Reconstruction Capital II Ltd

(“RC2” or the “Fund”)

Quarterly Report

March 31st, 2011

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Statistics

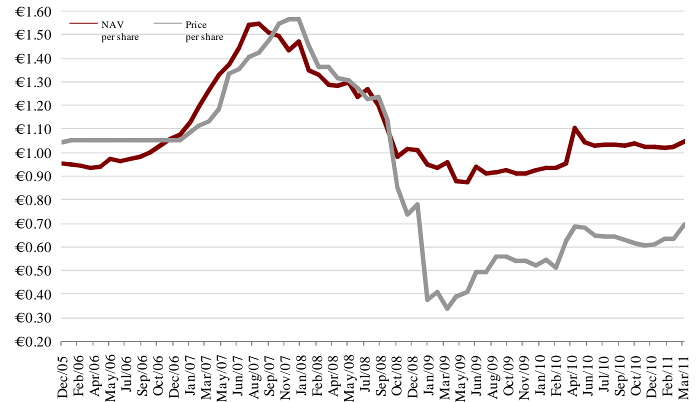
NAV per share (€)	1.0487
Share price (€)	0.6950
Total NAV (€ m)	104.9
Mk Cap (€ m)	69.5
# of shares (m)	100.0
NAV return since inception	9.64%
12-month NAV CAGR	9.65%
NAV annualized Return*	1.77%
NAV annualized Volatility*	14.07%
Best month (NAV)	15.60%
Worst month (NAV)	-10.52%
# of months up (NAV)	36
# of months down (NAV)	27

** since inception*

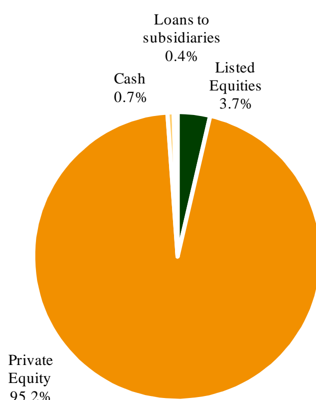
RC2 NAV returns

	2007	2008	2009	2010	2011
Jan	4.70%	-8.27%	-5.65%	1.36%	-0.54%
Feb	6.17%	-1.48%	-1.51%	0.03%	0.24%
Mar	5.90%	-3.03%	2.39%	2.07%	2.48%
Apr	5.05%	-0.26%	-8.40%	15.60%	
May	3.08%	0.93%	-0.26%	-5.42%	
Jun	5.19%	-4.75%	3.08%	-1.57%	
Jul	6.93%	2.85%	1.08%	0.53%	
Aug	0.22%	-5.55%	0.23%	0.07%	
Sep	-2.50%	-8.34%	1.20%	-0.62%	
Oct	-0.69%	-10.52%	-1.79%	0.96%	
Nov	-4.09%	3.03%	0.46%	-1.15%	
Dec	2.46%	-0.60%	1.08%	-0.06%	
YTD	36.74%	-31.43%	-8.38%	11.07%	2.17%

Share price / NAV per share (€)

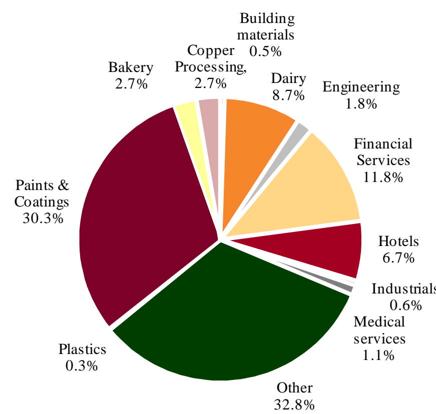


Portfolio Structure by Asset Class



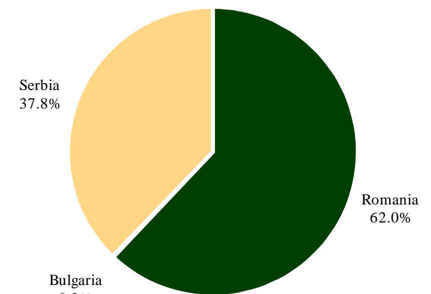
Note: Cash equivalents included under cash

Equity Portfolio Structure by Sector



Note: EPH investment included under Other

Portfolio Structure by Geography



Note: EPH investment included under Serbia

Message from the Investment Manager and Advisers

Dear Shareholders

RC2's NAV per share increased by 2.2% over the first quarter of 2011, ending the period at €1.0487. The share price increased by 13.5% over the quarter, resulting in the discount to NAV shrinking from 40.3% to 33.7%.

EPH's 2010 financial results reflect the sale of its River Shipping and Agribusiness divisions, which contributed €32.9 tothe bottom line in a year of weak operating profitability, due to €15.0m of losses at the divisions which were sold, and deteriorating profitability at all the other divisions, excluding Milling, which had a very strong year. However, EPH achieved EBITDA of €4.6m over the first quarter of 2011, suggesting that the Group is on track for a turnaround in 2011.

Policolor's first quarter results are not particularly significant, as the construction industry in Romania and Bulgaria is virtually stopped over the harsh winter months. Over the first quarter of 2011, Policolor achieved a 5.2% increase in operating revenues from €11.5m to €12.2m. However, the Group's profitability fell due to higher raw materials expenses, reflecting strong inflation in European chemical intermediates as a result of plant closures following the credit crunch.

In spite of a general market decline in 2010, Albalact achieved 16% growth in its euro-denominated sales by value over the year. However, higher raw milk prices and marketing expenses put pressure on the operating result, with EBITDA falling from €5.5m in2009 to €4.3m in 2010. This trend has continued in the first quarter of 2011, with Albalact achieving 29% growth in its year-on-year quarterly sales in euros, but lower EBITDA.

Despite a slightly better performance in terms of revenues, Top Factoring's first quarter EBITDA was affected by start-up expenses as it geared up its campaign to cash receivables from three large debt portfolios which were acquired at the end of 2010. Top Factoring remains on track to meet its ambitious budget targets for 2011.

Mamaia Resort Hotels hardly generated any revenues in the first quarter, as it was closed in order to reduce costs during the peak of the low season. The hotel re-opened in April.

At the end of March 2011, the Fund had cash and cash equivalent balances of approximately €1.2m, compared to €0.9mat the end of December.

Yours truly,

New Europe Capital

East Point Holdings Ltd

Background

East Point Holdings Ltd ("EPH" or the "Group") is a Cyprus-based holding company with significant business interests across South East Europe in which RC2 acquired a 21.3% shareholding in 2008. In April 2010, RC2 increased its shareholding to 42% in exchange for waiving certain claims against EPH's other shareholders for zero consideration. At the same time, Darby, the private equity arm of Franklin Templeton Investments, exchanged a mezzanine loan for 24.7% of EPH's equity. EPH operates along the following main business lines: Copper Processing, Cable Production, Bakeries, Milling and Real Estate. In March 2010, RC2 acquired an 11.1% shareholding in Klas DOO ("Klas"), the holding company for EPH's Bakeries business, for €2.7m. In June 2010, RC2 acquired 3.9% of the share capital of Agri Point Ltd ("Agri Point") for €1.6m and a further 5.5% in December 2010 for 2.2m. In November 2010, RC2 acquired a 49.9% shareholding in East Point Metals Ltd ("EPM") for a total consideration of €2.2m. Both the Agri Point and EPM purchases, which were governed by put and call arrangements with EPH, were used to provide bridge financing to the Group. In January, RC2 sold all its shares in Agri Point back to EPH for €3.8m, in order to enable the sale of 100% of that business to CHS, a trade buyer.

Recent Developments

Following the completion of the sales of the Agri and River Shipping businesses in January, the newly appointed CEO of the holding company has focussed on reducing headquarter overheads (holding company staff has already been reduced from 70 to 25), and a financial restructuring of the company aimed at reducing holding company loans from €29.8m to €8.8m, by repaying some bank loans (€11m) and moving others (€10m) to the operating companies. The holding company's new management has also worked with RC2 and Darby to bring new management into the operating companies and work on their turnaround. New CFO's were recruited into the Copper Processing and Milling businesses, and an international search is underway to fill the positions of CEO at the Copper Processing business, and the CFO role at Novkabel, EPH's cable business.

Financial Results

(EURm)	2009A	2010 *	2011B	1Q10*	1Q11*
Income Statement (according to IFRS)					
Net Sales	**411.2**	**447.2**	**364.9**	**93.9**	**99.7**
Cost of Sales	(339.4)	(385.1)	(325.6)	(80.2)	(85.5)
Gross Profit	71.8	62.1	39.3	13.6	14.1
EBITDA	**10.9**	**3.7**	**10.7**	**0.7**	**4.6**
EBITDA margin (%)	*2.7%*	*0.8%*	*2.9%*	*0.7%*	*4.7%*
Depreciation	(15.6)	(11.6)	n/a	(4.2)	(1.5)
Release of negative goodwill	6.8	-	n/a	-	-
Other income/expense, net	(1.3)	32.2	n/a	(0.1)	0.2
Creditors/Debt write-off	18.4	-	n/a	-	-
Impairment charge of assets	(48.8)	(1.6)	n/a	-	-
FV adjustment on investment property	0.8	(0.5)	n/a	-	-
Exceptional items	2.8	(4.5)	n/a	(2.8)	-
EBIT	**(26.0)**	**17.6**	**5.9**	**(6.5)**	**3.3**
EBIT margin (%)	*-6.3%*	*3.9%*	*1.6%*	*-6.9%*	*3.3%*
Net interest (expenses)	(12.9)	(12.2)	(7.5)	(3.3)	(1.9)
FX gain (loss)	(5.3)	(6.8)	n/a	(4.5)	1.1
Share of profit (loss) of associates	(0.7)	(0.3)	n/a	(0.2)	-
Income/(loss) before taxes	**(44.9)**	**(1.8)**	**(1.7)**	**(14.6)**	**2.5**
Income tax (expense)/benefit	1.9	(1.0)	(0.2)	(0.3)	(0.1)
Net income/(loss)	**(42.9)**	**(2.8)**	**(1.8)**	**(14.8)**	**2.4**
Minority interest	0.1	1.3	n/a	(1.1)	(0.1)
Net income after minority interest	**(42.9)**	**(4.0)**	**(1.8)**	**(13.7)**	**2.5**

*Note: 2009 audited accounts; * unaudited management accounts*

EPH has released its 2009 audited accounts, which include a €47m impairment charge related to EPH's (subsequently sold) river shipping business. This, and other adjustments, resulted in the EBIT falling from €6.0m in the previously disclosed management accounts to €-26.0m.

EPH's operating results deteriorated in 2010, mainly driven by €15.0m of net losses at the two divisions which were sold at the end of the year (Agribusiness and River Shipping) but also due to deteriorating profitability at the other divisions, excluding Milling which had a good year. In particular, the Agribusiness suffered from a number of defaults from suppliers, most of which were booked at the end of the year, as wheat prices rocketed in the summer of 2010. However, the profitability of the Group was saved by the Agri and River Shipping divisions' disposals, which generated a net profit of €32.9m, helping the EBIT line reach €17.6m. For 2011, the Group's management is budgeting revenues of €365m and an EBITDA of €10.7m. Over the first quarter, EPH generated EBITDA of €4.6m on sales of €99.7m (well ahead of the budget), suggesting that the Group is on track to achieve a turnaround in 2011.

Copper Processing

Over 2010, EPH's copper division generated sales of €239m, a 46.1% year-on-year increase over the €163m generated in 2009. Most of this was due to a rise in copper prices over the second half of 2010, the division having achieved a modest 1.8% year-on-year increase in volumes. However, the accounting loss generated by a sharp fall in copper prices in the first half of 2010 was not fully compensated by the rise in copper prices during the second half, bringing the EBITDA down to €6.3m, compared to €7.9m in 2009. Accordingly, the EBITDA margin fell from 4.9% to 2.7%. Although EPH's copper division generated a 14.1% year-on-year increase in revenues over the first quarter of 2011, this was again mainly due to higher copper prices. In fact, the Group has continued to struggle with financing a continuous supply of raw materials, with the high price of copper stretching working capital lines, resulting in a 12% year-on-year fall in production volumes over the quarter, which in turn generated a fall in profitability, with EBITDA falling from €2.9m in 1Q2010 to €2.0m. The division's management aims to achieve a 21% increase in revenues to €289m over 2011, and EBITDA of €8.5m. A new CFO with longstanding experience in the metals industry was appointed in March and has already started several cost cutting initiatives. RC2's investment adviser and Darby have also identified several international candidates for the role of CEO, and aim to complete the appointment by the summer.

Cable Production

EPH's cable producer Novkabel generated sales of €24.2m in 2010, compared to €19.5m in 2009, mostly due to increased sales on the Russian market, as well as the copper price increase over the second half of 2010. Operational difficulties and a lack of working

capital caused negative EBITDA of €2.4m. However, this includes a €1m one-off redundancy programme expense, and a €1m inventory write-off to clean up the company's books after its privatization. Excluding these expenses, 2010 EBITDA would have reached €-0.4m, a considerable improvement over the €-0.9m generated in 2009. Over the first quarter of 2011, sales by volume increased by 67.7%, reaching 1,600 tons, and sales by value, aided by higher copper prices, doubled from €3.6m to €7.2m compared to 1Q2010. Benefiting from the free-trade agreement between Serbia and Russia, sales on the Russian market are growing at an impressive rate, with 1Q2011 sales already exceeding the entire sales achieved in 2010. The company's overall first quarter EBITDA came in at €-0.2m, compared to €-0.7m generated in 1Q10. Management plans to bring the Company to breakeven in 2011, primarily by increasing sales, which are budgeted at €33.1m for this year. New medium-voltage electrical cables production lines, and equipment for oil rig power cables, which are included in the company's 2011 investment plan, should allow Novkabel to penetrate new markets in Russia, characterized by low competition and high margins. The new production lines are planned to be fully operational by August 2011. The Fund's investment adviser and Darby are currently recruiting a new CFO for Novkabel to strengthen the management team.

Bakeries

EPH's bakery division achieved revenues of €23.7m in 2010, 11.6% lower than the €26.9m generated in 2009. The fall is mainly due to a decrease in wholesale volumes (-16.2%) caused by two consecutive bread price increases in 2H2010, effected to counter-act the surge in wheat prices experienced over the summer. The two price increases did not fully compensate for the 90% flour price increase over the second half of 2010, causing the gross margin to shrink from 46.5% to 39.9%, and EBITDA to fall from €2.8m in 2009 to €-440,000 in 2010. However, excluding €1.5m of extraordinary expenses (mainly redundancy fees), 2010 EBITDA would have been positive at €1.1m. In early February 2011, management effected a third price increase of 12%, and the Bakery division started to show signs of recovery in March, achieving a 7.1% EBITDA margin compared to -5.0% in January and -2.5% in February 2011. Management expects flour prices to decrease below their 2010 levels after a peak in the second quarter of 2011. This should ease pressure on the gross margin, which, coupled with planned operational improvements, is expected to bring the EBITDA level to around €1.4m over 2011. Management is also preparing an additional headcount reduction of around 30 employees.

Milling

Mainly due to a sharp rise in flour prices over the second half of 2010, EPH's Milling division achieved a 27.4% increase in revenues, from €11.3m in 2009 to €14.4m in 2010. Over the last quarter of 2010, the Milling business achieved a remarkable 21.7% EBITDA margin, compared to 12.1% and 14.5% achieved during 1H2010 and 3Q2010, respectively. Consequently, EBITDA reached €2.4m in 2010, compared to €1.6m in 2009. For 2011, management is forecasting revenues of €21m, and an EBITDA of €2.2m. Over the first quarter, the Milling division's revenues almost tripled, reaching €5.9m compared to €2.1m in 1Q2010, whilst EBITDA reached €1.6m, a substantial increase over the €0.3m generated in 1Q2010.

Policolor Group

Background

RC2 has a 40% shareholding in Policolor, the parent company of the Policolor Group ("Policolor" or the "Group"), the largest producer of coatings (architectural, automotive and industrial) in Romania and Bulgaria, as well as a producer of insulation materials, resins and specialty chemicals. The Group comprises Policolor SA, an unlisted Romanian company, and Orgachim AD, its 71.6%-owned Bulgarian subsidiary which is quoted on the Bulgarian Stock Exchange.

Financial results

(EUR '000)	2009A*	2010A**	2011B	1Q10A**	1Q11A**
Income statement (according to IFRS)					
Sales revenues	**71,792**	**67,027**	**79,170**	**11,495**	**12,217**
Other operating revenues	2,030	3,570	1,499	211	92
Total operating revenues	**73,822**	**70,597**	**80,669**	**11,706**	**12,309**
Total Operating Expenses	(70,609)	(68,652)	(74,914)	(12,026)	(13,063)
Operating profit	**3,213**	**1,945**	**5,755**	**(320)**	**(754)**
Operating margin	*4.4%*	*2.8%*	*7.1%*	*-2.7%*	*-6.1%*
EBITDA	**9,078**	**5,411**	**9,091**	**439**	**21**
EBITDA margin	*12.3%*	*7.7%*	*11.3%*	*3.7%*	*0.2%*
Financial Profit/(Loss)	(1,023)	(816)	(1,355)	(102)	(99)
Other extraordinary items		(2,420)	(100)	(95)	
Profit before tax	**2,190**	**(1,290)**	**4,300**	**(517)**	**(853)**
Income tax	282	(1,045)	(570)	(4)	(2)
Profit after tax	**2,472**	**(2,335)**	**3,730**	**(521)**	**(854)**
Minority interest	(163)	348	(528)	82	115
Profit for the year	**2,309**	**(1,987)**	**3,202**	**(439)**	**(739)**
Avg exchange rate (RON/EUR)	*4.237*	*4.210*	*4.200*	*4.116*	*4.225*

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

The Group has low sales in the first three months of the year, with much of the construction industry blocked during the harsh winter months in Romania and Bulgaria. Consequently, the first quarter results are not particularly indicative of how the year will evolve. Nevertheless, Policolor's quarterly operating revenues grew from €11.5m to €12.2m, a 5.2% increase compared to the ame period of 2010. However, due to strong Europe-wide inflation in chemical intermediate products, the cost of raw materials increased by 21% compared to the same period last year, resulting in EBITDA falling from €439,000 to €21,000 despite staff costs being 6% lower and an overall 11% fall in all other fixed costs.

Operations

Over the first quarter, the Group made important changes in its accounting and IT systems, by unifying product recipes, accounting policies and procedures across the Group, and introducing "Oracle" ERP in all Group subsidiaries.

During the first three months, the Architectural business unit's ("SBU") sales were €3.8m, in line with the net sales of €3.9m achieved over the same period last year. However, EBITDA fell from €176,000 to €-216,000, mainly as a result of strong raw material price inflation. The SBU has been preparing its promotional and marketing campaigns for the high season which starts in April, and is looking at lower cost products to achieve higher sales volumes. New recipes have been devised to ensure the shift to cheaper products does not compromise margins. A new marketing manager has been recruited as well as a new head of

retail. The plan for the retail division is to open four new "colour centre" outlets over the year.

The Automotive SBU achieved sales of €1.1m, -9% compared to last year's first quarter sales of €1.2m. The quarterly EBITDA was only €40,000, compared to €338,000 the year before.

During the first quarter, the Industrial paints SBU increased its sales by 36% from €0.9m to €1.3m, whilst the EBITDA increased from €52,000 to €72,000.

The Thermo-Insulation SBU, whose general manager was replaced in January 2011, achieved a 12% increase in sales from €0.7m to €0.8m, whilst the quarterly EBITDA loss shrank from €-315,000 in 2010 to €-279,000. In order to reach its annual target of 10% growth in sales and an EBITDA margin of 6% compared to last year, the SBU has implemented a restructuring plan including the laying off of 20 people, and aims to gain market share in thermo-insulation and in flooring, and to preserve its position of market leader in wet plasters in both Romania and Bulgaria.

The Resins SBU achieved quarterly sales of €1.9m, over three times more than last year's sales of €0.6m. However, the EBITDA remained unchanged at €140,000.

In March, the Specialty Chemicals SBU's facility (which produces anhydrides) was stopped for three weeks due to problems in the supply of raw materials. Accordingly, the SBU achieved quarterly sales of €3.1m (17% lower than last year) and reported breakeven EBITDA, compared to EBITDA of €392,000 in the first quarter of 2010.

Policolor owns a 14 hectare site in the eastern periphery of Bucharest, valued by Colliers at €21.9m in February 2011. As practically all the unused buildings on the site were demolished over 2010, and less than 5 ha are used for the Group's operations, the surplus land is now being marketed to potential buyers.

Albalact

Background

Albalact SA ("Albalact" or the "Company") is a Romanian dairy producer quoted on the RASDAQ section of the Bucharest Stock Exchange in which RC2 owns a 25.4% stake under its Private Equity Programme. A local entrepreneur and his family own 48.4%, with the remaining 26.2% representing the free float. With Albalact's market capitalization decreasing by 4.7% over the quarter, RC2's shareholding in Albalact had a market value of €9.2m as at 31 March, compared to €9.6m at the end of the previous quarter.

Financial results

(EUR '000)	2009A*	2010A*	2011B	1Q10**	1Q11**
Standalone Income Statement					
Sales Revenues	**53,330**	**62,058**	**80,600**	**15,658**	**20,180**
Other operating revenues	1,557	733	1,509	322	5,051
Total Operating Revenues	**54,887**	**62,790**	**82,109**	**15,980**	**25,232**
Total Operating Expenses	(52,422)	(61,731)	(78,715)	(15,053)	(25,026)
Operating Profit	**2,465**	**1,060**	**3,395**	**927**	**205**
Operating margin	*4.5%*	*1.7%*	*4.1%*	*5.8%*	*0.8%*
EBITDA	**5,489**	**4,257**	**6,481**	**1,722**	**979**
EBITDA margin	*10.0%*	*6.8%*	*7.9%*	*10.8%*	*3.9%*
Financial Profit/(Loss)	(1,803)	(780)	(540)	398	526
Profit before Tax	**662**	**280**	**2,855**	**1,325**	**732**
Income Tax	(48)	(142)	(588)	(204)	(99)
Profit after Tax	**614**	**138**	**2,267**	**1,121**	**633**
Net margin	*1.1%*	*0.2%*	*2.8%*	*7.0%*	*2.5%*
Avg exchange rate (RON/EUR)	*4.237*	*4.210*	*4.220*	*4.116*	*4.225*

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

Albalact has released its standalone results for the year ended 31 December 2011 and the first quarter of 2011.

In 2010, Albalact achieved 16% growth in euro-denominated sales by value, in spite of a general market decline and downward pressure on retail prices due to depressed FMCG consumption. Albalact achieved volume sales growth for all product categories: fresh milk sales were up by 13%, butter by 6%, cheese by 29% and yoghurt, cream and powder milk by 36%.

Although excellent in terms of sales, Albalact's performance deteriorated in terms of profitability, with EBITDA falling 22% from €5.5m in 2009 to €4.3m, mainly due to higher raw milk prices and marketing expenses. The average price paid per litre of raw milk rose by 21% in 2010, an increase which the Company was not able to pass on to its customers due to depressed consumption. Most of the marketing budget was allocated to the relaunch of the premium "Zuzu" brand and promotion of the "Raraul" brand. The operating profitability was also impacted by the increased sales force and sales fleet which the company started to build up in mid-2010 in order to attack the small retail shops segment of the market.

The unrealized foreign exchange loss generated by the revaluation of the Company's euro-denominated loans amounted to €300,000. Overall, the net profit came in at €0.1m, down from €0.6m in 2009.

The Company has continued to grow in the first quarter of 2011, with sales up 29% year-on-year in euro terms. Other operating revenues generated during the quarter mainly comprise the sale of Albalact's dairy farm to a Dutch company for €4.7m. Higher raw material prices (+30% year-on-year) and an increase in the level of personnel and marketing expenses led to a fall in the EBITDA, from €1.7m over the first quarter of 2010 to €1m over January-March 2011.

Operations

The cost of raw milk started to increase in May 2010, and rose sharply in the last quarter of 2010. In 2010, Albalact processed 71.1m litres of milk, 12.5% more than in 2009; 43% of the raw milk intake was imported and the remaining 57% was supplied by Romanian farms. In 1Q 2011, the Company launched new products and packaging for yoghurts in an effort to become more visible on the yoghurt category where Danone is the undisputed leader with a market share in excess of 60%.

In March 2011, the Company completed the sale of its dairy farm for €4.7m to a Dutch company which intends to double the farm's milk production over the next six months, and has entered into an exclusive supply agreement with Albalact. In addition, the Company has signed a pre-agreement for the sale of its 1.6ha non-core real estate in Alba Iulia for a total price of €1.6m.

Market

In 2010, the marketplace was dominated by the fight between the main players to capture as much as possible consumers' diminished spending budgets, with the latter becoming increasingly price-sensitive, putting pressure on margins.

According to a press statement by Muller Romania, in 2010 the Romanian dairy market declined by 8.1% in value terms (to €0.8bn), and by 5.3% in volume terms. Taking into account Albalact's total sales in 2009 and 2010, as well as the total size of the market, Albalact's total market share is estimated to have increased from 6% in 2009 to 7.5% in 2010.

Prospects

The main players expect the diary market to either stagnate or to increase slightly in 2011, while consumers are expected to continue to focus on price as their main acquisition criteria.

The Company's 2011 budget targets a 30% increase in sales from €63.m to €80.6m, and a 52% increase in EBITDA, resulting in the bottom line growing from €0.15m to €2.3m. The marketing spend is focused on the yoghurt category, where new products have just been launched under the Company's flagship "Zuzu" brand.

Top Factoring

Background

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

Group Financial results

(EUR '000)	2009A	2010A	2011B	1Q10	1Q11
Combined Group Income Statement					
Total Operating Revenues	**1,587**	**2,702**	**4,724**	**929**	**954**
Debt portfolios	1,064	1,681	3,863	648	723
Agency contracts	523	1,021	861	281	232
B2C	370	928	861	214	232
B2B	153	93	0	67	
Total Operating Expenses	**(1,490)**	**(2,320)**	**(3,047)**	**(552)**	**(833)**
Amortization of debt portfolios	(388)	(510)	(1,022)	(124)	(276)
Other operating expenses	(1,102)	(1,810)	(2,025)	(428)	(557)
Operating Profit	**97**	**381**	**1,677**	**377**	**122**
EBITDA	**132**	**435**	**1,748**	**388**	**135**
EBITDA margin	*8.3%*	*16.1%*	*37.0%*	*41.7%*	*14.1%*
Financial Profit/(Loss)	(5)	13	(25)	0	0
Profit before Tax	**92**	**394**	**1,652**	**377**	**122**
Income Tax	(0)	(2)	(1)	-	-
Profit after Tax	**91**	**392**	**1,652**	**377**	**122**
Net margin	*5.8%*	*14.5%*	*35.0%*	*40.6%*	*12.8%*
Avg exchange rate (RON/EUR)	*4.237*	*4.210*	*4.220*	*4.116*	*4.225*

Note: IFRS (unaudited, combined accounts)

The Group's performance in the first quarter of 2011 was negatively affected by the additional set-up costs and amortization related to the three portfolios acquired in December 2010, which were incurred prior to the bulk of revenues from these portfolios being generated. In reality, the first quarter was above budget in terms of both sales and profitability, and management expects the Group to perform well over the next three quarters.

Operations

The debt purchase division accounted for 76% of the Group's total first quarter revenues, of which the three portfolios acquired in December 2010 accounted for 62% of total revenues, generating €0.6m. B2C Agency contracts generated €0.2m of revenues in the first quarter of 2011, almost unchanged on the previous year.

At the end of March, the Group acquired another debt package from Vodafone, comprising 46,000 cases with a total nominal value of €12.4m. As at end-March, the Group owned eight debt packages (seven telecoms and one banking) consisting of 420,000 cases with a total nominal value of €106m.

The Group is upgrading and developing its collection and reporting instruments to cope with the increased number of cases, and has recently started an intensive one-year program of upgrading its IT systems.

Currently, Top Factoring employs 137 people, of which 90 are collectors in the call centre. The top management team was strengthened in February 2011 by the addition of a Banking COO with strong experience in debt collection, having held management positions in the debt collection and banking industries. She will focus on developing the banking debt purchase line as well as on gaining banking clients for the agency business.

The Group has recently signed a financing facility with a Romanian bank for the acquisition of debt portfolios.

Market

Local market participants estimate the size of the Romanian receivables collection market at €25m. According toa market study performed by the Romanian Receivables Management Association ("AMCC"), and Top Factoring management estimates, the Group was Romania's third collection company in terms of turnover at the end of 2010, with EOS KSI (the Romanian subsidiary of the German EOS Group) being the market leader, followed by Kruk (the Romanian subsidiary of recently-listed Kruk Poland).

Prospects

With the recent debt portfolio purchases made in December 2010 and March 2011, management believes that the Group has the right ammunition to meet its ambitious budget for the year. Furthermore, the debt purchase market should remain attractive in terms of the number and variety of opportunities, as well as in terms of the pricing of portfolios. Top Factoring aims to remain an active player on this market and is currently studying further debt purchase opportunities, using the bank financing it has recently received.

With competition intensifying on the receivables collection market, the Group intends to continue to focus on lowering its operating costs and improving its IT systems.

Mamaia Resort Hotels

Background

Mamaia Resort Hotels SRL (the "Company") is the owner and operator of the Golden Tulip Mamaia Hotel (the "Hotel"), which is located at Romania's premium Mamaia seaside resort next to Constanta. In March 2008, RC2 acquired 63% of the Company, with the remaining 37% being owned by a Romanian entrepreneur.

Financial results

(EUR '000)	2009A*	2010A*	2011B	1Q10**	1Q11**
Income Statement					
Sales Revenues	**1,489**	**1,591**	**2,033**	**41**	**30**
Other operating revenues	78	232	5	0	0
Total Operating Revenues	**1,567**	**1,823**	**2,038**	**41**	**30**
Total Operating Expenses	(2,103)	(2,111)	(1,896)	(268)	(203)
Operating Profit	**(536)**	**(288)**	**142**	**(226)**	**(173)**
Operating margin	*neg.*	*neg.*	*7.0%*	*neg.*	*neg.*
EBITDA	**(306)**	**(61)**	**358**	**(178)**	**(81)**
EBITDA margin	*neg.*	*neg.*	*17.6%*	*neg.*	*neg.*
Financial Profit/(Loss)	(62)	(135)	(83)	(20)	(8)
Profit before Tax	**(598)**	**(423)**	**59**	**(246)**	**(181)**
Income Tax	(2)	(5)	0	-	0
Profit after Tax	**(600)**	**(428)**	**59**	**(246)**	**(181)**
Net margin	neg.	neg.	0	neg.	neg.
Avg exchange rate (RON/EUR)	*4.237*	*4.210*	*4.220*	*4.116*	*4.225*

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

The Company's board took the decision to close the Hotel over the first quarter, in order to reduce losses during the peak of the low season. This resulted in the first quarter EBITDA loss falling by 55% compared to last year. The biggest year-on-year savings were in personnel expenses (-53%) and utilities (-43%), as the number of employees was gradually reduced from almost 150 over the Summer season to 15 in 1Q 2011, while utilities consumption has also been reduced to a minimum.

Operations

The Hotel was reopened on 14th April in preparation for the 1st May weekend, when the summer season officially opens on the Romanian seaside. The occupancy rate reached 90% over that weekend, and the occupancy rate over the extended Summer season (May – September) is expected to be 55%, the same level as in 2010.

The management team has been changed with both the CEO and the Sales Manager having been replaced between January and April 2011. The new CEO has extensive operational and sales experience with both leisure and business hotels, in Bucharest and at Romanian tourist resorts.

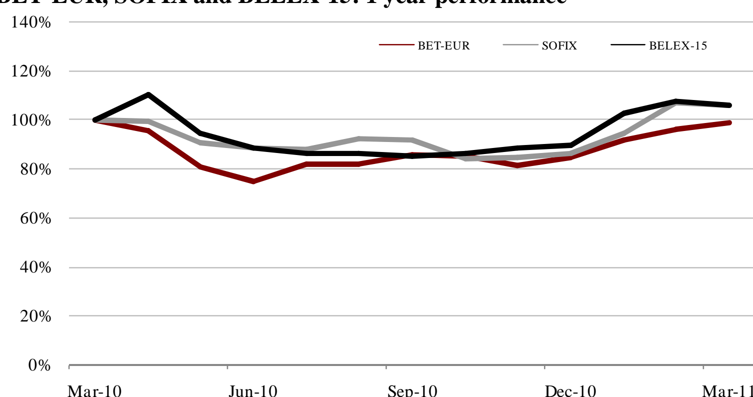
Prospects

Although the leisure market is not expected to improve in 2011 in the context of deteriorating consumer demand, management expects a slightly better 2011 summer season in terms of the average net tariff. The improvement is the result of a revised sales mix, with a higher number of rooms being sold to walk-in clients who pay higher rates as compared to travel agencies.

The conference centre, which is budgeted to generate €0.7m of revenues (including related accommodation and F&B revenues) in 2011, has already received bookings totalling €125,000 over May-September.

Capital Market Developments

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



Commentary

Over the first quarter of 2011, the Romanian BET and Bulgarian SOFIX indices increased by 17.1% and 22.9%, respectively, whilst the Serbian BELEX-15 index gained 18.1%, all in euro terms.

Over the last twelve months, the Romanian market (BET-EUR) was down 1.3%. On the other hand, the SOFIX and BELEX-15 indices rose by 5.7% and 5.6%, respectively. By comparison, over the same period, the MSCI Emerging Market index was up 10.5%, the MSCI Emerging Market Eastern Europe index was up 16.9%, whilst the FTSE100 and S&P indices increased by 4.9% and 8.1%, respectively.

Macroeconomic Overview

Overview

	RO	as of:	BG	as of:	SRB	as of:
GDP Growth (y-o-y)	-1.2%	FY10	0.3%	FY10	1.8%	FY10
Inflation (y-o-y)	8.0%	3M11	5.6%	3M11	14.1%	2M11
Ind. prod. growth (y-o-y)	12.6%	Feb-11	15.2%	Feb-11	5.8%	Feb-11
Trade balance (EUR bn)	-0.6	2M11	0.1	2M11	-0.8	2M11
y-o-y	*-48.2%*		*n.a.*		*-6.8%*	
FDI (EUR bn)	0.3	2M11	0.1	2M11	0.1	2M11
y-o-y change	*110.0%*		*-75.0%*		*-42.7%*	
Total external debt/GDP	71.7%	Feb-11	94.4%	Feb-11	75.9%	Feb-11
Reserves to short-term debt	169.4%	Feb-11	110.4%	Feb-11	847.5%	Feb-11
Loans-to-deposits	119.0%	Mar-11	105.7%	Feb-11	129.3%	Feb-11
Public sector debt-to-GDP	35.0%	Jan-11	11.5%	Feb-11	42.8%	Feb-11

Commentary

Romania

After encouraging 0.1% quarter-on-quarter growth in the last quarter of 2010, Romania's GDP is expected to enter positive territory in 2011 with the IMF forecasting growth at 1.5%. Over the first two months of 2011, exports increased by 42% year-on-year, with imports increasing by only 25%. Consequently, the January-February 2011 trade deficit recorded a good (-48.2%) year-on-year

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fall. The positive evolution of the trade balance is a sign of the country's changing economic pattern: from a consumption driven economy to a more productivity-driven and export-orientated economy. Helped by an improving trade balance and a 60% year-on-year increase in current transfers (from €0.3bn to €0.5bn), Romania's January-February 2011 current account deficit was down 94.1% year-on-year at €44m, or 0.03% of GDP. Furthermore, FDI flows were €0.3bn (up 110% year-on-year), and covered almost 7 times the current account deficit. Industrial production registered a 12.6% year-on-year increase in February.

Romania's CPI was up 8.0% year-on-year in March 2011, flat from the end of 2010. The high inflation rate is still linked to the 5 percentage point VAT increase of last July (from 19% to 24%) but the ongoing pressure also comes from a global environment of surging energy and food prices.

The 2011 budget was approved by Parliament in late December 2010 and provides for a budget deficit of 4.4% of GDP, whilst assuming economic growth of 1.5%. Over the first quarter, the budget deficit came in at 1% of GDP. Romania's total external debt position was €91.8bn at the end of February, or 72% of estimated GDP. Public debt stood at €44.4bn at the end of January, or 35% of GDP, a slight 2% year-on-year decrease. Of the total public debt, 42% is RON-denominated and 41% is euro-denominated, with the balance of 17% being in other foreign currencies. The National Bank of Romania's foreign reserves (excluding gold) were €32.1bn at the end of February, or 1.7 times the short-term external debt (€18.9bn).

The Romanian leu gained 4% against the euro in the first quarter, a sign of improved confidence in the Romanian economy whose macroeconomic indicators have improved this year. Total domestic non-governmental credit (which excludes loans to financial institutions) amounted to €49.6bn at the end of March, up 1.4% YTD. The Romanian banking system's total loans-to-deposits ratio was 119% at the end of the first quarter.

Bulgaria

The IMF has revised its forecast for Bulgaria's GDP growth in 2011 from 2% to 3% on the grounds of the positive momentum of the economic recovery. Also, Bulgaria's industrial production was up 15.2% year-on-year in February, significantly above the 7% average increase in the EU. The positive evolution has been mainly triggered by exports.

Over January-February 2011, Bulgaria achieved a positive current account balance of €0.3bn, or 0.8% of GDP, a marked improvement from a deficit of 0.8% over the same period of 2010. The improvement in the current account was mainly triggered by a positive development of the trade balance, which moved from a deficit of €0.3bn over January-February 2010, to a surplus of €70m over the first two months of this year.

Bulgaria's CPI reached 5.6% in March 2011, up from 4.5% at the end of 2010, due to increasing fuel and food prices.

Bulgaria's 1Q11 budget deficit came in at just 1% of GDP, -56% year-on-year due to higher tax revenues and a decrease in maintenance, subsidies for non-financial entities and wages costs. For 2011, the Bulgarian authorities are projecting a deficit of 2.5% of GDP.

Bulgaria's external debt stood at €36.1bn at the end of February, or 94.4% of GDP, of which only 11.5% was attributable to the public sector. Both public and private debt have fallen since the end of 2010, by 2.6% and 1.4%, respectively. The country's reserves-to-short-term-debt ratio was 110.4% at the end of February.

The Bulgarian banking system had a total loans-to-deposit ratio of 106% at the end of February 2011. While loans to non-financial institutions were flat at €26bn when compared to the end of last year, the deposit base increased by 2.2% from €24bn to €24.5bn, a sign of decreased domestic consumption. Overdue loans accounted for 19% of total loans at the end of February 2011, up from 12% at the end of 2010.

Serbia

According to the National Bank of Serbia (NBS), real GDP grew by 1.8% over 2010, with net exports and investments being the main sources of growth. The NBS expects 3% GDP growth in 2011, followed by a stronger performance thereafter. However, in order to reduce current expenditures, Serbia will have to carry out a considerable fiscal retrenchment, which will have a negative effect on domestic demand recovery. Given the growing pressures for public wage increases, maintaining disciplined fiscal and income policies will be the most important challenges for this year.

Over the first two months of 2011, exports rose by 36.1% year-on-year, while imports rose by 22.3%. Consequently, the trade deficit decreased by 6.8% to €839m.

Consumer price inflation reached 14.1% year-on-year, mainly driven by food and beverages price hikes (+22.9% y-o-y), followed by alcoholic beverages and tobacco (+22.2% y-o-y). Year-to-date inflation reached 5.5%, well in the upper range of NBS' target for the year-end (of 4.5% ± 1.5%). Consequently, the NBS has performed two consecutive interest rate hikes over the first quarter of 2011, increasing the key interest rate from 12% to 12.5%. A tighter monetary policy and a stronger dinar are likely to dampen inflation, but it is unlikely to reach the target range at year-end. However, the lifting of the freeze on public-sector wages and pensions in January 2011, and pre-election spending, could make this target difficult to reach, especially due to an announced electricity price hike and adjustments in oil prices.

Over the first quarter of 2010, the dinar appreciated by 1.8% against the euro, after losing 9.1% in 2010.

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