Reconstruction Capital II Ltd

("RC2" or the "Fund")

Quarterly Report

31 March 2012

neweuropecapital

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 12
11000 Beograd
Tel +381 11 715 1982
belgrade@neweuropecapital.com

Statistics

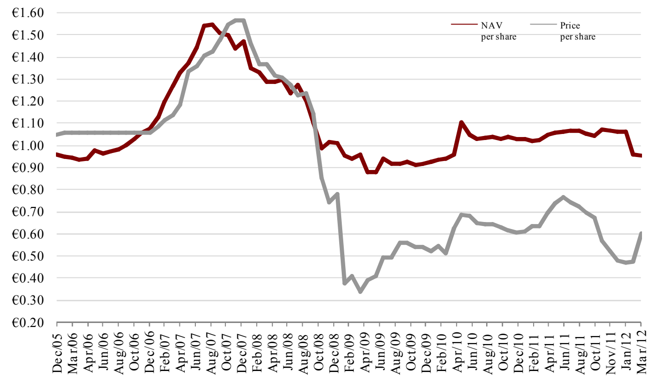
NAV per share (€)	0.9540
Share price (€)	0.6000
Total NAV (€ m)	95.4
Mk Cap (€ m)	60.0
# of shares (m)	100.0
NAV return since inception	-0.26%
12-month NAV CAGR	-9.03%
NAV annualized Return*	-0.04%
NAV annualized Volatility*	13.54%
Best month (NAV)	15.60%
Worst month (NAV)	-10.52%
# of months up (NAV)	42
# of months down (NAV)	33

** since inception*

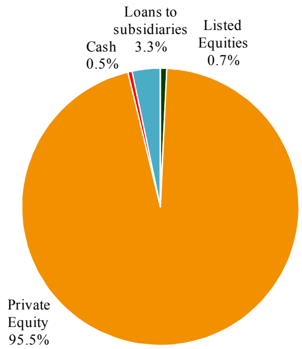
RC2 NAV returns

	2008	2009	2010	2011	2012
Jan	-8.27%	-5.65%	1.36%	-0.54%	0.11%
Feb	-1.48%	-1.51%	0.03%	0.24%	-9.68%
Mar	-3.03%	2.39%	2.07%	2.48%	-0.51%
Apr	-0.26%	-8.40%	15.60%	0.70%	
May	0.93%	-0.26%	-5.42%	0.55%	
Jun	-4.75%	3.08%	-1.57%	0.25%	
Jul	2.85%	1.08%	0.53%	0.13%	
Aug	-5.55%	0.23%	0.07%	-1.10%	
Sep	-8.34%	1.20%	-0.62%	-1.25%	
Oct	-10.52%	-1.79%	0.96%	2.63%	
Nov	3.03%	0.46%	-1.15%	-0.25%	
Dec	-0.60%	1.08%	-0.06%	-0.49%	
YTD	-31.43%	-8.38%	11.07%	3.32%	-10.04%

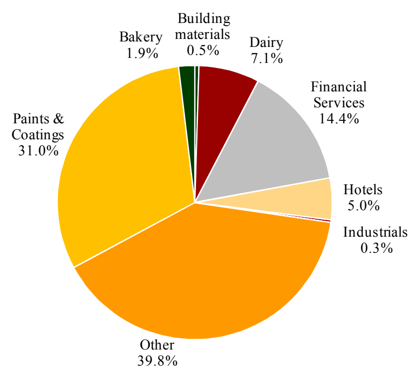
Share price / NAV per share (€)



Portfolio Structure by Asset Class

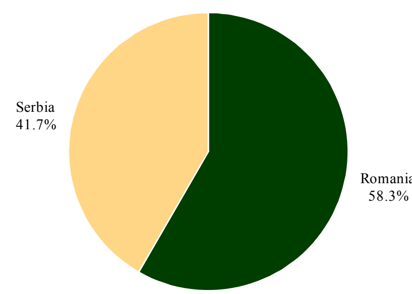


Equity Portfolio Structure by Sector



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

Over the first quarter of 2012, RC2's NAV per share fell by 10.0% to €0.9540, mainly as a result of the annual third party valuations of the Fund's private equity positions.

EPH's Copper Processing business experienced weak volumes, mainly due to a fall in demand in Italy, and harsh weather in February which hindered the flow of supplies and deliveries for a couple of weeks. Nevertheless, EBITDA came in just almost on budget, due to an improved gross margin and a better control of operating costs. Novkabel, EPH's cable production business, also experienced a fall in volumes, mainly due to weak demand in Serbia. However, the higher-margin sales to Russia continued to increase, resulting in the EBITDA loss being much lower than originally budgeted. EPH's Milling division continued to perform above budget, generating healthy cash flow over the quarter, whilst Klas, its bakery business, had a poor first quarter, as it prepared to shut down its main production facility and relocate production to a satellite plant on the outskirts of Belgrade. The relocation should result in a significant reduction in costs in the second half of the year.

The Policolor Group had to cope with a fire which shut down its resins department in early January. Overall, it managed to put in place contingency plans to source resins for its own internal use, and made up for the loss in resins sales with increased sales of anhydrides. The coatings division had a weak first quarter in terms of volumes, mainly due price increases introduced towards the end of last year, and a particularly harsh February which bought the construction industry to a standstill. Policolor has continued to advance its discussions for the sale of its excess real estate in Bucharest.

Top Factoring continued to grow strongly over the first quarter, with both sales and the EBITDA line doubling compared to the same quarter last year.

Albalact, which is publicly traded, reported both its 2011 full year results and its 2012 first quarter results. The full year results show strong growth in sales and EBITDA in spite of the weak macro environment in Romania, whilst the first quarter results suggest that although the growth in sales has tailed off, the EBITDA margin has almost doubled, due to a conscious policy to eliminate unprofitable sales, and an improved gross margin.

Although the first quarter is typically the peak of the low season when the Mamaia Hotel was closed in previous years, a number of corporate contracts resulted in the Hotel being kept open during the first quarter of 2012, resulting in modest revenues during the period.

At the end of the quarter, the Fund had cash and cash equivalent balances of approximately €0.2m, compared to €0.3m at 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 which operates along the following main business lines: Copper Processing, Cable Production, Bakeries, Milling and Real Estate. 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. Over 2011, RC2 increased its shareholding from 42.0% to 59.0%, pursuant to an asset swap agreed with EPH's founding shareholders, whereby the founding shareholders of the business were due to exit the business completely by early 2012 in exchange for non-core assets. In February 2012, RC2 completed the final phase of the asset swap, increasing its shareholding in EPH from 59.0% to 63.0%. In March 2010, RC2 acquired a direct 11.1% shareholding in Klas DOO ("Klas"), the holding company for EPH's Bakeries business, for €2.7m.

Copper Processing

(EURm)	2010A*	2011A**	2012B	1Q11**	1Q12**	1Q12B
Income Statement						
Net Sales	232.2	219.4	215.6	62.5	43.4	49.1
EBITDA	6.3	4.8	10.1	2.0	1.1	1.3
EBITDA margin	*2.7%*	*2.2%*	*4.7%*	*3.2%*	*2.6%*	*2.7%*
Profit after Tax	(1.9)	(4.9)	3.4	0.8	(1.9)	(0.3)
Net margin	*-0.8%*	*-2.2%*	*1.6%*	*1.3%*	*-4.3%*	*-0.6%*

*Note: * audited ** unaudited management accounts*

Although East Point Metals (EPM) - EPH's copper processing division - experienced a significant fall in volumes in the first quarter, mainly as a result of a shrinkage of the Italian market due to the recession and uncharacteristically cold weather delaying construction activities. Operating improvements, the higher use of copper scrap and a better product and market mix resulted in an increase in the gross margin from 9.9% in the first quarter of 2011 to 11.0% in the first quarter of 2012, and EBITDA came in slightly below the budget at €1.1m. A new quality control system, implemented in late 2011, has already resulted in lower returns from customers and management expects the new horizontal casting machine, which is planned to be commissioned in June, to further increase operational efficiencies and reduce unit production costs. The negotiations with EPH's bankers, which were started in late 2011 and are aimed at converting around €60m of debt into a combination of short term and long term maturities, are expected to be finalized in late May.

Cable Production

(EUR '000)	2010A*	2011A**	2012B	1Q11**	1Q12**	1Q12B
Income Statement						
Net Sales	23,693	36,779	41,030	8,721	6,935	6,077
EBITDA	(2,372)	(387)	493	(90)	(328)	(1,072)
EBITDA margin	*-10.0%*	*-1.1%*	*1.2%*	*-1.0%*	*-4.7%*	*-17.6%*
Profit after Tax	(174)	(387)	(1,097)	(152)	(2,290)	(1,299)
Net margin	*-0.7%*	*-1.1%*	*-2.7%*	*-1.7%*	*-33.0%*	*-21.4%*

*Note: * audited ** unaudited management accounts*

Although Novkabel, EPH's cable producer, experienced an 11.0% fall in volumes sold during the first quarter, mainly due to delays in the major public-sector tenders in Serbia, an improved product mix and better than expected exports on the Russian market resulted in first quarter sales 14.1% above budget at €6.9m, while the gross profit margin increased from 14.0% in the first quarter of 2011 to 18%. EBITDA was a negative €-0.3m over the quarter, compared to a budgeted €-1.1m. In order to complete its plan of consolidating production into three of its six current plants, management intends to invest €3.2m in 2012, which is also needed to fulfil EPH's investment obligations according to Novkabel's privatization agreement signed with the Serbian government. This should free up 22ha of real estate on the outskirts of Novi Sad, Serbia's second largest city. The full effect of the cost savings coming from the production consolidation plan is expected to be seen in 2013.

Bakeries

(EUR '000)	2010A*	2011A**	2012B	1Q11**	1Q12**	1Q12B
Income Statement						
Net Sales	22,111	20,260	19,471	5,782	4,104	4,439
EBITDA	(139)	(438)	882	(48)	(205)	(82)
EBITDA margin	*-0.6%*	*-2.2%*	*4.5%*	*-0.8%*	*-5.0%*	*-1.8%*
Profit after Tax	(2,734)	(1,286)	(1,804)	(570)	(945)	(539)
Net margin	*-12.4%*	*-6.3%*	*-9.3%*	*-9.9%*	*-23.0%*	*-12.1%*

*Note: * audited ** unaudited management accounts*

An 8.7% fall in volumes sold in the first quarter, and higher flour prices resulted in EBITDA for the first quarter coming in at €-0.2m. Klas is in the final stages of shutting down its main production facility in central Belgrade and of relocating its production to a new facility on the outskirts of Belgrade. The relocation should be completed by the end of May. The relocation of the main factory is expected to generate approximately €1.2m of cost savings by the end of the year.

Milling

(EUR '000)	2010A*	2011A**	2012B	1Q11**	1Q12**	1Q12B
Income Statement						
Net Sales	15,066	13,687	13,169	5,948	2,801	2,773
EBITDA	2,412	2,873	1,769	1,587	571	384
EBITDA margin	*16.0%*	*21.0%*	*13.4%*	*26.7%*	*20.4%*	*13.9%*
Profit after Tax	(735)	1,782	757	1,368	314	303
Net margin	*-4.9%*	*13.0%*	*5.7%*	*23.0%*	*11.2%*	*10.9%*

*Note: * audited ** unaudited management accounts*

Zitomlin, EPH's flour mill and grain silo located on the Danube in central Belgrade, continued to outperform during the first three months of 2012. Volumes sold amounted to 11,300 tons, 3.4% above budget, while sales by value were €2.8m, 1.0% above the budget. The increase in flour prices resulted in the gross margin reaching 31.2%, well above the budgeted 25.6%. Consequently, EBITDA came in at €0.6m, nearly 50% above budget.

Policolor Group

Background

RC2 has a 40.0% 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, and a producer of thermo-insulation materials, resins and specialty chemicals. The Group comprises Policolor SA, an unlisted Romanian company, and Orgachim AD, its 77.5% owned Bulgarian subsidiary which is quoted on the Bulgarian Stock Exchange. In order to streamline the organization and sales channels and to create sellable units reflecting the interests of potential strategic buyers, the Policolor Group was reorganized into three business units (from six) in late 2011 by the mergers of the Architectural Paints and Insulation Material divisions; the Auto and Industry divisions; and the Resins and Anhydrides divisions.

Group Financial results

(EUR '000)	2010A*	2011A**	2012B	Q1 2011A**	Q1 2012A**
Income statement (according to IFRS)					
Sales revenues	**67,187**	**73,517**	**71,108**	**12,521**	**10,807**
Other operating revenues	1,737	623	1	162	76
Total operating revenues	**68,924**	**74,140**	**71,110**	**12,683**	**10,883**
Total Operating Expenses	(67,924)	(74,389)	(67,333)	(13,832)	(11,708)
Operating profit	**1,000**	**(249)**	**3,777**	**(1,150)**	**(825)**
EBITDA	**4,209**	**3,162**	**6,733**	**(310)**	**37**
EBITDA margin	*6.1%*	*4.3%*	*9.5%*	*-2.4%*	*0.3%*
Financial Profit/(Loss)	(740)	(1,200)	(785)	(7)	(336)
Other extraordinary items	(1,214)	-	-	-	
Profit before tax	**(953)**	**(1,449)**	**2,992**	**(1,157)**	**(1,161)**
Income tax	(441)	(0)	(388)	6	
Profit after tax	**(1,394)**	**(1,450)**	**2,604**	**(1,151)**	**(1,161)**
Minority interest	(28)	97	45	115	101
Profit for the year	**(1,422)**	**(1,353)**	**2,649**	**(1,036)**	**(1,060)**
Avg exchange rate (RON/EUR)	*4.210*	*4.238*	*4.300*	*4.225*	*4.353*

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

In the first quarter, the Group's consolidated sales fell by 13% compared to the same period of 2011, mainly due to weak architectural sales and the shutdown of resins production, due to a fire which damaged the resins department in early January. A 15% fall in operating costs, mostly due to a 9% year-on-year drop in raw material and personnel costs, helped the Group achieve breakeven EBITDA, compared to an EBITDA loss in the same period the previous year.

Paints and Coatings

As the winter months represent the low season for the sale of coatings in Romania and Bulgaria, the first quarter sales are not necessarily indicative of the performance over the year.

Very poor weather in the first two months of the year were an important factor in a 25% year-on-year drop in the sales of decorative coatings, and a 22% drop in the sales of automotive coatings. In an attempt to address the market's continuing migration towards cheaper products, both the decorative and the auto-refinish and industrial divisions are developing formulations with lower raw material costs, and aim to fully implement these by the summer of 2012.

Chemicals (Resins and Anhydrides)

The chemicals division produces resins and anhydrides. However, a fire damaged the resins facility in early January, resulting in only anhydrides being sold to third parties during the first quarter. These increased by 63% year-on-year, helped by higher demand due to the temporary shutdown of a large regional producer. The Group's management is currently processing Policolor's insurance claim for damage to its resins building and equipment, and for business interruption. It has implemented temporary solutions for the manufacture of resins for its own internal needs, including buying-in resins from third party suppliers, renting a moth-balled facility, and contract manufacturing resins at another producer.

Real Estate

Policolor owns 14ha of land on the eastern periphery of Bucharest, 14 km from the city centre. The plot is well connected to the city's public transport network, with nearby bus, tram and underground stations, and neighbours a retail centre with *Metro, Obi* and *Decathlon* among its tenants. In March, Colliers issued an opinion letter reducing its indicative valuation of the property from €21.9m (or €159/sqm) in February 2011 to €21.0m (or €152/sqm). Policolor has applied to re-zone the land from industrial to commercial use, and is in discussions with various buyers for the sale of the plot.

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 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)	2010A	2011A	2012B	1Q11	1Q12
Combined Group Income Statement					
Total Operating Revenues	**2,702**	**5,401**	**9,107**	**994**	**1,978**
Debt portfolios	1,681	4,452	8,191	766	1,721
Agency contracts	1,021	949	917	228	257
B2C	928	949	917	228	257
B2B	93	-	-	-	-
Total Operating Expenses	**(2,320)**	**(4,209)**	**(6,741)**	**(775)**	**(1,536)**
Amortization of debt portfolios	(510)	(1,562)	(3,170)	(219)	(659)
Other operating expenses	(1,810)	(2,647)	(3,571)	(556)	(878)
Operating Profit	**381**	**1,192**	**2,367**	**219**	**442**
EBITDA	**435**	**1,249**	**2,433**	**232**	**460**
EBITDA margin	*16.1%*	*23.1%*	*26.7%*	*23.3%*	*23.3%*
Financial Profit/(Loss)	13	(143)	(244)	(25)	(73)
Profit before Tax	**394**	**1,050**	**2,123**	**194**	**369**
Income Tax	(2)	(80)	(212)	-	-
Profit after Tax	**392**	**970**	**1,910**	**194**	**369**
Net margin	*14.5%*	*18.0%*	*21.0%*	*19.5%*	*18.6%*
Avg exchange rate (RON/EUR)	*4.210*	*4.238*	*4.308*	*4.225*	*4.353*

Note: IFRS (unaudited, combined accounts)

The Group's first quarter turnover increased twofold year-on-year from €1.0m to almost €2m, with the EBITDA also doubling from €232,000 to €460,000. The debt purchase line accounted for 87% of total operating revenues, with the balance of 13% being generated by agency contracts. Collection from proprietary telecoms portfolios accounted for 65% of the Group's turnover in the first quarter.

Operations

The Group acquired two new telecoms portfolios in the first quarter, consisting of 100,000 cases with a total nominal value of €19m. In February, the Group entered into a one-year framework agreement with a bank whereby the former undertook to sell a portfolio of non-performing loans with certain pre-agreed characteristics (in terms of average size, age and quality) on a monthly basis. As of the end of March, the Group owned fourteen debt packages (eleven telecoms and three banking) made up of 720,000 cases with a total face value of €190m.

The Group has expanded its workforce with 209 persons currently employed, of whom 139 are call centre agents and 11 are field agents.

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 42.7%, with the remaining 31.9% representing the free float. With Albalact's market capitalization increasing by 1.2% over the quarter, RC2's shareholding in Albalact had a market value of €6.8m as at 31 March, compared to €6.7m at the end of 2011.

Financial results

(EUR '000)	2010A*	2011A*	2012B	1Q11**	1Q12**
Standalone Income Statement					
Sales Revenues	**62,058**	**79,814**	**88,941**	**20,180**	**19,840**
Other operating revenues	733	2,267		351	748
Total Operating Revenues	**62,790**	**82,081**	**88,941**	**20,532**	**20,588**
Total Operating Expenses	(61,731)	(79,842)		(20,326)	(19,546)
Operating Profit	**1,060**	**2,238**		**205**	**1,042**
Operating margin	*1.7%*	*2.7%*		*1.0%*	*5.1%*
EBITDA	**4,257**	**5,009**	**6,491**	**979**	**1,735**
EBITDA margin	*6.8%*	*6.1%*	*7.3%*	*4.8%*	*8.4%*
Financial Profit/(Loss)	(780)	(632)		526	(297)
Profit before Tax	**280**	**1,607**	**2,377**	**732**	**745**
Income Tax	(142)	(246)	(380)	(99)	(120)
Profit after Tax	**138**	**1,361**	**1,996**	**633**	**625**
Net margin	*0.2%*	*1.7%*	*2.2%*	*3.1%*	*3.0%*
Avg exchange rate (RON/EUR)	*4.210*	*4.238*	*4.308*	*4.225*	*4.353*

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

Albalact has released its standalone results both for the year ended 31 December 2011 and the first quarter of 2012.

In 2011, Albalact achieved a 29% year-on-year growth in euro-denominated sales, driven by higher prices and volumes. Fresh products (milk, sour cream and yoghurts) were the largest contributor to Albalact's 2011 sales (74%), followed by butter (17%) and cheese (9%). The net gain from the sale of two non-core assets (a dairy farm sold for €4.7m in March 2011 and a 1.6ha plot of land sold for €1.6m in July) is included in Other Operating Revenues. EBITDA increased by 17.7% year-on-year from €4.3m in 2010 to €5m in 2011, whilst the net profit increased from €0.1m in 2010 to €1.4m in 2011.

The Company's first quarter sales remained flat at around €20m year-on-year in euro terms, but the EBITDA increased by 77% , as a result of an improved gross margin, the elimination of non-profitable sales, and a better control of fixed costs.

Operations

In 2011, Albalact processed 87.7m litres of milk, 23.3% higher than in 2010. 37% of the raw milk intake was imported (while 43% of the processed milk was imported in 2010) and the remaining 63% was supplied by Romanian farms.

Prospects

The Company's 2012 budget targets a modest 11% increase in sales revenues from €80m to €89m, and an important growth in the EBITDA margin from 6.1% in 2011 to 7.3% in 2012, resulting in the bottom line growing from €1.4m to €2.0m. This is also driven by a €3m investment in a new fresh cheese production line, which was finalized in May resulting in the launch of a new range of fresh cheese products.

Mamaia Resort Hotels

GOLDEN TULIP

Background

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

Financial results

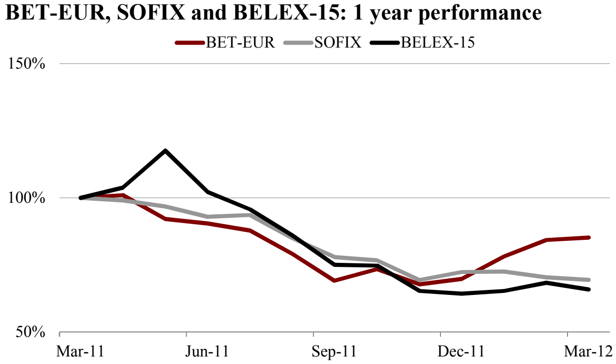
(EUR '000)	2010A*	2011A**	2012B	1Q11**	1Q12**
Income Statement					
Sales Revenues	**1,591**	**1,653**	**2,079**	**30**	**92**
Other operating revenues	232	7		0	0
Total Operating Revenues	**1,823**	**1,660**	**2,079**	**30**	**92**
Total Operating Expenses	(2,111)	(1,544)	(1,790)	(203)	(211)
Operating Profit	**(288)**	**116**	**289**	**(173)**	**(118)**
Operating margin	*neg.*	*7.0%*	*13.9%*	*neg.*	*neg.*
EBITDA	**(61)**	**450**	**554**	**(81)**	**(67)**
EBITDA margin	*neg.*	*27.1%*	*26.7%*	*neg.*	*neg.*
Financial Profit/(Loss)	(135)	(278)	(116)	(12)	(52)
Profit before Tax	**(423)**	**(163)**	**174**	**(185)**	**(171)**
Income Tax	(5)	0	(28)	0	0
Profit after Tax	**(428)**	**(163)**	**146**	**(185)**	**(171)**
Net margin	*neg.*	*neg.*	*7.0%*	*neg.*	*neg.*
Avg exchange rate (RON/EUR)	*4.210*	*4.238*	*4.308*	*4.225*	*4.353*

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

During the first quarter, the Hotel was kept open due to a number of corporate contracts, generating sales of €92,000, whilst the Hotel had been closed in previous years during the first quarter which represents the peak of the low season.

Capital Market Developments

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



Commentary

Over the first quarter, the Romanian BET and Serbian BELEX-15 indices increased by 22.1% and 2.4%, respectively, whilst the Bulgarian SOFIX index lost 4.1%, all in euro terms.

Over the last twelve months, the Romanian market (BET-EUR) fell by 14.8%, while the SOFIX and BELEX-15 indices fell by 30.6% and 34.2%, respectively. By comparison, over the same period, the MSCI Emerging Market index was down 5.3%, the MSCI Emerging Market Eastern Europe index lost 16.0%, whilst the FTSE100 and S&P indices gained 3.4% and 13.1%, respectively.

Macroeconomic Overview

Overview

	RO	as of:	BG	as of:	SRB	as of:
GDP Growth (y-o-y)	2.5%	FY11	1.7%	FY11	1.6%	FY11
Inflation (y-o-y)	1.8%	4M12	1.7%	3M12	3.2%	3M12
Ind. prod. growth (y-o-y)	0.5%	Mar-12	-3.2%	Mar-12	-2.7%	Mar-12
Trade balance (EUR bn)	-1.7	3M12	-0.5	2M12	1.0	2M12
y-o-y	*12.1%*		*731.7%*		*24.8%*	
FDI (EUR bn)	0.3	3M12	0.1	2M12	-0.4	2M12
y-o-y change	*-22.2%*		*-74.6%*		*n.a.*	
Total external debt/GDP	69.2%	Feb-12	88.1%	Feb-12	74.5%	Feb-12
Reserves to short-term debt	148.5%	Feb-12	129.4%	Feb-12	1886.8%	Feb-12
Loans-to-deposits	118.3%	Mar-12	98.2%	Mar-12	130.2%	Nov-11
Public sector debt-to-GDP	33.4%	Feb-12	14.9%	Feb-12	44.3%	Nov-11

Commentary

Romania

A joint IMF and EU mission, which visited Romania at the end of April for a regular review of the economy, adjusted their 2012 economic growth projection for Romania from 2% to 1.5%, given the weak situation in the euro area. The growth prospects for Romania remain better than the 0% growth projected for the EU as a whole this year.

Inflation continued its downward trend with Romania's CPI falling from 3.1% at the end of December to 1.8%at the end of April. The first quarter trade deficit increased by 12.1% compared to the same period of the previous year (from €1.5bn to €1.7bn), with exports to EU countries flat at €8bn. The increasing trade deficit resulted in a current account deficit throughout January and February equal to 0.5% of GDP, with the overall 2012 deficit expected by the IMF to come in at under 5% of GDP. FDI flows were €0.3bn, down 22% year-on-year, and covered 38% of the current account deficit.

Over the first quarter, the budget deficit came in at 0.6% of GDP. At the end of March, investment expenditures of €1.7bn were up 43% year-on-year, and accounted for 15% of the budget. Since the new Government, which took office in early May 2012, intends to partially reverse the 2010 public sector wages cuts, thereby increasing public sector wages by 8%, it has agreed a 2012 budget deficit of 2.2% of GDP with the IMF. Romania's total external debt position was €98bn at the end of February, slightly down (-0.4%) year-on-year. The public sector debt was €46.5bn at the end of February, up 4% year-to-date but still relatively low at 33% of

GDP. The National Bank of Romania's foreign reserves (excluding gold) amounted to €33.4bn at the end of February, or a safe 1.5 times the short-term external debt level (€22.5bn).

Total domestic non-governmental credit (which excludes loans to financial institutions) amounted to €51.2bn at the end of March, up 0.8% year-to-date in euro terms. The Romanian banking system's total loans-to-deposits ratio was 118% at the end of the first quarter. Overdue loans accounted for 10% of the total loan stock (compared to 9.5% at the end of 2011).

Bulgaria

The IMF has revised downwards its projection for Bulgaria's GDP growth in 2012 from 1.3% to 0.8%, based on slowing economic prospects in the EU and low domestic consumption. Bulgaria's industrial production continued to fall, being down 3.2% year-on-year in February.

Bulgaria's CPI rate was 1.7% year-on-year in March, down from 2% at the end of 2011. Over January-February, Bulgaria's current account deficit was €0.4bn, or 1% of GDP, compared to a surplus of 0.03% in the same period of 2011. The weakening of the current account balance was the result of a negative development in the trade balance which moved from a deficit of €56m over January-February 2011 to a deficit of €0.5bn over the same period this year. Exports fell by 6.1% year-on-year while imports increased by 7.1% year-on-year. FDI inflows were low at €85m over the period, down from €333m over the same period in 2011.

Bulgaria's budget deficit was 0.9% of GDP over the first quarter, a 7% year-on-year improvement. The 2012 state budget provides for a budget deficit of 1.3% of GDP. Bulgaria's public sector debt was 14.9% of GDP at the end of February, down from 15.5% at the end of 2011. The Bulgarian Government objective is to keep the public debt under 18.7% of GDP in 2012. Of the total public debt, 28% is leva-denominated and 55% is euro-denominated, with the balance of 17% being in various other foreign currencies. The country's reserves-to-short-term-debt ratio was 129% at the end of February 2012, providing a good level of support for the stability of the currency board regime.

The Bulgarian banking system's total loans-to-deposits ratio of 98% at the end of March was basically flat since the beginning of the year. Whilst loans to non-financial institutions were flat year-to-date at €26.6bn, the deposit base increased slightly by 0.5% (from €27bn at the end of 2011 to €27.1bn). Corporate lending increased by 5.7% year-on-year, while consumer loans decreased by 1.3%. Overdue loans accounted for 23.4% of total loans at the end of December, up from 21.9% at the end of 2011.

Serbia

Serbia experienced 1.6% year-on-year GDP growth in 2011. After growing by 2.5% year-on-year in the first half of the year, Serbian GDP recorded two consecutive falls in the third and fourth quarters,of-0.7% and -0.3% quarter-on-quarter, respectively. The sharp slowdown in economic activity in Serbia in the second half of 2011 reflects the deterioration of demand in Germany and in Europe in general. The freezing of an IMF deal in January 2012, following a delay in the adoption of the revised Budget Law in early 2012, and the bad weather conditions in February are expected to have negatively affected GDP growth in the first quarter of 2012. The weak trend is expected to spill over into the second quarter, as investors wait for the results of the presidential and parliamentary elections, scheduled for May.

During the first quarter, industrial production fell by 3.2% year-on-year. The withdrawal of US Steel from the market, coupled with extremely bad weather conditions when a number of production facilities were shut down for a week or two to save energy and prevent a power grid collapse, resulted in a 12.8% month-on-month decrease in industrial output in February. However, there was a recovery in March, with industrial production growing by 12.2% year-on-year.

The CPI averaged 11.2% in 2011, and eased to 7% in December. The disinflation trend of 2011 has continued in the first quarter of 2012, in line with National Bank of Serbia's expectations: the year-on-year inflation rate dropped from 5.6% in January to 4.9% in February and 3.2% in March.

Negative FDI of €0.4bn was mainly the result of the withdrawal of €300m from the banking sector, after the National Bank of Serbia decreased the required mandatory reserves in January. However, important investments in the retail sector have recently been announced: IKEA is to open its first Serbian store by the end of 2013, and aims to open five outlets in total, creating 400 jobs, while Lidl recently announced its arrival in Serbia in 2013. In early 2012, Comico Oil announced the construction of a $250m oil refinery in Smederevo, 40km east of Belgrade. An additional €220m of investments is expected from the modernization of the Kostolac power plant, while a further €300m investment in motorway construction in the western part of Serbia was announced in February 2012.

Over the first two months of 2012, a substantial fall in exports (-9.9% year-on-year), also caused by economic difficulties in Italy, coupled with a rise in imports (+4.5% year-on-year), resulted in a widening of the trade deficit to €1.0bn in February, a 24.8% year-on-year increase.

In early March, the European Council decided to grant Serbia EU candidate status, as a result of Serbia recently making a series of concessions on Kosovo, which has been a major stumbling block.

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.