

Description

Reconstruction Capital II ("RC2") is a closed-ended, absolute return driven investment fund, incorporated in the Cayman Islands. The fund invests in Private Equity & Listed Securities in South-East Europe. RC2 was admitted to the AIM market of the London Stock Exchange in December 2005 raising €24m initially, with two follow-on offerings in May-06 and Dec-07 raising a further €40m and €71m net of expenses respectively. New Europe Capital Ltd (London) is the investment manager to RC2. New Europe Capital SRL (Bucharest) and New Europe Capital DOO (Belgrade) are the investment advisers to RC2.

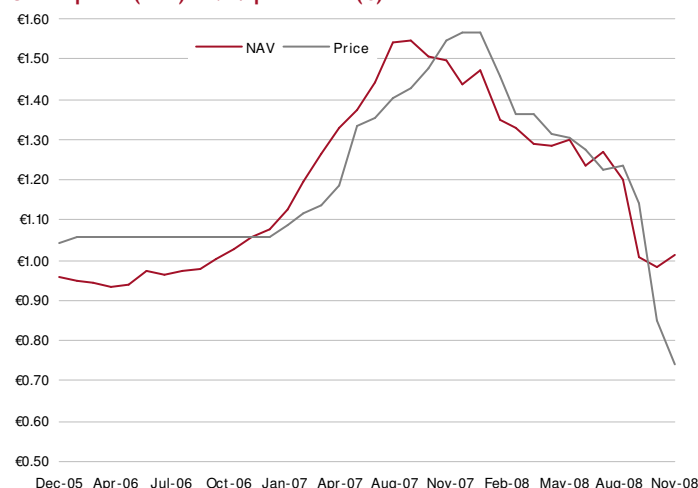
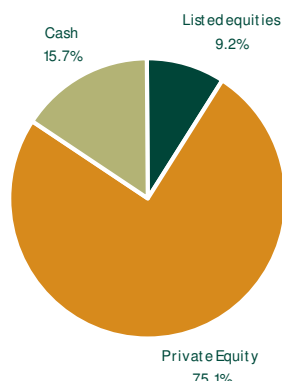
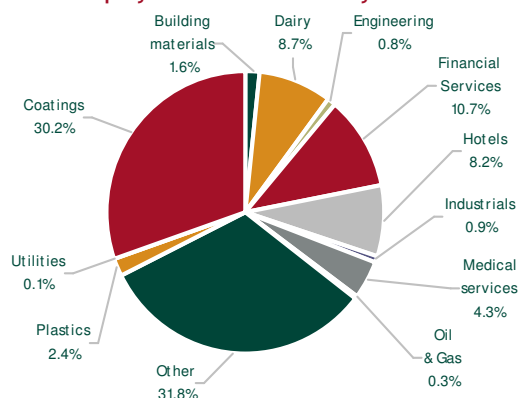
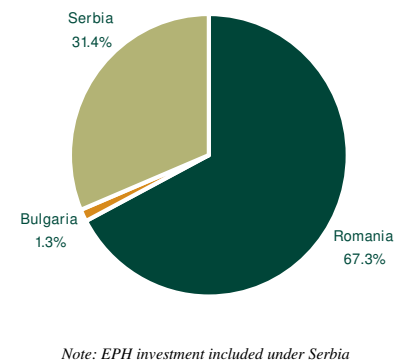
**Statistics**

NAV per share (€)	1.0147
Share price (€)	0.7400
Total NAV (€ m)	114.3
Mk Cap (€ m)	83.4
# of shares (m)	112.7
Return since inception	6.08%
12-month CAGR	-29.32%
Annualized Return*	2.05%
Annualized Volatility*	14.62%
Best month	6.93%
Worst month	-10.52%
# of months up	20
# of months down	15

* since inception

RC2 NAV returns

	2006	2007	2008
Jan	-0.61%	4.70%	-8.27%
Feb	-0.73%	6.17%	-1.48%
Mar	-0.87%	5.90%	-3.03%
Apr	0.44%	5.05%	-0.26%
May	3.73%	3.08%	0.93%
Jun	-1.25%	5.19%	-4.75%
Jul	1.23%	6.93%	2.85%
Aug	0.61%	0.22%	-5.55%
Sep	2.18%	-2.50%	-8.34%
Oct	2.74%	-0.69%	-10.52%
Nov	2.80%	-4.09%	3.03%
Dec	1.70%	2.46%	-
YTD	12.47%	36.74%	-31.02%

Share price (mid) / NAV per share (€)**Portfolio Structure by Asset Class****Equity Portfolio Structure by Sector****Portfolio Structure by Geography****Investment Update**

- RC2 continued purchasing shares in Albalact, increasing its stake in the dairy producer from 23.5% at the end of October to 23.9%.
- In the first nine months of the year, Albalact reported sales of €36.8m, a 20% year-on-year increase in RON terms, corresponding to an 8.7% increase in € terms. The company has initiated a cost control process focused on personnel, administrative and logistics costs, using a new ERP system which started functioning in August. Good September sales of €4.7m (up 20% month-on-month) and a 10.7% quarter-on-quarter drop in operating expenses led to an operating profit of €0.3m in the third quarter, up from € 0.1m the previous one.
- In November, Klas, the bakery business of East Point Holdings ("EPH"), increased its stake in Zitopek Nis (the largest industrial bakery in southern Serbia) from 21% to 25%. Zitopek includes a retail network of 51 shops in southern Serbia and provides the group with a platform to become a national player in bakery products.

Commentary

- The 30th November Romanian parliamentary elections produced an inconclusive result with the Democrat Liberals ("PDL"), closely linked to President Basescu, and the Social Democrat Party ("PSD") both securing about a third of the vote. The ruling National Liberals ("PNL") polled only 19%. The PDL and the PSD are in talks to form a governing coalition.
- In 3Q08, Romania's economy expanded by 9.1% year-on-year, much faster than expected. Over 9M08, GDP grew by 8.9% year-on-year, primarily driven by high growth in the agriculture and construction sectors, which were up 23.4% and 31.1%, respectively. With consumption expected to contract sharply in 2009, the EBRD is expecting GDP growth to slow down to 3%, while the IMF has cut its projection from 4.8% to 3.5%.
- Plunging oil prices led to a November inflation rate of 6.7% in Romania, down from 7.4% in October, while Bulgarian CPI was 9.1% in November, down from 10.9% the previous month.

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