Reconstruction Capital II Ltd

Quarterly Report

September 30th, 2009

Investment Manager
New Europe Capital Ltd
33 Marloes Road
London W8 6LG
Tel +44 20 7244 0088
london@neweuropecapital.com

Investment Adviser Romania & Bulgaria
New Europe Capital SRL
Str. Tudor Arghezi nr.21, et.6
Bucuresti - Sector 2
Tel +40 21 316 7680
bucharest@neweuropecapital.com

Investment Adviser Serbia
New Europe Capital DOO
Francuska 5/12
11000 Beograd
Tel +381 11 218 7064
belgrade@neweuropecapital.com

Statistics

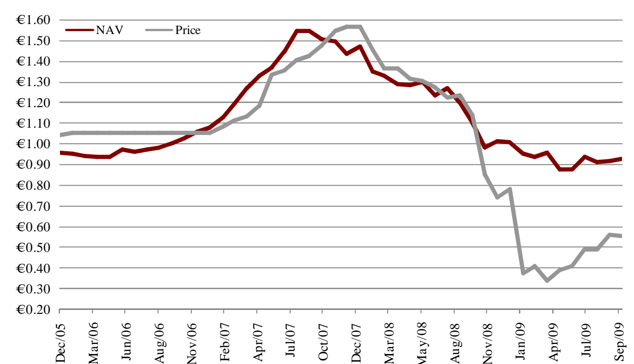
NAV per share (€)	0.9266
Share price (€)	0.5575
Total NAV (€ m)	92.7
Mk Cap (€ m)	55.8
# of shares (m)	100.0
Return since inception	-3.13%
12-month CAGR	-15.82%
Annualized Return*	-0.84%
Annualized Volatility*	14.12%
Best month	6.93%
Worst month	-10.52%
# of months up	25
# of months down	20

** since inception*

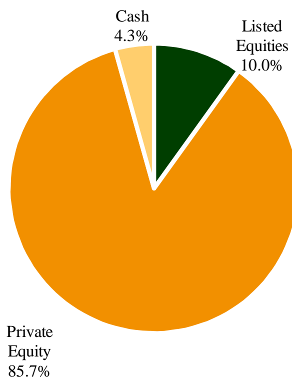
RC2 NAV returns

	2006	2007	2008	2009
Jan	-0.61%	4.70%	-8.27%	-5.65%
Feb	-0.73%	6.17%	-1.48%	-1.51%
Mar	-0.87%	5.90%	-3.03%	2.39%
Apr	0.44%	5.05%	-0.26%	-8.40%
May	3.73%	3.08%	0.93%	-0.26%
Jun	-1.25%	5.19%	-4.75%	3.08%
Jul	1.23%	6.93%	2.85%	1.08%
Aug	0.61%	0.22%	-5.55%	0.23%
Sep	2.18%	-2.50%	-8.34%	1.20%
Oct	2.74%	-0.69%	-10.52%	-
Nov	2.80%	-4.09%	3.03%	-
Dec	1.70%	2.46%	-0.60%	-
YTD	12.47%	36.74%	-31.43%	-8.13%

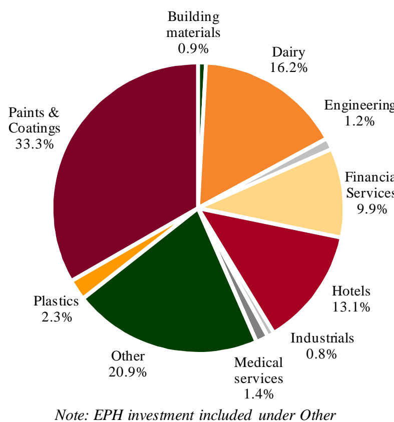
Share price / NAV per share (€)



Portfolio Structure by Asset Class

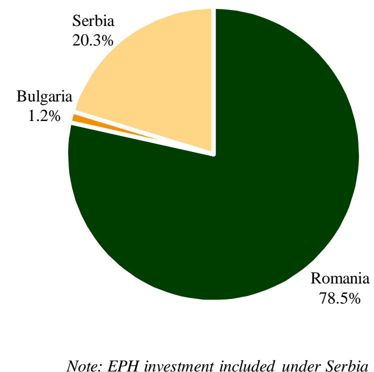


Equity Portfolio Structure by Sector



Note: EPH investment included under Other

Portfolio Structure by Geography



Note: EPH investment included under Serbia

Message from the Investment Manager and Advisers

Dear Shareholders

As at 30th September, RC2's NAV per share was € 0.9266, up 2.5% over the quarter, whilst RC2's share price gained 13.2% over the same period, closing at € 0.5575, thereby narrowing thediscount to NAV.

At Policolor, the Fund's largest investment, in spite of a 27% year-on-year fall in sales during the first nine months of 2008, the EBITDA level increased by 16% to €9.7m, as a result of a successful restructuring programme which resulted in the EBITDA margin increasing from 9.6% to 15.0%.

At EPH, the bulk of the business lines performed well. However, much of the cash flow of the group was absorbed by the River Shipping business, which made losses. Under the Fund's investment agreement with EPH, the Group has to reorganise itself into business lines, following which RC2 will have the right to exchange its shares in EPH into shares in its seven business lines by 8th March 2010.

Albalact, in spite of tough market conditions, managed to improve its profitability substantially over the first three quarters of 2009, with the EBITDA level increasing by almost 50% compared to last year, and the EBITDA margin expanding from 7.1% to 11%.

At Mamaia Resort Hotels, the Fund's investment on the Black Sea coast of Romania, revenues were slightly up in euros, but the hotel continued to suffer from low revenues off-season which resulted in a loss of €0.1m. The adviser is concentrating on obtaining financing for the development of a conference centre at the hotel to boost off-season revenues.

At Top Factoring, revenues over the first eight months increased by 29% year-on-year, with the YTD net loss decreasing from €0.4m to €0.1m.

Against a background of rising equity markets, the Fund sold down two of its smaller positions held under its Trading Programme, generating approximately €1.7m in net cash.

The macroeconomic picture continues to be negative with GDP having contracted in all of RC2's countries of operation. However the devaluation of the local currencies in the first quarter (except for Bulgaria where the leva kept its peg to the euro) and falling domestic private consumption has contributed to a rebalancing of the economic models of these countries, with local current-account deficits shrinking substantially: -79% in Romania, -75% in Serbia and -60% in Bulgaria over the first eight months of 2009.

At the end of September, the Fund, which has no gearing, had cash balances of approximately €3.9m, compared to €3.2mon the 30th June.

Yours truly,

New Europe Capital

Policolor Group

Background

The Policolor Group ("Policolor" or the "Group") is the leading producer of coatings in Romania and Bulgaria. The Group comprises Policolor SA, an unlisted Romanian company, and Orgachim AD, its 64%-owned Bulgarian subsidiary which is quoted on the Bulgarian Stock Exchange. RC2 has shareholdings in both companies: 40% in Policolor and 2.4% in Orgachim.

Financial results

(EUR '000)	2007A	2008A	9M 2008A*	9M 2009A*
Income statement (according to IFRS)				
Sales revenues	**94,643**	**100,632**	**85,385**	**62,177**
Other operating revenues	1,907	2,002	1,012	2,228
Total operating revenues	**96,550**	**102,634**	**86,397**	**64,405**
Total Operating Expenses	(95,900)	(105,678)	(82,223)	(58,312)
of which: FX gain/(loss)	*(509)*	*(455)*	*(215)*	*(90)*
Operating profit	**650**	**(3,044)**	**4,174**	**6,093**
Operating margin	*0.7%*	*-3.0%*	*4.8%*	*9.5%*
EBITDA	**6,692**	**2,619**	**8,311**	**9,670**
EBITDA margin	*6.9%*	*2.6%*	*9.6%*	*15.0%*
Financial Profit/(Loss)	(1,312)	(1,773)	(1,022)	(943)
Provision for non-recovery of 2008 receivables				(934)
Profit before tax	**(662)**	**(4,818)**	**3,152**	**4,216**
Income tax	(1,341)	443	56	(450)
Profit after tax	**(2,003)**	**(4,375)**	**3,208**	**3,766**
Minority interest	(1,143)	646	(814)	(249)
Profit for the year	**(3,146)**	**(3,729)**	**2,394**	**3,517**
Avg exchange rate (RON/EUR)	*3.337*	*3.683*	*3.640*	*4.228*

*Note: * IFRS (unaudited)*

In spite of overall YTD sales coming in 27% below last year's level, the EBITDA and net profit have increased by 16% and 47%, respectively, mainly as a result of the restructuring programme initiated late last year which has resulted in the EBITDA margin increasing from 9.6% YTD 2008 to 15% so far this year.

Operations

Policolor has continued to make progress on the reduction in staff levels, the externalisation of a number of activities, the sale of non-core assets, and the shutting down of loss-making export agencies in Serbia and Ukraine.

During the third quarter, management achieved a further reduction in the Group headcount from 1,056 to 979. In addition, all the Group's in-house transportation activities were moved to a newly-created subsidiary in Bulgaria.

In October, the Group sold its dry plasters production unit to Mapei, a large Italian producer of plasters and adhesives, for €3.6m. The Group intends to buy in these products from outside producers rather than produce them in-house. The deal is expected to close before the end of November.

The Group remains the undisputed market leader in Bulgaria. In July, the independent market research company MEMRB ranked Policolor as the market leader also in Romania, with a 23.7% market share in water-based coatings, and a 24.6% market share in solvent-based coatings.

The Group has intensified its efforts to implement the EU VOC Paints Directive (2004/44/EC), which controls VOC emissions caused by paints, by launching new VOC-compliant architectural products. The automotive division launched new water-based products and enlarged the number of mixing machines installed in both countries. The industrial division has also enlarged its portfolio by launching new VOC-compliant coatings. Finally, the Group's Insulation Systems division has restructured its products' portfolio and implemented a new distribution system in Bulgaria, replacing its own distribution network with specialised dealers to reduce costs and achieve a better presence in the market.

East Point Holdings Ltd

Background

East Point Holdings Ltd ("EPH" or the "Group") is a Cyprus-based holding company with significant business interests across South East Europe in which RC2 acquired a 21.3% shareholding in 2008. The bulk of the Group's operations are in Serbia and Romania, but it is also active in other countries, including Hungary and Austria, and has a network of sales, procurement and representative offices in New York, Moscow, Frankfurt, Beijing and Sofia. EPH operates along the following main business lines: Agribusiness (Cereals Trading and Storage, and Milling), Bakeries, Copper Processing, Cable Production, River Shipping, Real Estate and Other. Pursuant to a reorganisation programme agreed with EPH and its shareholders, RC2 has the right to convert its shares in EPH into shares in sub-holding companies mirroring each of its business lines by 8 March 2010.

Overview

The Group has not yet released its consolidated results for the third quarter. Over the first half of the year, EPH's business performed almost in line with its budget for the year, which was slightly revised when a new CFO joined in May. Sales were slightly lower than the budget at €221.6m, and 4.2% below last year. The EBITDA margin came in at 6.0%, resulting in the overall EBITDA level reaching €13.4m.

As in 2008, the devaluation of local currencies over the first quarter of 2009 caused a (mainly non-cash) forex loss of €7.1m. However, currencies stabilised in the second quarter and have to date continued to remain relatively stable, suggesting that the hit taken by the Group in late 2008 and early 2009 is unlikely to be repeated by year-end.

A positive development during the first half of 2009 is the reduction in indebtedness from €263.0m to €233.2m, mainly dueto lower

working capital requirements resulting from falling commodity prices.

(EUR m)	2007A*	2008A	1H08**	1H09**
Income statement (according to IFRS)				
Sales	**380.2**	**462.1**	**212.6**	**221.6**
COGS	(341.3)	(398.6)	(183.3)	(178.3)
Gross Profit	38.9	63.5	29.3	43.3
EBITDA	**24.9**	**17.5**	**22.0**	**13.4**
EBITDA margin	*6.5%*	*3.8%*	*10.3%*	*6.0%*
EBIT	**21.1**	**2.6**	**14.6**	**5.7**
EBIT margin	*5.5%*	*0.6%*	*6.9%*	*2.6%*
Net interest income (expenses)	(13.0)	(14.5)	(8.6)	(6.8)
FX gain (loss)	(0.6)	(6.4)	1.1	(7.1)
Share of profit (loss) of associates	(0.3)	0.2	-	(0.4)
Income/(loss) before taxes	**7.2**	**(18.1)**	**7.1**	**(8.6)**
Income tax (expense)/benefit	(0.9)	(0.5)	(0.1)	(0.5)
Net income/(loss)	**6.4**	**(18.6)**	**7.0**	**(9.1)**
Minority interest	(0.6)	0.3	(0.3)	0.6
Net income after minority interest	**5.8**	**(18.2)**	**6.7**	**(8.5)**

*Note: 2007 & 2008 audited accounts; * restated from USD to EUR at yearly average exchange rate;*
*** unaudited management accounts; excludes Novkabel*

Agribusiness

On the back of a bumper harvest in 2008, EPH's Agribusiness performed well in the first half of 2009. Sales were slightly above budget at €107.3m, whereas the EBITDA came in at €4.5m, about €0.7m below budget, due to weaker margins in the trading operations. At Silotrans, its silo in Constanta port, the throughput of 900,000 tons achieved over the first eight months was 151% higher year-on-year, thus lifting throughput to over 1.6m tons for the first time in any one year period.

Milling

Measured by total volumes milled, EPH's mills are the dominant player on the Serbian market. The Group has one mill specialised in the milling of corn; another one, which is a JV with a family active in the milling business in Cyprus, is integrated with a pasta factory; one in northern Serbia (Sombormlin); and one (Zitomlin) is located on the Danube in the centre of Belgrade. The mills achieved sales of €8.7m over the first six months and EBITDA of €0.8m,which was slightly below budget. The group is now developing a strategy to exploit synergies between the four mills by shutting down production at one of the mills, and upgrading the others to handle the extra volumes.

Bakeries

Albeit higher in local currency, revenues for the first half of 2009 came in 8% lower year-on-year in EUR-terms at €13.1m. The EBITDA was €1.5, or 16% lower, with the EBITDA margin falling from 12.5% to 11.4%. Net income was €0.2m lower at €0.8m. The deterioration in the operating performance was mainly due to weaker sales and higher personnel, marketing and legal costs.

Copper Processing

EPH's Copper Processing business achieved an 11.8% increase in volumes sold over the first six months, resulting in sales of €84.9m. One of the reasons for the strong performance in terms of sales was an increase in exports to the Russian market, which generated 8.5% of total export volumes over the first six months, compared to nil the year before. The EBITDA margin more than tripled from 2.8% (2008) to 8.8% (1H09), resulting in the overall EBITDA level coming in at €7.4m, or 30% above the EBITDA for the whole of 2008. The main reason for the increase in the EBITDA margin is lower raw material expenses and the effects of the ongoing restructuring programme at the division's main copper smelter, VBS. Over the first six months, total operating costs at VBS decreased by 19.6% year-on-year to €30.1m. The empbyee restructuring programme, which was finalised in March, reduced salary costs by 7.8% from €4.1m to €3.7m year-on-year; and total energy costs decreased by 8.3% from €121 per ton to €111 per ton. The turnaround at VBS means that this is the first year that the Copper Processing business is able to service its entire debt obligations, including the loan taken out by EPH to acquire VBS.

Cable Production

EPH, which took over Novkabel, one of the largest cable producers in Serbia, earlier this year. It is now capitalising on the experience of its managers who helped turn around and then sell another cable producer to develop a restructuring plan for the company. It is also focussing on using its own international sales network to improve Novkabel's international sales, especially in Russia.

River Shipping

Although the gross margin increased from 52% over 8M08 to 70% YTD, mainly due to EPH mothballing part of its fleet and operating a strict line balance up and downriver, and in spite of management making substantial progress in reducing costs, the River Shipping business has been severely affected by the recession in the steel industry. Dry cargo sales over the first eight months slumped by 42% year-on-year to €23m, due to the compounding effect of (1) lower total dry cargo volumes (-28% year-on-year), (2) depressed average freight rates which decreased by 19% year-on-year, and (3) adverse weather conditions with almost one month of traffic closure of the Upper Danube due to ice and high water levels.

Real Estate

A new law passed by the Serbian parliament in September gives owners of buildings in urban areas the right to convert their "rights of use" over the underlying land into full ownership rights. Although it is still unclear how it will be applied, this is a major step forward for Serbia and should have an important impact on the valuation and development potential of EPH's extensive real estate assets, including the 2.2 ha of land at Zitomlin in central Belgrade, and the 39 ha of land at Novkabel in Novi Sad. EPH has started discussions with an adviser to assess all of its properties with a view to investigating all alternatives, including the sale, or sale and lease-back, of part of its real estate assets in Serbia.

Other

Bioenergy, EPH's new wooden pellets factory in eastern Serbia, started operations at the end of 2008, and has gradually increased production levels, with July being the first month that output exceeded 1,500 tons.

Albalact

Background

Albalact SA ("Albalact") is a quoted Romanian dairy producer in which RC2 has acquired a 25.4% stake under its Private Equity Programme. A local entrepreneur and his family own approximately 48%, with the remaining 26.6% representing the free float. With Albalact's market capitalisation having increased by 14% over the quarter, as of 30 September 2009 RC2's shareholding in Albalact had a market value of €14.4m compared to €12.6m at the end of the previous quarter.

Financial results

(EUR '000)	2007A*	2008A*	9M08**	9M09**
Income Statement				
Sales Revenues	**46,339**	**51,741**	**39,873**	**39,602**
Other operating revenues	2,550	2,496	3,045	1,430
Total Operating Revenues	**48,888**	**54,236**	**42,919**	**41,032**
Total Operating Expenses	(45,916)	(52,163)	(42,109)	(39,558)
Operating Profit	**2,972**	**2,074**	**810**	**1,474**
Operating margin	*6.1%*	*3.8%*	*1.9%*	*3.6%*
EBITDA	**4,858**	**4,856**	**3,058**	**4,523**
EBITDA margin	*9.9%*	*9.0%*	*7.1%*	*11.0%*
Financial Profit/(Loss)	(1,657)	(1,860)	(439)	(903)
Profit before Tax	**1,315**	**214**	**371**	**570**
Income Tax	(241)	(52)	(72)	(164)
Profit after Tax	**1,074**	**162**	**299**	**406**
Net margin	*2.2%*	*0.3%*	*0.7%*	*1.0%*
Avg exchange rate (RON/EUR)	*3.337*	*3.683*	*3.363*	*4.239*

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

In the first nine months of 2009, Albalact's sales increased by 30% in volume terms and by 25% in RON-denominated value terms, compared to the same period in 2008. However, due to the depreciation of the RON against the euro (-26.1% year on year), the euro-denominated sales were stable compared to last year. Considering the tough market conditions prevailing in Romania's economic recession, the Company's sales performance is positive. According to press statements by some of Albalact's competitors, the Romanian dairy market has stagnated in volume terms in 2009 and is expected to fall slightly in value terms due to shrinking consumption and falling prices.

In spite of the hostile environment, Albalact managed to improve its profitability, with the EBITDA level increasing by almost 50% compared to last year, and the EBITDA margin expanding from 7.1% to 11%

Operations

Through the acquisition of Raraul, a smaller milk processor focused on cheese, in late 2008, Albalact gained control of a strong platform in white and yellow cheese. Because cheese represents 40-45% of the value of the Romanian processed dairy market and is still a very fragmented segment, the newly acquired production capability and brand should be an important growth driver for the Company.

The Raraul plant underwent a substantial modernisation process which was completed in November 2009. Following finalisation, its processing capacity reached 100,000 litres/day, compared to 25,000 litres/day prior to its modernisation.

Mamaia Resort Hotels

Mamaia Resort Hotels SRL (the "Company") is the owner and operator of the Golden Tulip Mamaia Hotel (the "Hotel"), which is located at the 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)	2007A*	2008A*	8M08**	8M09**
Income Statement (according to IFRS)				
Sales Revenues	**1,140**	**1,643**	**1,229**	**1,351**
Other operating revenues	120	144	85	0
Total Operating Revenues	**1,260**	**1,787**	**1,314**	**1,351**
Total Operating Expenses	(1,320)	(2,113)	(1,106)	(1,427)
Operating Profit	**(60)**	**(326)**	**208**	**(77)**
Operating margin	*neg.*	*neg.*	*16.9%*	*neg.*
EBITDA	**144**	**(109)**	**323**	**58**
EBITDA margin	*11.4%*	*neg.*	*24.6%*	*4.3%*
Financial Profit/(Loss)	(593)	(155)	(137)	(19)
Profit before Tax	**(653)**	**(481)**	**71**	**(95)**
Income Tax	0	0	(25)	0
Profit after Tax	**(653)**	**(481)**	**46**	**(95)**
Net margin	*neg.*	*neg.*	*65.3%*	*neg.*
Avg exchange rate (RON/EUR)	*3.337*	*3.683*	*3.641*	*4.226*

*Note: * RAS (unaudited)*

The Hotel is open all year round but still earns the bulk of its revenues over the summer months. The Hotel plans to open a conference centre to boost out-of-season revenues, and eventually develop an apartment block next to the Hotel on a 2,257sqm plot of land owned by the Company. Over the summer, planning permission was granted for a development of a 16-storey apartment building. This would be one of the few developments along Mamaia beach, which is the most prestigious stretch of Romania's Black Sea coast.

The average net room tariff was €45/day over January-August 2009, in line with the budget and similar to 2008 (in RON terms, the tariff increased by 19% year-on-year). These factors resulted in a 10% year-on-year increase in revenues in EUR-terms over the first eight months of 2009. Revenues were almost equally split between the Accommodation and Food & Beverage departments.

Operations

The worldwide recession has affected Romania's seaside tourism, with the local press reporting low occupancy rates, and a 20 to 30% year-on-year fall in revenues. However, the Company has consolidated its position on the market and operated at an average occupancy rate of 69% over the high season months of June to

August. The occupancy rate reached 32% in September, above last year when the September occupancy rate stood at 28%.

Prospects

The Company is currently negotiating the financing arrangements for the completion of a conference centre and intends to start construction works in November which should allow the Hotel to have the conference facility ready by February 2010, in time for the spring season. The value of the project is approximately €1m. The Hotel's proximity to the city of Constanta coupled with the lack of conference facilities along the Black Sea Coast should trigger important revenues from this area. According to management's projections, the conference department should generate additional revenues of €0.4m in 2010, excluding the additional rooms sold as a direct result of the conference centre, while the gross margin for this business line is expected to exceed 50%.

Top Factoring

Top Factoring ("Top Factoring" or the "Company") is a receivables collection company in which RC2 owns a 93% shareholding. The remaining 7% is owned by the Company's CEO.

Financial results

(EUR '000)	2007A	2008A	8M08*	8M09*
Income Statement (according to IFRS)				
Total Operating Revenues	**694**	**1,205**	**653**	**840**
Total Operating Expenses	(913)	(1,883)	(1,057)	(936)
Operating Profit	**(220)**	**(678)**	**(404)**	**(97)**
EBITDA	**(213)**	**(641)**	**(392)**	**(73)**
Financial Profit/(Loss)	110	(15)	0	(1)
Profit before Tax	**(109)**	**(693)**	**(403)**	**(97)**
Income Tax	0	0	(11)	(0)
Profit after Tax	**(109)**	**(693)**	**(415)**	**(98)**
Avg exchange rate (RON/EUR)	*3.337*	*3.683*	*3.641*	*4.226*

*Note: * IFRS (unaudited);*

Revenues increased by 28% year-on-year. Collections from the two packages of receivables acquired from Vodafone in December 2006 and December 2007 amounted to €0.5m, in line with the budget. Since inception, collections from the first Vodafone portfolio (acquired in December 2006 at a cost of €0.5m) amounted to €0.8m, while collections from the second Vodafone package (acquired in December 2007 at a cost of €13m) amounted to €1.2m.

In July, Top Factoring acquired a third Vodafone portfolio of receivables for €475k, or 5.9% of nominal value. Collections in August and September amounted to €176k, in line with management's expectations.

The Company has revised its 2009 budget upwards to incorporate the effects of the third Vodafone portfolio: 2009 revenues are estimated at €1.8m, up from €1.2m in 2008, and Top Factoring is now targeting a net profit of €241k, up from a loss of €700k in 2008.

Agency contracts generated almost €0.3m of revenues, far better than the same period in 2008 (€0.1m). The B2B department, which was created in September 2008, generated revenues of €70k in the first eight months of 2009.

The implementation of a new call-centre software in August 2008 and improved reporting and controlling systems triggered an improvement in the bottom line, from a loss of €0.4m over the first eight months of 2008 to a loss of €0.1m over January-August 2009.

Operations

In August, the senior management team was strengthened by the addition of a Legal Manager with extensive background in the industry. The company now has a well-balanced management team including a CEO, COO and Legal Manager.

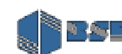
Prospects

The YTD results are encouraging and suggest that the Company, through a combination of improvements in operational efficiency and the build-up of new clients, may have put the years of "start-up" losses behind it. The main growth opportunity in the current economic context is the acquisition of receivables portfolios and the extension of Top Factoring's model to other countries in the region.

Romar

The Romar Group ("Romar") operates seventeen clinics and seven laboratories in twelve towns across Romania and is the market leader in Occupational Health Services (OHS). RC2 owns 40% and the company's founder owns the balance of 60%. In late 2008, RC2 and the Founder put the company up for sale by means of an organised sale process but were unable to sell the business. RC2 is currently analysing all its options for this investment. The most recent financial statements submitted by the Group, as of June 2009, have already been analysed in the previous quarterly report.

Bulgarian Stock Exchange

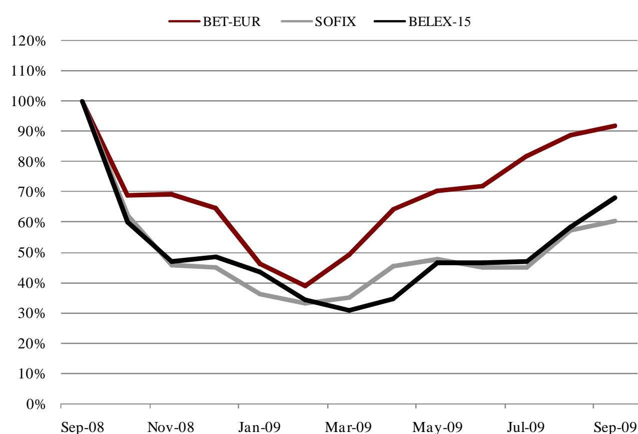


RC2 owns a 1.8% shareholding in the company which operates the Bulgarian Stock Exchange (BSE). These shares are not traded on an organised market and are valued at cost (€0.5m) by RC2. The BSE is 44% owned by the Bulgarian state, 35% owned by Bulgarian brokerage firms, and the balance is owned by a combination of institutions and private individuals.

Results for the first half of 2009 show a 44% year-on-year decrease in sales from €1.4m to €0.8m, and a 60% decrease in profits after tax from €0.5m to €0.2m, mainly due to the investors' reduced interest in emerging markets.

Capital Market Developments

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



Commentary

During the third quarter of 2009, stock markets in the region experienced a strong rebound, with the BET-EUR gaining 27.9%, the SOFIX 34.6%, and the BELEX15 45.9%. Since the beginning of the year, the BET-EUR has gained 42.4%, the SOFIX 34.0%, and the BELEX15 40.8%, all in EUR-terms.

By comparison, over the third quarter the MSCI Emerging Market index was up 15.2%, the MSCI Emerging Market Eastern Europe index 22.6%, whilst the FTSE100 and S&P indices increased by 12.8% and 10.3%, respectively.

Year-to-date the MSCI Emerging Market index was up 53.6%, the MSCI Emerging Market Eastern Europe index was up 56.3%, whilst the FTSE100 and S&P indices increased by 21.2% and 11.5% respectively.

Macroeconomic Overview

Overview

	RO	as of:	BG	as of:	SRB	as of:
GDP Growth (y-o-y)	-7.6%	6M09	-4.2%	6M09	-4.1%	6M09
Inflation (y-o-y)	4.9%	9M09	0.2%	9M09	7.3%	9M09
Ind. prod. growth (y-o-y)	-5.3%	Aug-09	-15.9%	Aug-09	-16.2%	Aug-09
Trade deficit (EUR bn)	5.8	8M09	3.1	8M09	1.1	9M09
y-o-y	*-62.5%*		*-44.3%*		*-75.4%*	
FDI (EUR bn)	3.2	8M09	2.0	8M09	0.9	9M09
y-o-y change	*-53.1%*		*-57.7%*		*-47.0%*	
Total external debt/GDP	*65.0%*	Aug-09	107.2%	Jul-09	67.7%	Sep-09
Reserves to short-term debt	164.6%	Aug-09	94.1%	Jul-09	563.2%	Sep-09
Loans-to-deposits	123.1%	Aug-09	113.6%	Aug-09	121.3%	Sep-09

Commentary

Romania

After a 7.6% year-on-year economic decrease over 1H09, a severe contraction of around 8.5% is now expected for the year, according to the IMF.

However, sluggish economic activity and poor demand due to the weak financial condition of households mainly triggered by rising unemployment (the unemployment rate stood at 6.9% in September) has resulted in lower inflation. Romania's CPI was up 4.9% year-on-year in September, down from 6.3% at the end of 2008. However, some inflationary risks remain possibly because of higher food prices due to unfavourable agricultural conditions this year.

On the flipside of depressed investment and consumption, the current account deficit outlook has continued to improve. Romania's January-August 2009 current account deficit of €2.5bn was 78.6% lower than the same period in 2008. The IMF sees Romania's 2009 current account deficit coming in at 5.5% of GDP, down from 12.4% in 2008. The falling trade deficit trend has continued as the January-August trade balance fell by 62.5% year-on-year to €5.8bn, with exports declining by 19.1% while imports fell by 36.6%. FDI flows, which stood at €3.2bn (down 53.1% year-on-year), fully covered the current account deficit.

The industrial sector continues to be weak, with industrial production decreasing by 9.1% year-on-year over the first eight months of 2009.

The forex market has remained stable since the €195bn international financial package for Romania was announced at the end of March, with the Romanian currency slightly appreciating by 0.2% against the euro. The Romanian currency has lost 5.3% against the euro since the beginning of the year.

Weakening revenues (-6.6% year-on-year) and expanding budgetary expenses (+8.3% year-on-year) put the 2009 January-August fiscal deficit at 4.5% of GDP. The target fiscal deficit for 2009 negotiated with the IMF was lifted to 7.3% due to the deeper than expected economic contraction.

The Romanian government has failed so far to implement structural reforms and increase investments in infrastructure, two measures of vital importance in the current business climate. The 2009 budget was based on 7% of GDP being allocated to investments, while over the first eight months of 2009 such investments amounted to only 4% of GDP. In early October, political friction between the Liberal

Democrats ("PDL") and the Social Democrat Party ("PSD") led to the dismissal of the PDL-PSD Government. Given the fact that it is unlikely that a new government will gain parliamentary approval before the next presidential elections in November, the political situation has become rather unstable, further jeopardising Romania's chances of meeting its commitments to the IMF.

Romania's total external debt position stood at €769bn at the end of August, or 65% of estimated 2009 GDP. The public debt amounted to €32.7bn at the end of August, a 26% YTD increase mainly due to approximately €8.4bn of disbursements from the IMF-led financial package. The National Bank of Romania's foreign reserves (excluding gold) came in at €28.4bn at the end of September. The short-term external debt was €16.9bn at the end of August, leading to a fairly good reserves to short-term debt ratio of 164.6%.

Continued weak lending saw total domestic non-governmental credit (which excludes loans to financial institutions) reaching €47.1bn at the end of August, a modest 0.4% monthly increase. Of this, 40% was RON-denominated and the balance of 60% was in foreign currencies. Overdue loans (€1.35n) amounted to 3.1% of total loans, a 2.2 times increase since the beginning of the year. The Romanian banking system's total loans-to-deposits ratio was around 123% at the end of August.

Within a disinflationary outlook, the National Bank of Romania decided to lower its key interest rate from 8.5% to 8% at the end of September, the fourth consecutive cutting of 50bps since February 2009.

Bulgaria

In 2Q09, Bulgarian GDP fell by 4.9% year-on-year, resulting in an overall economic decrease of 4.2% over the first half of 2009. The IMF sees Bulgarian GDP falling by 6.5% year-on-year in 2009. As a consequence of the economic downturn, Bulgaria's CPI was up 0.2% year-on-year in September, its lowest inflation since July 2003.

Lower demand continued to negatively affect industrial production which decreased by 15.9% year-on-year in August.

Over January-August, Bulgaria's current account deficit was €1.9bn, or 5.5% of GDP, compared to a €4.8bn deficit over the same period in 2008, or 14.1% of GDP. With private capital inflows falling, FDI amounting to €2.0bn covered 88.6% of the deficit. The trade deficit over the first eight months of 2009 was €3.1bn, down by 44.3% on the same period last year. With FDI shrinking and a poor 1% utilisation rate of the €7bn of EU funds earmarked for Bulgaria, the economic outlook is not promising.

For a country used to running constant budgetary surpluses, the fiscal budget's 0.8% deficit posted at the end of September was a negative development, albeit expected in the current global context. Considering the constraints generated by its currency board, Bulgaria cannot afford to run large budgetary deficits. For this reason, the centre-right Government led by the Citizens for the European Development of Bulgaria Party ("GERB"), which took office after winning the 5th July parliamentary elections, has started to implement measures to improve the fiscal outlook through improving tax collection systems and by cutting expenses.

Out of a total external debt position of €36.3bn (107.2% of GDP) at the end of July, only 11.4% was attributable to the public sector. The reserves-to-short-term-debt ratio was 94.1% at the end of July.

The Bulgarian banking system had a total loans-to-deposit ratio of around 114%, computed at the end of August. Both loans to non-financial institutions and deposits remained virtually flat since the end of 2008: loans increased from €24.6bn to €24.7bn, while the deposit base moved from €21.4bn to €21.7bn.

Serbia

During the second quarter of 2009, real GDP contracted by 4.0% year-on-year, following a 4.2% decline during the first quarter of 2009. The decrease was mostly led by a decline in manufacturing, which registered a 20% year-on-year decrease. As at October 2009, the Economist Intelligence Unit expects GDP to contract by 4.0% in 2009. After a feeble recovery of 1.0% in 2010, EIU analysts forecast the growth to rebound to 4% in 2011.

After two consecutive months of disinflation (-0.9% in July and -0.1% in August), the CPI index increased by 0.3% month-on-month in September, reaching 6.2% YTD. The strongest downside drivers were the decrease in prices of food and non-alcoholic beverages. However, a good harvest, the decline in prices of agricultural products and recession-induced price declines could bring about a series of positive supply shocks.

In March 2009, the Serbian government negotiated a non-precautionary stand-by agreement with the IMF, securing a €3bn loan to support the balance of payments. However, due to a substantial decrease in revenues and excessive current spending, the 3% budget deficit previously agreed with the IMF had to be renegotiated in August, with the government obtaining the IMF's approval for an increase in the budget deficit to 4.5% of GDP. In order to accomplish this, the government has proposed reforming the public administration, as well as cutting jobs and spending. Nevertheless, the measures discussed so far are likely to be insufficient in terms of bridging the budget gap. The IMF argues that the problem could be resolved by increasing the VAT rate from 18% to at least 19%. However, there is considerable resistance to increase taxes within the government, which argues that it would have a strong negative impact on economic confidence.

The current account deficit reached €1.1bn in January-August, representing a 75% year-on-year decrease. The main downward drivers were the 38.9% year-on-year decline in imports and the somewhat lower (-32.6%) decline in exports. As at October, EIU analysts forecast the current-account deficit to reach 6.8% in 2009 and 6.6% in 2010, representing a substantial improvement over the 17.2% deficit in 2008.

Important Information

This document, and the material contained therein, is intended to be for information purposes and it is not intended as a promotional material in any respect. In particular, this document is not intended as an offer or solicitation for the purchase or sale of any financial instrument including shares in Reconstruction Capital II Limited ("RC2" or the "Fund"). Any investment in RC2 must be based solely on the Admission Document of the Fund or other offering documents issued from time to time by the Fund, in accordance with applicable laws.

The material in this document is not intended to provide, and should not be relied on for accounting, legal or tax advice or investment recommendations. Potential investors are advised to independently review and obtain independent professional advice and draw their own conclusions regarding the economic benefit and risks of investment in the Fund and legal, regulatory, credit, tax and accounting aspects in relation to their particular circumstances. While every effort has been taken to ensure that the material in this document is accurate, current, complete and fit for its intended purpose no warranty is given as to its completeness or accuracy.

This document is only issued to and directed at persons of a kind to whom it may lawfully be communicated to.

The Fund's shares have not been and will not be registered under any securities laws of the United States of America or any of its territories or possessions or areas subject to its jurisdiction and, absent an exemption, may not be offered for sale or sold to nationals or residents thereof. The offering of shares in certain jurisdictions may be restricted and accordingly persons are required by the Fund to inform themselves of and observe any such restrictions.

No warranty is given, in whole or in part, regarding the performance of the Fund. There is no guarantee that its investment objectives will be achieved. Potential investors should be aware that past performance may not necessarily be repeated in the future. The price of shares and the income from them may fluctuate upwards or downwards and cannot be guaranteed.

This document is intended for the use of the addressee and recipient only and should not be relied upon by any other persons and may not be reproduced, redistributed, passed on or published, in whole or in part, for any purposes, without the prior written consent of New Europe Capital Limited, New Europe Capital SRL and New Europe Capital DOO.