

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.



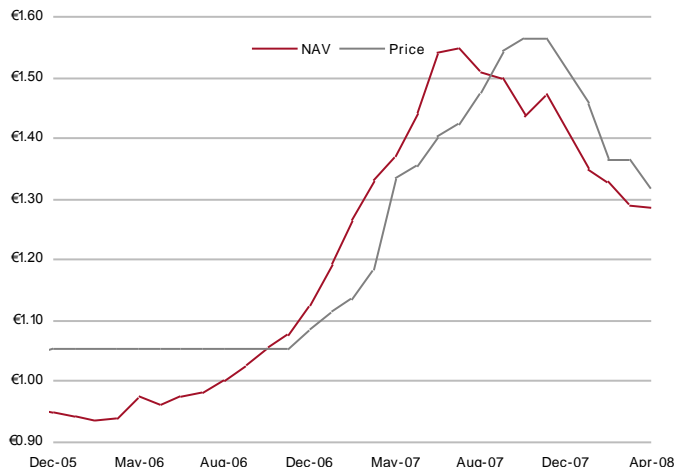
Statistics

NAV per share (€)	1.2857
Share price (€)	1.3150
Total NAV (€ m)	144.9
Mk Cap (€ m)	148.2
# of shares (m)	112.7
Return since inception	34.42%
12-month CAGR	1.52%
Annualized Return*	13.51%
Annualized Volatility	11.96%
Best month	6.93%
Worst month	-8.27%
# of months up	17
# of months down	11
* since inception	

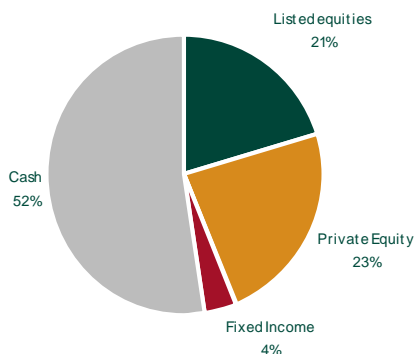
RC2 NAV returns

	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%	-
Jun	-1.25%	5.19%	-
Jul	1.23%	6.93%	-
Aug	0.61%	0.22%	-
Sep	2.18%	-2.50%	-
Oct	2.74%	-0.69%	-
Nov	2.80%	-4.09%	-
Dec	1.70%	2.46%	-
YTD	12.47%	36.74%	-12.60%

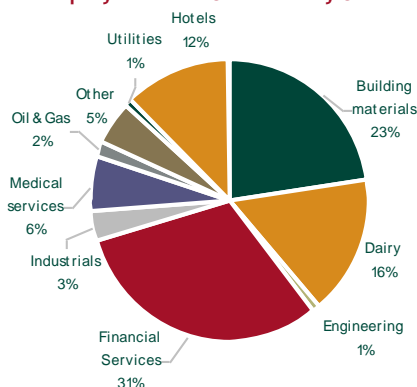
Share price / NAV per share (€)



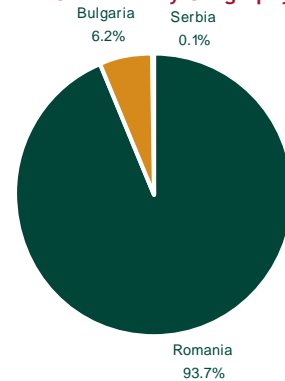
Portfolio Structure by Asset Class



Equity Portfolio Structure by Sector



Portfolio Structure by Geography



Investment Update

- In April, RC2 completed the sale of its 36.5% share of a 7,671 sqm plot of land in central Bucharest. The land was originally acquired by RC2 over October - December 2007 for EUR 3.6m and sold for EUR 7m. The net proceeds to RC2, after taking account a profit sharing scheme with its development partner, amounted to EUR 5.6m, or 1.6 times cost.
- Policolor announced its 1Q08 unconsolidated results: compared to the first quarter of 2007 sales were unchanged at EUR 9.6m, but EBITDA was up 8.6% to EUR 0.6m. Financial expenses, including higher depreciation charges, resulted in a loss of EUR 0.4m for the quarter. The first quarter results are not a good indication of the company's underlying performance because of the seasonality of its sales, and the impact of bad weather which slows down the construction industry over the winter months.
- RC2 has started negotiations to franchise its recently acquired Fantasy Beach Hotel with the Golden Tulip Hotels, Inns & Resorts chain

Investment Update (cont'd)

- We expect the franchise agreement to be signed by the end of May and to be implemented in mid-June.

Commentary

- April brought encouraging recovery signs for the Bucharest Stock Exchange, as the EUR-denominated index (BET-EUR) gained 2.9% over the month. Also, for the first time since the beginning of the year, foreign investors were net buyers of Romanian stocks (+EUR 8.8m).
- In May, the new mandatory private pension system was kick-started in Romania, with EUR 270m estimated to enter the system this year. Given the legal provisions which allow up to 30% of the funds to be invested in the stock market, this should help the development of the local market over the next few years, providing a much needed local institutional element.
- The National Bank of Romania has decided to raise its key interest rate by 25bps to 9.75% making this its fifth consecutive hike since October 2007, the main goal being to ease inflationary pressures.

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