Reconstruction Capital II Ltd

("RC2" or the "Fund")

Quarterly Report

September 30th, 2010

neweuropecapital

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Statistics

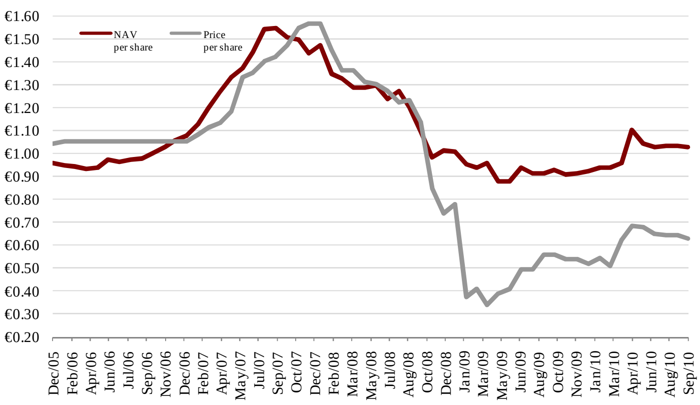
NAV per share (€)	1.0291
Share price (€)	0.6300
Total NAV (€m)	102.9
Mk Cap (€m)	63.0
# of shares (m)	100.0
NAV return since inception	7.59%
12-month NAV CAGR	11.06%
NAV annualized Return*	1.55%
NAV annualized Volatility*	14.75%
Best month (NAV)	15.60%
Worst month (NAV)	-10.52%
# of months up (NAV)	33
# of months down (NAV)	24

*since inception

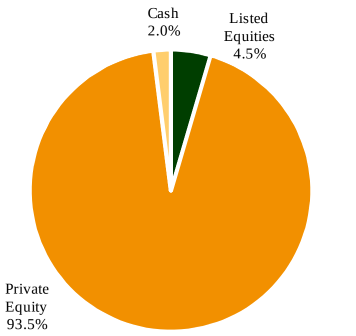
RC2 NAV returns

	2007	2008	2009	2010
Jan	4.70%	-8.27%	-5.65%	1.36%
Feb	6.17%	-1.48%	-1.51%	0.03%
Mar	5.90%	-3.03%	2.39%	2.07%
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%	-
Nov	-4.09%	3.03%	0.46%	-
Dec	2.46%	-0.60%	1.08%	-
YTD	36.74%	-31.43%	-8.38%	11.36%

Share price / NAV per share (€)

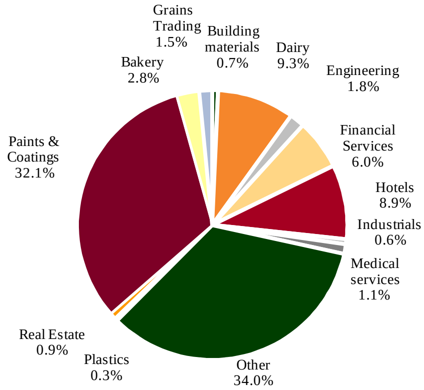


Portfolio Structure by Asset Class



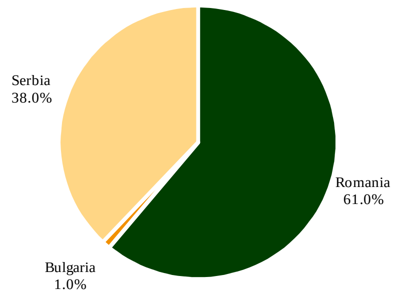
Note: Cash equivalents included under Cash

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

Over the third quarter, RC2's NAV per share was almost flat, registering a slight 0.02% decrease, whilst its share price decreased by 2.7%, resulting in the discount to NAV widening from 37.1% to 38.8%.

The economic environment in Romania, Serbia and Bulgaria remains challenging. However, the three countries are showing modest signs of recovery. In particular, Bulgaria and Romania have experienced substantial industrial production growth rates, while Serbian GDP growth reached 1.2% over the first nine months. Moreover, all three countries have experienced strong rises in exports, substantially decreasing the pressure on the trade deficit.

Over the third quarter of 2010, EPH managed to increase its profitability, with its EBITDA reaching €2.9m, compared to €2.2m over the first half of the year. Despite the improvement in profitability, EPH's performance is still below that reached the same period last year, mostly driven by falls in the Copper Processing, Agribusiness and Bakery divisions.

Policolor has suffered from weaker sales and gross margin erosion due to higher raw material prices, but managed to achieve positive EBITDA of €5.8m over the first three quarters, mainly due to a sharp fall in fixed costs pursuant to the restructuring programme of last year.

Policolor increased its shareholding in Orgachim from 64.2% to 70.9% pursuant to a tender offer launched over the summer.

Despite the general dairy market decline in Romania, Albalact managed to achieve an 11.3% increase in revenues in euro terms and a 16% increase in volumes sold over the first nine months. However, higher raw material prices put pressure on the EBITDA margin, which fell from 11% to 8%.

The new conference centre at Mamaia Resort Hotels which opened in April has helped the Hotel improve on its operating result of the same period last year, with EBITDA increasing from €15,000 to €134,000, in spite of a terrible year for operators on the Romanian Black Sea coast.

The Top Factoring group continued to post strong profitability, with its EBITDA reaching €683,000 over the first nine months, compared to €-21,000 the same period last year.

At the end of September, the Fund, which has no gearing, had cash balances of approximately €2.1m, compared to €3.1m on 30 June.

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. On 27 April 2010, RC2 increased its shareholding to 42% in exchange for waiving certain claims against EPH's other shareholders. The bulk of the Group's operations are in Serbia and Romania, but it is also active in other countries, including Hungary and Austria, and has a network of sales, procurement and representative offices in New York, Moscow, Frankfurt, Beijing and Sofia. EPH operates along the following main business lines: Agribusiness (Cereals Trading and Storage), Milling, Bakeries, Copper Processing, Cable Production, River Shipping, Real Estate and Other. In March 2010, RC2 acquired an 11.1% shareholding in Klas DOO ("Klas"), the holding company for EPH's Bakeries business, for €2.7m. On 30 June, RC2 acquired a 3.9% shareholding in the Agribusiness for €1.6m.

Financial Results

(EUR m)	2008A	2009A*	9m2009*	9m2010* **
Income statement (according to IFRS)				
Net Sales	**462.1**	**414.1**	**316.0**	**315.1**
Cost of Sales	(398.6)	346.2	257.5	(270.2)
Gross Profit	63.5	67.9	58.5	45.0
EBITDA	**17.5**	**14.2**	**19.1**	**5.0**
EBITDA margin (%)	*3.8%*	*3.4%*	*6.0%*	*1.6%*
EBIT	**2.6**	**(1.5)**	**11.9**	**(10.1)**
EBIT margin (%)	*0.6%*	*-0.4%*	*3.8%*	*-3.2%*
Net interest income (expense)	(14.5)	(13.3)	(9.9)	(8.8)
FX gain (loss)	(6.4)	(6.1)	(4.4)	(7.9)
Share of profit (loss) of associates	0.2	(0.9)	(0.4)	(0.3)
Income (loss) before taxes	**(18.1)**	**(21.8)**	**(2.8)**	**(27.2)**
Income tax (expense) benefit	(0.5)	(1.3)	(0.8)	(0.8)
Net Income (loss)	**(10.6)**	**(23.1)**	**(3.6)**	**(27.9)**
Minority interest	0.3	(1.7)	0.8	2.7
Net income after minority interest	**(18.2)**	**(21.4)**	**(2.8)**	**(25.3)**

*Note: 2008 audited accountsl *unadited management accounts; **includes Novkabel AD;*

EPH's third quarter results reflect a substantial improvement over the previous two quarters, with the EBITDA reaching €2.9m during the third quarter, compared to €0.7m and €1.5m in the first and second quarters, respectively. However, the nine month results show a significant year-on-year fall, mainly as a result of strong falls in the profitability of the Copper Processing, Bakeries and Agribusiness divisions.

Agribusiness

Over the third quarter, the Agribusiness generated sales of €22.8m, and EBITDA of €1.7m, compared to sales of €43.5m and EBITDA of €0.9m over the first six months. However, over the first nine months the EBITDA come in at €2.6m, compared to €4.0m the same period last year. The main reason for the fall is the Group's decision to source only limited quantities of grains from Romania (where normally one third of all cargoes are sourced), because of long delays in repayments of VAT by the Romanian government to all the main cereals exporters operating in Romania. Another problem has been defaults by suppliers of cereals, mainly caused by the extreme price volatility experienced over the summer. Due to the above, the nine month throughput at EPH's flagship silo at Constanta port was 34% lower than the same period last year at 610,000 tons. However, the third quarter throughput (290,000 tons) represents a 105% quarter-on-quarter, and a 92% year-on-year, increase.

Copper Processing

During the first nine months, EPH's copper division achieved a 42.9% year-on-year increase in sales to €179m, mainly as a result of a 5.0% increase in volumes (to 28,800 tons) and higher copper prices. The EBITDA is also influenced by the level of copper prices as it affects the valuation of copper stocks at the end of each reporting period. Accordingly, a fall in copper prices towards the end of the second trimester resulted in the EBITDA margin falling from 5.2% in 1Q2010 to 1.3% in 2Q2010. However, the third quarter of 2010 saw a recovery in copper prices and the EBITDA margin improved to 2.9%. The nine-month EBITDA amounted to €5.5m, compared to €9.0m the same period last year. VBS, EPH's copper smelter, has agreed a further employee restructuring programme which will reduce the headcount from 913 to 853 (-60) by the end of the year, and should have a positive impact on the bottom line next year.

Cable Production

Sales picked up substantially in the third quarter, reaching a monthly average of 560 tons, compared to 344 and 530 tons in 1Q2010 and 2Q2010, respectively. Accordingly, sales registered an 18.3% year-on-year increase over the third quarter. Novkabel has made substantial progress in breaking into the Russian market, where sales have grown from €1.8m over the whole of 2009 to €6.6m over the first nine months of 2010. The new CEO has started to implement a restructuring programme and in September 175 employees were laid off, reducing the headcount from 845 to 670. This is expected to generate annual savings of around €850,000. The cost of the employee redundancy programme resulted in Novkabel's EBITDA for the first nine months falling from -€1.4m the year before to -€1.8m. The new CEO has also started selling non-core assets, including a factory producing extruded semi-finished copper products and equipment for the production of steel ropes. The new management team has also prepared a viable relocation plan which involves concentrating production on a quarter of the current land surface, thereby freeing up 29ha of land which could be sold off, once the investment obligations with the Privatization Agency have been met. An investment plan is currently being prepared which is aimed at improving efficiencies and bringing Novkabel's annual capacity to around 20,000 tons, over three times the current output.

River Shipping

Over the first nine months, total sales increased by 22.6% year-on-year to €38.6m, on the back of a 5.8% year-on-year increase in total volumes shipped and strong fuel bunkering operations. However, challenging conditions on the Danube at the beginning of the year and high water levels in June, as well as high restructuring costs, caused the River Shipping's EBITDA to fall from zero to €-0.4m.

Bakeries

Over the first nine months of 2010, Klas recorded a 13.2% year-on-year fall in revenues (from €20.1m to €17.5m), mainly due to a 7.9% depreciation of the dinar against the euro but also due to the disruptive effect of a 90% increase in the price of flour during the third quarter. Management tried to counter this by increasing the price of bread by around 15% in late August, but this caused an 8% drop in volumes sold in September and only partly offset the higher price of flour. In spite of a headcount reduction from 989 to 928, and significant progress in improving the cash-flow of the business, lower bread prices on the domestic market coupled with increased energy and flour prices resulted in a sharp year-on-year fall in the EBITDA level from €2.5m to €166,000 over the first nine months. However, this includes €446,000 of one-off restructuring expenses. Currently, management is working on a plan to move production out of its main site in central Belgrade to an industrial building at the outskirts of Belgrade which was acquired by EPH for the business in 2008. The relocation is expected to enable substantial economies of scales and logistics improvements, thus allowing further cost savings.

Milling

Despite a 13.2% year-on-year fall in volumes to 43,000 tons over the first nine months, EPH's milling division saw a 3.6% increase in revenues to €8.6m. The revenues increase is mostly due to the drastic flour price increase during the third quarter of 2010, but also due to an increase in volumes sold during July and August (up 19.8% and 23.5%, respectively), mostly due to higher exports to ex-Yugoslav countries. Coupled with higher flour prices, the monthly revenues for July and August increased by 36.4% and 64.6%, respectively, compared to the monthly average achieved during the first half of 2010. The EBITDA level increased by 3.7%, reaching €1.1m over the first nine months, with the EBITDA margin remaining flat at 13.1%.

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 70.9%-owned Bulgarian subsidiary which is quoted on the Bulgarian Stock Exchange.

Financial results

(EUR '000)	2008A*	2009A*	2010 B	9m 2009A**	9m 2010A**
Income statement (according to IFRS)					
Sales revenues	**100,632**	**71,792**	**77,574**	**60,709**	**56,326**
Other operating revenues	2,002	2,030	-	1,548	490
Total operating revenues	**102,634**	**73,822**	**77,574**	**62,256**	**56,816**
Gross margin	**22,812**	**22,247**	**22,001**	**17,972**	**13,422**
Gross margin	*22.7%*	*31.0%*	*28.4%*	*29.6%*	*23.8%*
Total Operating Expenses	(105,678)	(70,609)	**(71,290)**	(57,137)	(53,518)
Operating profit	**(3,044)**	**3,213**	**6,284**	**5,119**	**3,298**
Operating margin	*-3.0%*	*4.4%*	*8.1%*	*8.2%*	*5.8%*
EBITDA	**2,619**	**9,078**	**10,421**	**8,696**	**5,757**
EBITDA margin	*2.6%*	*12.3%*	*13.4%*	*14.0%*	*10.1%*
Financial Profit/(Loss)	(1,773)	(1,023)	(1,311)	(821)	(535)
Restructuring costs	-	-	(745)	-	
Profit before tax	**(4,818)**	**2,190**	**4,227**	**4,298**	**2,763**
Income tax	443	282	(520)	(466)	(403)
Profit after tax	**(4,375)**	**2,472**	**3,707**	**3,832**	**2,361**
Minority interest	646	(163)	(835)	(265,663)	(411)
Profit for the year	**(3,729)**	**2,309**	**2,873**	**(261,831)**	**1,950**
Avg exchange rate (RON/EUR)	*3.683*	*4.237*	*4.200*	*4.228*	*4.184*

Over the first nine months of 2010, Policolor's consolidated revenues fell from €60.7m to €56.3m (-7.2%), whilst the Group's gross margin fell from 29.6% to 23.8%, both compared to the same period last year. This was the result of lower activity in all the sectors of the economy in which Policolor operates, namely construction, industry and automotive. Accordingly, the operating margin fell from 8.2% to 5.8%, and the EBITDA margin suffered a steeper fall from 14.0% to 10.1%.

Operations

Compared to the same period last year, the Architectural business unit ("SBU") lost 19.1% of its consolidated sales over the first nine months, having fallen from €26.6m to €21.5m, whilst the EBITDA margin fell from 10.3% to 8.4%. This was mainly the result of sharp falls in the construction industries in Romania and Bulgaria.

Due to the reduced number of cars sold and the lower number of accidents, as well as the difficulties body shops have faced in recovering money from insurance companies, the Automotive SBU, which sells car refinish coatings, lost 9% of its consolidated sales over the first three quarters (from €7.0m to €6.4m), whilst its EBITDA margin shrank from 29% to 21%, both compared to the same period last year. The SBU has implemented a new line of water-based coatings in both countries and extended its range of products with new putties.

Over the first nine months, the Industrial SBU achieved consolidated sales of €4.6m, compared to €5.0m during the same period last year. The Industrial SBU launched new coatings for wood and marine applications.

Operating in a difficult environment, Deko Professional, the Thermo-Insulation SBU which was externalized into new subsidiaries in Romania and Bulgaria last year, has had to deal with steep falls in new constructions, as well as an internal restructuring process to separate its distribution channels from those of the Architectural SBU. In these circumstances, it lost 35% of its turnover compared to the previous year (from €8.0m to €5.2m) and generated negative EBITDA of €-0.2m. Nevertheless, a new manager was appointed to run the SBU in July, and Deko Professional has recently seen some promising initiatives which could result in a strong turnaround. The SBU has used its traditional production of epoxy resins to develop a portfolio of epoxy, polyurethane and acrylic flooring systems. Another promising area for Deko Professional relates to a new initiative by the Romanian government to subsidize and guarantee loans taken out by housing associations to thermally insulate their apartment blocks. Deko Professional has already signed a partnership agreement with CEC, Romania's largest savings bank, and with BCR, Romania's largest bank, to promote its products through their networks.

Over the first nine months, the Resins SBU gained a number of new clients and achieved a 46% increase in sales to €5.0m compared to the same period last year, while the SBU's EBITDA came in 26% higher at €1.0m.

Meanwhile, the Anhydrides SBU increased its net sales from €9.4m to €11.9m (+26%). However, the EBITDA margin shrunk from 6% to 4% mainly due to Orgachim having to source its main raw material from as far afield as the Far East due to supply constraints in Europe.

Policolor has made progress in preparing its surplus Bucharest real estate for sale, having now demolished all buildings on eight of the fourteen hectares which comprise its main Bucharest site.

Albalact

Background

Albalact SA ("Albalact") is a Romanian dairy producer quoted on the RASDAQ section of the Bucharest Stock Exchange in which RC2 has acquired a 25.4% stake under its Private Equity Programme. A local entrepreneur and his family own 46.6%, with the remaining 28% representing the free float. With Albalact's market capitalization increasing by 11.9% over the quarter, RC2's shareholding in Albalact had a market value of €9.4m as at 30 September, compared to €8.4m at the end of the previous quarter.

Financial results

(EUR '000)	2008A*	2009A**	9M09***	9M10***
Income Statement				
Sales Revenues	**51,741**	**53,330**	**39,706**	**43,808**
Other operating revenues	2,496	1,557	1,434	1,964
Total Operating Revenues	**54,236**	**54,887**	**41,140**	**45,772**
Total Operating Expenses	(52,163)	(52,422)	(39,663)	(44,519)
Operating Profit	**2,074**	**2,465**	**1,478**	**1,253**
Operating margin	*3.8%*	*4.5%*	*3.6%*	*2.7%*
EBITDA	**4,856**	**5,489**	**4,534**	**3,643**
EBITDA margin	*9.0%*	*10.0%*	*11.0%*	*8.0%*
Financial Profit/(Loss)	(1,860)	(1,803)	(906)	(551)
Profit before Tax	**214**	**662**	**572**	**701**
Income Tax	(52)	(48)	(165)	(128)
Profit after Tax	**162**	**614**	**407**	**574**
Net margin	*0.3%*	*1.1%*	*1.0%*	*1.3%*
Avg exchange rate (RON/EUR)	*3.683*	*4.237*	*4.228*	*4.184*

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

In the first nine months of 2010, Albalact achieved an 11.3% growth in euro-denominated sales in spite of a general market decline. In volume terms, sales were 16% higher than the same period last year, with cheese, yoghurt and fresh milk registering the highest growth rates. The downward pressure on retail prices combined with higher raw milk prices and increased marketing expenses had a negative impact on operating profitability, with the EBITDA margin falling from 11% to 8%. However, Albalact's net profit came in 40.9% higher, helped by a lower foreign exchange loss.

Operations

According to Romanian press articles based on the financial statements submitted to the Trade Registry, Danone overtook Friesland as the dairy market leader in 2009, even though Danone's sales also fell (by 11% year-on-year). Meanwhile, Albalact overtook Hochland to become the third-largest player, due to Hochland's 18% fall in sales in 2009. Amongst the top dairy companies, Albalact is the only one to have increased its euro-denominated sales in 2009 (which were up 3% year-on-year).

The €0.5m "Zuzu" rebranding campaign started at the end of September and is scheduled to last until late November.

Prospects

With the relaunch of "Zuzu", the Raraul cheese factory finally working at full capacity, and improved logistics and distribution, we expect the Company to achieve its €60m sales target for 2010 and to continue performing above market in 2011, in spite of consumption continuing to be affected by the lower purchasing power of the population. The main growth driver is expected to be the increase in the number of retail shops served by Albalact's distribution network, while the highest growth categories are expected to be yoghurt and cheese. However, the downward pressure on retail prices compounded by higher raw milk prices will make the 2010 EBITDA target difficult to achieve.

A shareholders' meeting held in September approved the merger of Albalact with its 96%-owned subsidiary Raraul. This should have little impact on Albalact's shareholder structure, whilst simplifying the management, administration and IT functions of the two businesses. We expect the merger process to be finalized in the first quarter of 2011.

Mamaia Resort Hotels

Background

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

Financial results

(EUR '000)	2008A*	2009*	9M09**	9M10**
Income Statement				
Sales Revenues	**1,643**	**1,489**	**1,487**	**1,568**
Other operating revenues	144	78	35	11
Total Operating Revenues	**1,787**	**1,567**	**1,522**	**1,579**
Total Operating Expenses	(2,113)	(2,103)	(1,653)	(1,597)
Operating Profit	**(326)**	**(536)**	**(132)**	**(18)**
Operating margin	*neg.*	*neg.*	*neg.*	*neg.*
EBITDA	**(109)**	**(306)**	**15**	**134**
EBITDA margin	*neg.*	*neg.*	*1.0%*	*8.5%*
Financial Profit/(Loss)	(155)	(62)	(27)	(127)
Profit before Tax	**(481)**	**(598)**	**(159)**	**(146)**
Income Tax	0	(2)	0	0
Profit after Tax	**(481)**	**(600)**	**(159)**	**(146)**
Net margin	*neg.*	neg.	neg.	neg.
Avg exchange rate (RON/EUR)	*3.683*	*4.237*	*4.228*	*4.184*

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

Operating within a harsh overall climate, with many hotels on the Romanian seaside reporting falls in sales of around 20%, the Hotel achieved a 3.8% year-on-year increase in operating revenues in euros over January-September, helped by the new conference centre which was opened in April. Accommodation revenues were flat at approximately €0.8m, but Food and Beverage sales increased by 16.8%, from €0.6m to €0.7m, helped by conference-related events. In terms of operating profitability, the Company managed to post an EBITDA margin of 8.5% over January-September 2010, far better than the 1% recorded over the same period of 2009.

Operations

The Hotel's occupancy rate was 29% over the first nine months, unchanged from the same period last year. The Hotel achieved a 75% occupancy rate during the June-August holiday season, compared to 70% last year. The Hotel's new conference centre, which was finalized at the end of April, had already generated €0.4m additional revenues by the end of September (this should increase to €0.5m by the end of the year).

Prospects

For the next summer season, management has developed contacts with tour-operators in new markets such as Israel, the UK and Poland. Based on the indicative demand registered so far for allotment and charter packages, the Hotel is already 130% booked over May – September 2011.

Top Factoring

Background

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

Financial results

(EUR '000)	2008A*	2009A**	9M09**	9M10**
Combined Group Income Statement				
Total Operating Revenues	**1,205**	**1,587**	**1,038**	**2,384**
Debt portfolios	993	1,064	703	1,481
Agency contracts	212	523	334	903
B2C	139	370	251	810
B2B	73	153	83	93
Total Operating Expenses	**(1,883)**	**(1,490)**	**(1,084)**	**(1,740)**
Amortization of debt portfolios	(774)	(388)	(328)	(388)
Other operating expenses	(1,109)	(1,102)	(756)	(1,352)
Operating Profit	**(678)**	**97**	**(46)**	**644**
EBITDA	**(641)**	**132**	**(21)**	**683**
EBITDA margin	*neg.*	*8.3%*	*neg.*	*28.6%*
Financial Profit/(Loss)	(15)	(5)	(2)	7
Profit before Tax	**(693)**	**92**	**(48)**	**651**
Income Tax	0	(0)	(0)	(1)
Profit after Tax	**(693)**	**91**	**(49)**	**650**
Net margin	*neg.*	*5.8%*	*neg.*	*27.3%*
Avg exchange rate (RON/EUR)	*3.683*	*4.237*	*4.228*	*4.184*

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

Top Factoring and Glasro (together the "Group") enjoyed a strong performance over the first nine months, with turnover more than doubling to €2.4m compared to the same period last year, and the net profit reaching €0.7m compared to a loss of €49,000.

Operations

During the first nine months, collections from the four debt portfolios purchased from Vodafone amounted to €1.5m, of which 75% was generated by the last two portfolios which were acquired in 2009. Agency contracts generated €0.9m of revenues in the first three quarters of 2010, far better than the €0.3m achieved the same period last year.

The new field collection department generated revenues of €170,000 (of which 80% were generated from the Group's proprietary debt packages) and is expected to generate a further €0.1m by the end of 2010. Top Factoring's B2B department saw a sharp fall in revenues in 2010, due to the increasing number of debtor companies going bankrupt, the slowness of the Romanian judicial system, and the high fixed costs of the legal phase of the collection process. Accordingly, management has decided to downsize this department. The Group's headcount has increased from around 100 at the beginning of the year to 110 at the end of September (of which 70 are call-centre collectors), in line with the Company's growing activity.

Prospects

Although the Group's performance was in line with the budget over the first nine months, management is expecting a difficult last quarter. This is due to the weakening financial position of Romanian consumers as a result of the austerity measures taken by the Romanian government over the summer, including a 25% cut in public sector salaries, and an increase in the VAT rate from 19% to 24%. The Group has won auctions for the purchase of three receivable portfolios (two in telecoms and one in banking), and expects to sign the acquisition contracts by the end of the year.

Bulgarian Stock Exchange

In 2007 RC2 acquired 1.82% of the Bulgarian Stock Exchange (BSE) at a total cost of €0.5m. Until recently, the BSE was 44%-owned by the Bulgarian state, with the balance being owned by a combination of Bulgarian brokerage firms, local institutions and private individuals. In August, the Bulgarian state called a shareholders' meeting to approve a capital increase at nominal value, to which only the Bulgarian state would have the right to participate (taking its shareholding to 50.1%), as well as to list the BSE's shares after the capital increase. Although prejudicial to the minority investors and in spite of strong opposition from RC2 and a couple of other shareholders, the proposals were approved at a general meeting on 13 September, with 87.8% of those present voting in favour. Accordingly, the Bulgarian state was able to increase its participation from 44% to 50.1%, and RC2's ownership has fallen from 1.82% to 1.63%.

Financial results

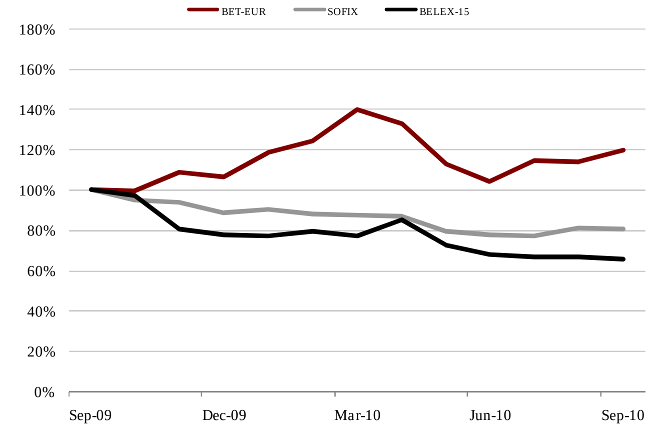
EUR '000	2008A*	2009A*	1H 09**	1H 10**
Income statement				
Revenues	**2,359**	**1,314**	**789**	**609**
Total operating expenses	(2,271)	(1,549)	(676)	(631)
Operating income	**88**	**(235)**	**113**	**(22)**
EBITDA	**301**	**(9)**	**227**	**77**
Financial Income/(Expenses)	222	187	88	72
Earnings before tax	**310**	**(49)**	**201**	**49**
Income tax	(32)	5	-	-
Earnings after tax	**279**	**(43)**	**201**	**49**
Avg exchange rate (BGN/EUR)	*1.956*	*1.956*	*1.956*	*1.956*

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

The BSE published its 2010 half-year results in August. The BSE, which has cash balances of around €3.7m, property valued at €1.5m, and almost no debts, made a net profit of €49,000 on sales of €609,000.

Capital Market Developments

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



Commentary

Over the third quarter of 2010, the Romanian BET and Bulgarian SOFIX indices increased by 15.0% and 3.8%, respectively, whilst the Serbian BELEX-15 index lost 3.8%, all in euro terms.

Since the beginning of the year, the Romanian market (BET-EUR) was up 19.9%. On the other hand, the SOFIX and BELEX-15 indices fell by 19.4% and 34.3%, respectively.

By comparison, the MSCI Emerging Market index was up 26.5%, the MSCI Emerging Market Eastern Europe index was up 19.5%, whilst the FTSE100 and S&P indices increased by 14.1% and 16.1%, respectively.

Macroeconomic Overview

Overview

	RO	as of:	BG	as of:	SRB	as of:
GDP Growth (y-o-y)	-2.3%	9M10	-0.3%	9M10	1.2%	6M10
Inflation (y-o-y)	7.9%	10M10	3.9%	10M10	7.7%	9M10
Ind. prod. growth (y-o-y)	4.8%	Sep-10	9.3%	Sep-10	4.4%	Sep-10
Trade deficit (EUR bn)	6.9	9M10	1.4	9M10	3.2	8M10
y-o-y	*-3.5%*		*-56.1%*		*-33.3%*	
FDI (EUR bn)	2.1	9M10	0.9	9M10	0.6	8M10
y-o-y change	*-39.6%*		*-59.6%*		*-42.2%*	
Total external debt/GDP	73.3%	Sep-10	100.9%	Aug-10	77.9%	May-10
Reserves to short-term debt	184.6%	Sep-10	109.7%	Aug-10	628.9%	Aug-10
Loans-to-deposits	122.4%	Sep-10	111.4%	Sep-10	123.2%	Jun-10
Public sector debt-to-GDP	35.1%	Aug-10	11.7%	Aug-10	38.5%	Aug-10

Commentary

Romania

Over the third quarter of 2010, Romania's GDP fell by 2.5% year-on-year, resulting in negative economic growth of -2.3% over the first nine months. The IMF projects a 2% overall GDP fall in 2010, and economic growth of 1.5% - 2% in 2011.

A joint IMF and EU mission visited Romania at the end of October to assess the evolution of the economy. The result of the appraisal is that the next tranche of the IMF loan, which is worth €0.9bn, and a further €1.2bn from the EU, will not be disbursed until the Romanian Government adopts the 2011 budget and the unified wage and revised pension laws. The unified wage law provides for uniformity of wage levels in all public sector jobs, while the pension law refers to cutting special pensions, increasing the retirement age and setting new pension indexation levels. The loan agreement with the IMF expires in May 2011 and talks were held on the possibility of a new precautionary agreement.

Over January-September, exports increased by 26.5% year-on-year with imports increasing by only 18.9%. Consequently, the January-September trade deficit posted a slight 3.5% year-on-year decrease. However, Romania's January-September 2010 current account deficit was 33% higher at €4.2bn, mainly due to a 30% year-on-year fall in current transfers (from €3.3bn to €2.3bn). FDI flows are still weak at €2.1bn (down 40% year-on-year), and covered only 48.9% of the current account deficit. The January-September 2010 budget deficit came in at 4.6% of GDP, within the threshold agreed with the IMF which provides for a 2010 budget deficit of 6.8% of GDP.

Romania's CPI was up 7.9% year-on-year in October, a sharp increase over the 4.7% recorded at the end of 2009, mainly due to the 5% increase in the VAT rate (from 19% to 24%) introduced on 1 July 2010. The IMF expects inflation to reach 7 - 8% by the end of 2010.

Industry could be an important trigger of an overall economic recovery, with an encouraging 20.4% month-on-month (and a 4.8% year-on-year) increase recorded in September 2010.

Romania's total external debt position was €89.3bn at the end of September, or 73% of estimated 2010 GDP. Public debt amounted to €42.1bn at the end of August, a 22% YTD increase, but still only 35% of GDP. Of the total public debt, 45% is RON-denominated and 42% is euro-denominated, with the balance of 13% being in other foreign currencies. The National Bank of Romania's foreign reserves (excluding gold) were €32.6bn at the end of September, or 1.8 times the short-term external debt (€17.6bn).

Having recorded a historical low against the euro at the end of June, the Romanian leu appreciated by 2.3% over the third quarter, resulting in an overall depreciation of 0.9% since the beginning of the year.

Total domestic non-governmental credit (which excludes loans to financial institutions) amounted to €48.7bn at the end of September, up from €47.3bn since the beginning of the year. Overdue loans amounted to €3.7bn, twice their value at the end of 2009, and equivalent to 7.6% of total loans. The Romanian banking system's total loans-to-deposits ratio was around 122% at the end of the third quarter.

Bulgaria

Good results from the agricultural sector (+3.8% year-on-year) helped Bulgaria achieve a 0.2% year-on-year GDP growth over the third quarter. However, during the first nine months, GDP was still 0.3% lower than the same period last year. The IMF is forecasting overall GDP growth of 0 - 0.4% in 2010.

Over January-September, Bulgaria posted a positive current account of €0.5bn, or 1.5% of GDP, compared to a deficit of €2.5bn over the same period in 2009. The performance of the current account was mainly triggered by a 70.9% year-on-year increase in current transfers (from €0.7bn to €1.2bn), as well as by a 56% year-on-year decrease in the trade deficit, which fell from €3.3bn to €1.4bn. FDI inflows stood at just €0.9bn.

Bulgaria's nine month budget deficit came in at 2.2% of GDP. The 2011 state budget has already been approved by the Bulgarian Parliament and provides for a €1bn budget deficit, or 2.5% of GDP. The budget is based on forecast economic growth of 3.6% in 2011, which is higher than the IMF's 2 - 2.5% forecast.

The Bulgarian authorities are committed to maintaining the currency peg regime that ties the level of cash in circulation to the National Bank's foreign currency reserves. The country's reserves-to-short-term-debt ratio was 109.7% at the end of August.

Bulgaria's CPI was up 3.9% year-on-year in October, up from 3.5% in September. With the real estate and financial sectors declining sharply as a result of the global financial crisis, growth has shifted to the industrial sector, which recorded a 1.6% month-on-month increase in September, while the year-on-year increase was an impressive 9.3%.

Bulgaria's external debt was €36.5bn at the end of August, or 100.9% of GDP, of which only 11.7% was attributable to the public sector. Public sector debt increased by 0.5% year-to-date, while private debt fell by 4.2% over the same period.

The Bulgarian banking system had a total loans-to-deposit ratio of approximately 111% at the end of September. While loans to non-financial institutions slightly increased by 0.5% YTD (from €25.8bn to €25.9bn), the deposit base increased by 5% from €22.1bn to €23.2bn. The increase in the deposit base is a positive sign of improved confidence which should help the economic recovery. At the end of September, overdue loans accounted for 10.6% of total loans, up from 6.4% at the end of 2009.

Serbia

According to the National Bank of Serbia (NBS), Serbia's real GDP grew by 1.2% over the first six months of 2010, helped by strong improvements in exports and industrial production. The key industries that supported GDP growth were financial intermediation, transport, mining and quarrying, and manufacturing.

CPI increased by 7.7% year-on-year in September, which is higher than the NBS's targeted range of 6.5% +/- 2%. Food and energy price hikes, and a weakening dinar, were the main drivers of the increase in the inflation rate. The medium term inflation outlook is subject to additional risks related to the lifting of the freeze on public-sector wages and pensions, now scheduled for January 2011.

Over the third quarter, the dinar continued to depreciate (by 1.7%) against the euro, losing 9.6% YTD. The dinar depreciated sharply over May and June 2010 (4.7%), reflecting risk aversion in financial markets triggered by the Greek and wider euro zone crises. It is possible that external factors, combined with uncertainty about domestic reforms, could result in further depreciation of the currency.

The trade deficit was €3.2bn over January-August (a 33.3% year-on-year fall), mostly due to strong growth in exports (+20.3%) and much lower import growth (+8.0%). It is expected that enterprise restructuring, privatisation and other supply-side reforms should make exporters more competitive over the medium term.

After several consecutive cuts in the key interest rate in the second quarter of 2010 (from 9.5% to 8%), the NBS decided to increase the key rate by 100bps to 9.0% over August and September, due to mounting inflationary pressures.

Following progress in its relations with Kosovo, in October Serbia was invited to become an EU candidate member in 2011. However, given the anti-enlargement sentiment within the EU, Serbia's EU membership prospects still remain uncertain.

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