest of the group is financing the operational expenses and the repayment of the bank loans taken for the construction of the hospital and for the medical equipment.

The results of the first six months of 2008, which show a loss of EUR 0.4m, are a reflection of the expansion of the Company's network of clinics, which increased by five units during the period. None of the new clinics has reached breakeven. Overall sales are 5.5% ahead of the same period last year. During the first half of 2008, occupational services remained the most important revenue generator, accounting for 47.8% of sales, with contracts with public insurance houses coming in second place with a 32.1% share. Over the period, Romar managed to accomplish approximately 80% of the budget it was allocated by Romanian National Health Insurance House.

Financials results (cont'd)

RC2 would have welcomed a revamped sales strategy for Romar with a focus on retail customers as well as the launch of premium subscriptions for corporate clients. With the acquisition of Evolution Med in the summer of 2007, Romar would have been in the position to build a significant presence in the higher income segment of the market. However, a lack of management resources resulted in delays in implementing this strategy. As a result, currently about 20% of sales are generated by walk-ins. In terms of its client portfolio, Romar continued working for big corporate clients, such as Arcelor Mittal and the Romanian Post Office (accounting for 14.3% and 4.4% of total first-half sales, respectively). In the first half of 2008, Romar also gained a new important client, the Rovinari Power Plant (accounting for 1.4% of sales).

Operations

Over the quarter, three new policlinics were opened. Currently, Romar operates 24 clinics in thirteen cities across Romania, as well as 7 laboratories. This represents the largest private healthcare services network in Romania. In an effort to make its activities more efficient, Romar decided to integrate all three Bucharest-based laboratories at a single location.

Strategy

The Company's focus over the coming period is on increasing the client base, especially in the area of small and medium corporations which are appropriate for the higher value added products such as subscriptions for top and middle management. An enhanced marketing campaign should also help increase the share of walk-in revenues.

Top Factoring

In May 2007, RC2 invested EUR 3m in new and existing Top Factoring shares, thereby acquiring a 92.3% shareholding in this receivables collection company. The remaining shares are owned by the CEO, who was previously the Development Manager of EOS KSI, the market leader in this sector in Romania. Although just over two years old, Top Factoring (the "Company") is now the third largest company operating in this sector in Romania by number of cases worked, according to management, In 2008, Top Factoring was awarded a contract by Romanian Public Television (TVR) to help it recover overdue license fees from the public and from commercial organizations. During the last quarter, Top Factoring also won contracts with UniCredit Tiriac Bank, one of the main banking groups operating in Romania, and Asirom, one of Romania's leading insurance companies and an affiliate of the Vienna Insurance Group. RC2's strategy for Top Factoring is to build the Company up both organically and, potentially, by merging it with another local player, and then exiting to a strategic buyer with operations across Europe.

Financial results

(EUR '000)	2006A	2007A	8M07	8M08
Income Statement (according to IFRS)				
Total Operating Revenues	**23**	**694**	**572**	**658**
Cost of debt packages	-	399	192	524
Total Operating Expenses	52	916	446	1,035
Operating Profit	**(29)**	**(222)**	**126**	**(378)**
EBITDA	**(29)**	**(216)**	**129**	**(435)**
Financial Profit/(Loss)	(0)	110	5	(5)
Profit before Tax	**(29)**	**(112)**	**131**	**(382)**
Income Tax	-	-	33	11
Profit after Tax	**(29)**	**(112)**	**98**	**(394)**
Avg exchange rate (RON/EUR)	*3.525*	*3.334*	*3.292*	*3.641*

Source: Top Factoring

Top Factoring earns revenues from two sources: agency business and principal business. The agency business involves collecting receivables on behalf of clients for which Top Factoring is paid a commission based on the value of the receivables collected. The principal business involves using the firm's own balance sheet to acquire packages of receivables.

Top Factoring has acquired two packages of receivables, both from Vodafone Romania. The first package was acquired in December 2006 for a cost of EUR 0.5m and a nominal value (including accrued penalties) of EUR 12m. The second package, which was of a better quality, was acquired in December 2007 for a cost of EUR 1.4m, compared to a nominal value (with penalties) of EUR 15m. Typically, each package generates revenues over two years. The first Vodafone package which was acquired in December 2006 generated revenues of EUR 154,000 in the first eight months of 2008. This compares to a fair value of EUR 157,000 estimated by the auditors as at 31 December 2007. Total collections from the second Vodafone package reached almost EUR 0.4m by August this year.

The main cost in the P&L is the cost of amortizing the two Vodafone receivable packages, which are considered to have a two year useful life and are revalued based on fair value accounting at the end of each financial year. For the first Vodafone package, 2008 will be the last year when the acquisition cost is expensed, although the package is also expected to generate income next year

With revenues from agency contracts increasing by 7.6% year-on-.

Financial results (cont'd)

year and collections from the two Vodafone packages amounting to EUR 0.5m until the end of August, Top Factoring's turnover reached EUR 0.7m, up 15.1% compared to the same period of last year. During the first eight months, the bulk of revenues (92% of total turnover) were generated by principal business. In terms of its agency businesses, Avon was Top Factoring's biggest client (18% of agency business revenues), followed by Rompetrol (15%).

Operations

For its agency business, Top Factoring signed new contracts with TVR, UniCredit and Asirom. Mandate agreements are still in place with Avon Cosmetics, Rompetrol, Volksbank and telecom operator Zapp Mobile.

Top Factoring strengthened its sales efforts and created a B2B department at the end of August 2008, which already managed to secure 30 new contracts. The total amount to be collected by Top Factoring is around EUR 0.6m.

Top Factoring installed a new call-centre software in August, which is already resulting in improved collection rates. With this instrument in place, Top Factoring's operational management is able to assess with more accuracy collectors' activity, allocating the most efficient collectors to the most profitable accounts and to have a dynamic image of collections for every account. Over the quarter, the number of collectors in the call centre remained flat at 40. For the Vodafone packages, the average number of calls per collector has increased by 50% in September when compared to the average rate in August.

Strategy

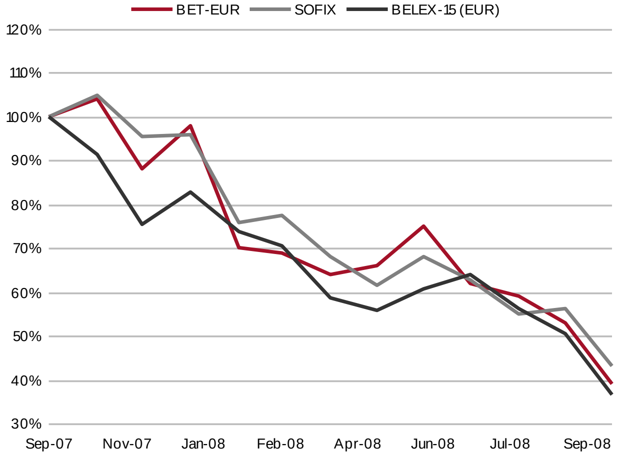
RC2's intends to continue its growth-focused strategy for Top Factoring, enhancing the client portfolio in terms of numbers of clients and the sectors served. For the purpose of increasing the Company's exit valuation, and taking into account the high degree of fragmentation of the market, RC2 is considering a potential merger of Top Factoring with another player on the Romanian market.

Bulgarian Stock Exchange

RC2 owns 1.8% of the company which operates the Bulgarian Stock Exchange (BSE). The shares are valued at cost in the Fund's accounts (EUR 0.5m), given the fact that shares in the BSE are not traded on an organized market. The BSE is 44% owned by the Bulgarian state, 35% owned by Bulgarian brokerage firms, and the balance is owned by a combination of institutions and private individuals. The BSE has provided no results for 2008. In June 2008, the BSE introduced Xetra®, the trading platform used by the Deutsche Börse. This is one of the most up-to-date trading systems in Europe. In Mid-August 2008 the BSE introduced short selling and margin trading. Stocks can be shorted and bought at margin only if the market capitalization exceeds BGN 20m and some other criteria are met.

Capital Market Developments

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



Commentary

Since the beginning of the year, stock markets throughout the South Eastern European region have declined dramatically. In EUR-terms, the BET is down 59.7%, the SOFIX lost 45.0% and the BELEX-15 shrank by 39.0%, faring worse than the MSCI Emerging Markets index (-34.5%), the MSCI Emerging Markets Eastern Europe index (-39.9%), the FTSE100 (-29.3%) and S&P500 (-17.6%).

Over the third quarter and measured in EUR terms, the BET lost 36.3%, the SOFIX 15.9% and the BELEX-15 down by 21.0%. In comparison, the MSCI Emerging Markets index fell by 19.0%, the MSCI Emerging Markets Eastern Europe index (-32.5%), FTSE100 (-12.8%) whilst the S&P500 was up 1.9% on the back of USD strengthening (all in EUR terms).

Macroeconomic Overview

Overview

	RO	as of:	BG	as of:	SRB	as of:
GDP Growth*	8.8%	6M08	7.1%	6M08	7.3%	6M08
Inflation*	7.3%	9M08	11.0%	9M08	10.6%	9M08
Ind. prod. growth	-1.5%	Aug-08	-6.2%	Aug-08	-4.4%	Aug-08
Trade deficit (EUR bn)	14.6	8M08	5.8	8M08	5.4	8M08
y-o-y change	*9.4%*		*31.6%*		*23.6%*	
FDI (EUR bn)	6.5	8M08	3.0	8M08	1.5	7M08
y-o-y change	*60.2%*		*-28.2%*		*n.a.*	
Total external debt/GDP	41.4%	6M08	96.0%	8M08	62.2%	6M08
Reserves to short-term debt	147.7%	6M08	118.2%	8M08	792.4%	6M08
Loans-to-deposits	127.3%	7M08	130.1%	9M08	113.5%	7M08

**y-o-y changes*

Commentary

Romania

At a time when developed economies have been slipping into recession, Romania has continued to experience strong economic growth: in the second quarter of 2008 Romania's economy expanded by an impressive 9.3% year-on-year, one of the highest growth rates in Europe. Over the first half of 2008, GDP grew by 8.8% year-on-year. The growth was mainly triggered by 33.3% and 7.6% year-on-year growth in the construction and services sectors, respectively. The services sector accounts for the largest share in GDP formation (49.5%), followed by industry (26.5%) and construction (8.1%). In its latest world growth forecast, the IMF predicts Romanian GDP will grow by 8.6% in 2008, but will slow down to 4.8% in 2009.

In September, Romanian inflation fell to 7.3% from July's three year peak of 9.0%, pushed down by lower oil prices. A better agriculture output is also

Romania (cont'd)

expected to lessen inflationary pressures. The IMF sees overall CPI growth over 2008 at 7.9%, up from the 6.6% in 2007.

The Romanian Government is targeting a budget deficit of 2.3% of GDP this year, and is aiming to reduce it to 2.0% next year. According to the Maastricht criteria, Romania needs to keep its budget gap below the 3.0% threshold in order to be eligible for adopting the euro (scheduled for 2014). According to Government officials, Romania expects the deficit to reach 1.2 – 1.3% of GDP at the end of October.

Romania's January-August 2008 current account deficit stood at EUR 10.0bn, virtually at the same level as in 2007 (EUR 9.9bn). In 2007, the current account deficit accounted for 14% of GDP and the IMF estimates it will lower to 13.8% this year. Current transfers (mainly remittances) increased by 28.9% year-on-year to EUR 4.4bn and covered 44% of the current account deficit, whilst FDI flows covered 65.0% of the current account deficit at the end of August 2008, significantly better than the same period of last year when FDI covered only 40% of the deficit. Furthermore, as a consequence of EU integration, Romania is expected to receive some EUR 31bn in structural funds from the EU up until 2013.

Romania (cont'd)

Over January – August 2008, Romania's trade balance recorded a deficit of EUR 14.6bn, 9.4% up from EUR 13.3bn over the same period last year, but with the momentum of exports still outperforming that of imports. Traditionally, Romania has exported mainly defensive goods (cheap cars, textiles, furniture) while its biggest import category is oil, accounting for 13.4% of total eight-month imports. Romania's biggest foreign trade partner is the EU, accounting for approximately 70% of the country's exports and imports. A fall in the value of the RON against the EUR and tighter monetary policy should help curb imports, thus reducing the trade deficit.

Romania's total external debt position stood at EUR 65.6bn at the end of June, or 41.4% of estimated GDP for 2008. The trend is decreasing, as at the end of 2007, the external debt accounted for 48.5% of GDP. This ratio seems relatively "safe" if one considers that Latvia and Estonia have external levels in excess of 100% of GDP. The National Bank of Romania's foreign reserves (excluding gold) were EUR 26.0bn at the end of September. The short-term external debt (the bulk being inter-company loans or debt owed by local banks to their foreign parents) was EUR 17.6bn at the end of June, down from EUR 18.2bn at the end of the first quarter of 2008. This puts reserves to short-term debt at 147.7%, while the short-term debt to GDP ratio was around 11%.

At the end of August 2008, total domestic non-governmental credit (which excludes loans to financial institutions) reached EUR 50.7bn, up 36% year-on-year. Of this, 45.3% was RON-denominated and the balance of 54.7 % represents foreign currency loans. Banks operating in Romania have almost EUR 23bn of external loans, of which 90% are from the European parents of local banks. Furthermore, 63% have over 1-year maturities, and thus cannot be withdrawn overnight. The Romanian banking system's total loans-to-deposits ratio was around 127% at the end of July.

At the end of July, the National Bank raised its key interest rate again, from 10% to 10.25%. The increase in the key interest rate, which disregards the improved inflation outlook, is aimed at boosting savings and slowing credit growth. A slowdown in retail lending is expected also as a result of tighter lending norms enforced by the National Bank from October 2008. These require lenders to conduct stress test analyses in order to assess individuals' ability to repay a loan in stressful conditions, using the highest interest rate possible or the highest level of depreciation of the domestic currency, and the highest level of fees received by the lender.

The Romanian RON lost 2.5% versus the euro over the third quarter. However, in early October there was a stronger depreciation when the RON lost a further 5.5% against the EUR to reach levels last seen at the end of 2004. Now the market is calmer with the RON having returned to end of September values which correspond to the YTD average forex rate.

Bulgaria

In 1H08, Bulgaria recorded 7.1% year-on-year economic growth, one of the highest rates in the EU. However, the growth has been over-dependent on the expansion of the real estate, construction and financial services sectors and the IMF estimates economic growth will fall to 6.3% in 2008, while the 2009 GDP growth forecast stands at 4.2%.

Bulgaria's CPI was up 11.0% year-on-year in September, down from a record 15.3% in June. The IMF sees CPI growth over 2008 at 9.6%, down from 12.5% over 2007.

Bulgaria's consolidated budget surplus reached EUR 2.4bn at the end of August, a 58.6% year-on-year increase and equal to 7.1% of GDP. The good performance is attributed to improved tax collection and delayed spending. A budgetary surplus is vital for Bulgaria as its currency board regime allows for only limited tightening by the central bank.

Bulgaria has one of the highest current account deficits in the CEE area (21.4% of GDP in 2007, estimated by the IMF to grow to 24.4% in 2008). In 2007, high levels of FDI (EUR 6.5bn) covered 103.4% of country's current account deficit. However, the level of FDI over January-August dropped 28.2% year-on-year to EUR 3.0bn. This covered only 62.5% of the current account deficit. The drop is due to the concentration of Bulgarian FDI in the real estate and construction sectors, which are badly affected by the global credit crisis.

The January-August 2008 trade deficit stood at EUR 5.7bn, up 31.6% on the same period last year. Exports, which grew 22.4% to EUR 10.6bn, continued to trail imports, which grew 25.4% year-on-year.

Bulgaria has EUR 14.4bn of foreign currency reserves: the reserves-to-short-term-debt ratio was 118.2% at the end of August while short term debt accounted for 37.3% of GDP. Out of a total external debt of EUR 32.7bn (96% of GDP at the end of August), only 12% was attributable to the public sector. The Bulgarian banking system has a total loans-to-deposit ratio of around 130%, computed at the end of September.

Serbia

On September 9, the Serbian Parliament ratified the Stabilisation and Association Agreement (SAA) with the EU and the Government's foreign policy priority remains EU integration, hoping that Serbia might be awarded candidate status in 2009.

The Serbian economy grew by 6.2% year-on-year in the second quarter of 2008, down from the first quarter's growth of 8.4%. Thus, over the first half of the year, GDP growth stood at 7.3%. According to the most recent EIU Serbia Monthly Report, the increasingly unfavourable external environment might cause a further slowdown in the second half of the year which will reflect in full-year growth of 6.5% for 2008. GDP growth for 2009 is expected to be 5.5%. This forecast does not take into account the potential upside should the new pro-EU government have a greater positive on business confidence.

Serbia (cont'd)

Retail price inflation decelerated in August to 10.5% year-on-year, reflecting falling oil prices and a good harvest in Serbia. Average inflation for the year is estimated to be 10.9%. Inflationary pressures remain strong, reflecting continued wage growth, the existence of monopolies in parts of the private sector; and the need for further increases in administered prices. The National Bank of Serbia has kept its key policy rate on hold, amid signs that inflation may have peaked.

Serbia's fiscal situation has remained loose and pro-cyclical under the new government which struggled to control public-sector wage growth, subsidies to state-owned enterprises and spending on pensions, including the approval of a one-off, 10% increase in pensions, taking effect in October. As a result the EIU estimates a general budget deficit equal to 2% of GDP in 2008, compared to 1% in 2007.

The current account deficit reached EUR 3.8bn in the first seven months of 2008, or 19.1 % of GDP. The current account deficit widened primarily on account of an increase in the deficit in goods and services, but also due to a rising deficit on

Serbia (cont'd)

the income account. Moreover, the surplus in current transfers was lower than in the comparable period a year earlier.

The trade deficit for the period January - August 2008 amounted to EUR 5.4bn, up 23.6% compared to the same period in 2007. Imports of energy amounted to 20.5 % of total imports. Serbia generates only 55% of its export revenues from the EU, indicating that a slow-down of demand in the EU might cause less vulnerability for Serbia than some of its neighbours who are much dependent on EU trade relationships.

The Government received a boost in September 29th, when it signed a contract with Fiat regarding a EUR 1bn joint car-production venture with Zastava, a state-owned carmaker. Privatization has become more urgent in view of a probable financing gap in the 2008 budget. Over the January-July period, FDI stood at EUR 1.5bn.

Since the beginning of October, the National Bank sold EUR 422m of foreign exchange reserves to help to support the dinar and as of August it reported currency reserves of EUR 9.5bn.