Reconstruction Capital II Ltd

("RC2" or the "Fund")

Quarterly Report

31 March 2018

New Europe Capital SRL
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Statistics

NAV per share (€)	0.2491
Total NAV (€ m)	36.1
Share price (€)	0.1900
Mk Cap (€ m)	27.5
# of shares (m)	144.9
NAV/share since inception†	-50.33%
12-month NAV/share perfomance	-4.30%

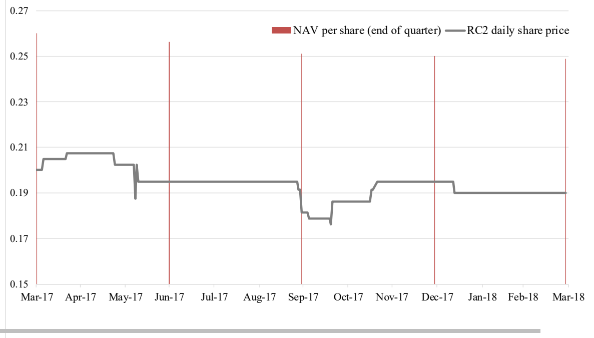
† assumes pro-rata participation in the 2008 share buy-back and the 2017 return of capital
Note: € 17m returned to shareholders in 2017

RC2 Quarterly NAV returns

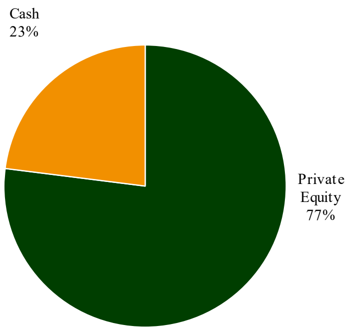
	2015	2016	2017	2018
1Q	-1.11%	8.62%	-29.08%	-0.51%
2Q	3.68%	3.79%	-1.55%	
3Q	2.67%	-0.33%	-1.99%	
4Q	-5.90%	-12.57%	-0.32%	
YTI	-0.94%	-1.75%	-31.79% *	-0.51%

** € 17m returned to shareholders in 2017*

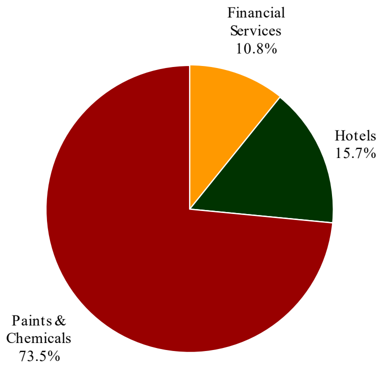
Share price / NAV per share (€)



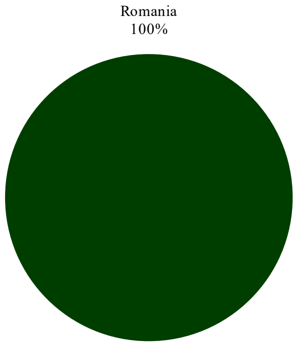
Portfolio Structure by Asset Class



Equity Portfolio Structure by Sector



Portfolio Structure by Geography



Message from the Adviser

Dear Shareholders

During the first quarter, RC2's total NAV fell by € 0.2m, and its NAV per share fell by 0.5% from € 0.2504 to € 0.2491.

The Policolor Group had a slow start to the year with both first quarter sales and EBITDA below budget, primarily due to a return of harsh winter conditions in March, which reversed a positive trend over January and February, when the Group had performed above budget.

Mamaia Resort Hotels' results were slightly above budget over the first quarter, but its operations are negligible over the winter months, and the result is not particularly significant.

Telecredit granted fewer loans than budgeted over the first quarter, due to heightened competition from other non-banking financial institutions, as well as from banks, which have become more aggressive in providing retail loans to individuals. Furthermore, the entire lending industry is under threat from new legislation which is being debated in the Romanian Parliament, which would cap the interest charged on loans to individuals. The legislation endangers Telecredit's business model, but it is still not clear whether, and in what form, it will pass.

At the end of the quarter, RC2 had cash and cash equivalents of approximately € 8.4m and short-term liabilities of € 0.3m.

At a general meeting held on 21 February 2018, RC2's shareholders approved the acquisition of two shareholdings which increase its direct and indirect ownership in Policolor from 40% to 55.36%. The cost of the two acquisitions is € 3.3m. None of the two acquisitions were finalized by the end of the quarter, so they should impact RC2's cash balances in the second quarter of 2018.

At the same shareholder meeting, RC2's investment objective was changed so that it now aims to achieve capital appreciation and/or to generate investment income returns through the acquisition of real estate assets in Romania, including the development of such assets, and/or the acquisition of significant or controlling stakes in companies established in, or operating predominantly in Romania, primarily in the real estate sector. Any new private equity investments in companies operating in sectors other than real estate would be limited to 25% of RC2's total assets at the time of effecting the investment. However, RC2 may continue to make follow-on investments in existing portfolio companies without any such limitation.

The same shareholder meeting decided that the next continuation vote will be held in 2023.

Yours truly,

New Europe Capital

Policolor Group

Background

RC2 has a 40.0% shareholding in Policolor, the parent company of the Policolor Group ("Policolor" or the "Group"), which operates along the following business lines: coatings (architectural, automotive and industrial), resins and specialty chemicals. The Romanian company Policolor SA and its 100%-owned Bulgarian subsidiary Orgachim AD form the largest producer of coatings in Romania and Bulgaria. The Group also includes Orgachim Resins, the leading supplier of resins in South East Europe, and Ruse Chemicals, a producer of anhydrides. All the Group companies are unlisted.

Group Financial results and operations

(EUR '000)	2016*	2017**	2018B	3M 2017**	3M 2018**	3M 2018B
Group Consolidated Income statement						
Sales revenues	**58,722**	**64,992**	**72,254**	**12,513**	**12,103**	**13,226**
sales growth year-on-year	*3.1%*	*10.7%*	*11.2%*	*7.9%*	*-3.3%*	*5.7%*
Other operating revenues	160	209		70	20	144
Total operating revenues	**58,882**	**65,201**	**72,254**	**12,583**	**12,123**	**13,371**
Gross margin	20,577	22,031	23,711	3,986	3,426	4,250
Gross margin %	*34.9%*	*33.8%*	*32.8%*	*31.7%*	*28.3%*	*31.8%*
Total operating expenses	**(60,923)**	**(65,492)**	**(70,308)**	**(13,617)**	**(13,194)**	**(14,288)**
Operating profit	**(2,041)**	**(291)**	**1,946**	**(1,035)**	**(1,071)**	**(917)**
Operating margin	*-3.5%*	*-0.4%*	*2.7%*	*-8.2%*	*-8.8%*	*-6.9%*
EBITDA	**1,219**	**2,815**	**4,745**	**(191)**	**(418)**	**(281)**
EBITDA margin	*2.1%*	*4.3%*	*6.6%*	*-1.5%*	*-3.4%*	*-2.1%*
Net extraordinary result - land sale	(668)	4,689	(424)	(127)	(164)	(95)
Orgachim squeeze out revenues		555	-			
Financial Profit/(Loss)	(1,023)	(1,825)	(1,077)	(331)	(418)	(327)
Profit before tax	**(3,732)**	**3,128**	**445**	**(1,493)**	**(1,653)**	**(1,339)**
Income tax	(279)	(719)	(217)	-	-	-
Profit after tax	**(4,011)**	**2,409**	**228**	**(1,493)**	**(1,653)**	**(1,339)**
avg exchange rate (RON/EUR)	*4.49*	*4.57*	*4.65*	*4.52*	*4.66*	*4.65*

*Note: * IFRS audited, ** IFRS unaudited*

The first quarter sales were badly affected by the return of harsh weather conditions in March, which is typically the start of the spring coatings season in Romania and Bulgaria and therefore the most important month of the quarter. Overall, group sales of € 12.1m were 8.5% below budget due to weaker coatings sales which came in 19% below budget, whilst sales of resins and chemicals were 14.4% above budget. Due to the low coatings sales during the winter season, the Group generated a recurring EBITDA loss (net of revenues and expenses allocated to the real estate division) of € -0.4m, which is slightly higher than the budgeted loss of € -0.3m, and the € -0.2m loss generated over the same quarter last year

Policolor has fine-tuned its plans for the construction of a new production facility and warehouse in Bucharest, and aims to start construction by the summer of 2018, in order to relocate production from its existing Bucharest plant, which it has to vacate by the summer of 2019 in order to comply with the timetable of its land sale. The total capex on its new Bucharest plant is expected to amount to € 5.4m, including the cost of the land already purchased for € 1.6m.

Mamaia Resort Hotels

Background

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

Financial results and operations

(EUR '000)	2016*	2017**	2018B	3M 2017**	3M 2018**	3M 2018B
Income Statement						
Total Operating Revenues	**2,337**	**2,524**	**2,759**	**59**	**74**	**73**
Total Operating Expenses	(2,200)	(2,258)	(2,222)	(294)	(321)	(350)
Operating Profit	**137**	**267**	**537**	**(235)**	**(247)**	**(277)**
Operating margin	*5.9%*	*10.6%*	*19.5%*	*neg.*	*neg.*	*neg.*
EBITDA	**353**	**438**	**710**	**(192)**	**(209)**	**(234)**
EBITDA margin	*15.1%*	*17.4%*	*25.7%*	*neg.*	*neg.*	*neg.*
Profit after Tax	**40**	**180**	**364**	**(255)**	**(262)**	**(306)**
Net margin	*1.7%*	*7.1%*	*13.2%*	*neg.*	*neg.*	*neg.*
Avg exchange rate (RON/EUR)	*4.49*	*4.57*	*4.65*	*4.52*	*4.66*	*4.65*

*Note: *RAS (audited), **RAS (management accounts)*

The first quarter revenues, negligible at € 0.07m due to the seasonality of the hotel, were on budget, while the EBITDA loss of € -0.2m was slightly better than budgeted.

Management continues to feel pressure from Airbnb-type short-term holiday lets, with more potential clients preferring to rent apartments in the north of Mamaia, where a large number of apartment blocks have been developed over the past few years.

Telecredit

Background

RC2's wholly-owned subsidiary Glasro Holdings Ltd owns an 80% shareholding in Telecredit IFN S.A. ("Telecredit" or the "Company"), a Romanian non-banking financial institution that provides consumer loans to individuals. The balance of 20% is owned by RC2's former partner in Top Factoring and his family.

Financial Results and operations

EUR'000	2016*	2017**	2018B	3M 2017**	3M 2018**	3M 2018B
Income Statement						
Total interest revenues:	**1,020**	**1,617**	**1,785**	**382**	**434**	**461**
"regular" interest	814	1,219	1,137	314	279	294
penalty interest	175	397	648	68	154	167
fixed fees	31	0		0	0	
Total operating expenses	**(550)**	**(1,025)**	**(1,086)**	**(272)**	**(253)**	**(269)**
Operating profit (before depreciation)	**220**	**158**	**311**	**24**	**(2)**	**64**
Depreciation	(9)	(19)	(24)	(4)	(5)	(5)
Operating profit (after depreciation)	**211**	**139**	**286**	**19**	**(7)**	**59**
Operating profit (after depreciation) marg	*20.6%*	*8.6%*	*8.6%*	*5.0%*	*-1.7%*	*12.8%*
Financial result	(4)	(0)		(1)	(0)	
Profit before tax	207	139		18	(8)	
Profit after tax	**175**	**114**		**10**	**(14)**	
Net Operating Cash Flow	**(155)**	**98**	**(23)**	**(47)**	**(25)**	**(15)**
Avg exchange rate (RON/EUR)	*4.491*	*4.568*	*4.650*	*4.521*	*4.655*	*4.650*

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

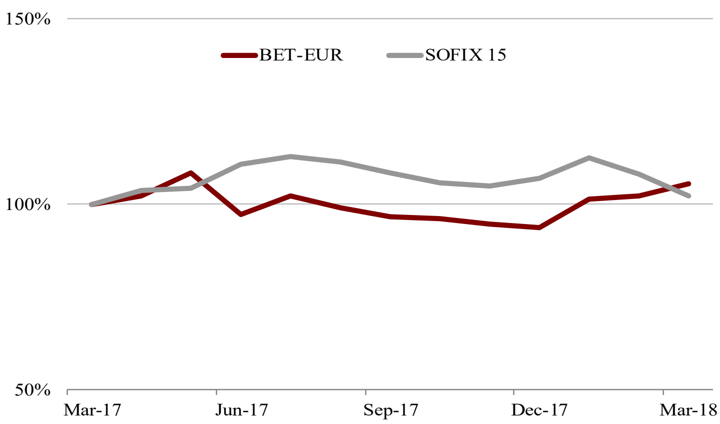
In the first quarter, Telecredit generated interest revenues of € 0.4m, 6% below budget, due to a lower number of loans granted than expected. Overall, the Company granted 6,700 loans with a total value of € 1.2m over the quarter, which is 4% below budget. Of the 6,700 loans granted, 32% were rollovers, 53% were to recurring clients (who had already taken a loan at some point in time), and the balance of 15% represents new clients.

Including depreciation, Telecredit made a marginal operating loss of € -7,000 in the first quarter, compared to a budgeted profit of € 59,000, mainly due to increased provisions, as the Company had underestimated the provisions for unpaid penalty interest.

The Romanian Parliament is considering introducing legislation to cap the effective annual interest rate charged by Romanian financial institutions, which would threaten Telecredit's business model. The National Bank of Romania has publicly opposed the proposed legislation, and it is still unclear whether, and in what form, the legislation would be passed.

Capital Market Developments

BET-EUR and SOFIX-15: 1 year performance



Commentary

During the first quarter, the Romanian BET index gained 12.7% whilst the Bulgarian SOFIX 15 index fell by 4.2%, both in euro terms. Over the same quarter, the MSCI Emerging Market Eastern Europe index increased by 1.5%, whilst the MSCI Emerging Market, the FTSE100 and the S&P indices were down by 1.4%, 6.9% and 3.4%, respectively, all in euro terms.

Over the past year, the BET-EUR and SOFIX 15 indices were up by 5.6% and 2.4%, respectively, in euro terms. By comparison, the MSCI Emerging Market Eastern Europe and the MSCI Emerging Market indices gained 1.8% and 6%, respectively, while the FTSE100 and S&P indices lost 6.3%, and 2.7%, respectively, all in euro terms.

Macroeconomic Overview

Overview

	RO	as of:	BG	as of:
GDP Growth (y-o-y)	6.9%	FY17	3.6%	FY17
Inflation (y-o-y)	5.0%	Mar-18	2.2%	Mar-18
Ind. prod. growth (y-o-y)	5.8%	Feb-18	-1.0%	Feb-18
Trade balance (EUR bn)	-1.7	2M18	-0.6	2M18
y-o-y	*31.6%*		*135.6%*	
FDI (EUR bn)	0.8	2M18	0.2	2M18
y-o-y change	*-3.2%*		*-42.0%*	
Budget balance/GDP	-0.5%	3M18	0.6%	3M18
Total external debt/GDP	47.8%	Feb-18	61.8%	Feb-18
Public sector debt/GDP	40.1%	Feb-18	22.7%	Mar-18
Loans-to-deposits	77.9%	Mar-18	73.7%	Mar-18

Commentary

Romania

The 2017 annual GDP growth rate was marginally revised downward to 6.9%, from the previously reported 7%. GDP data for the first quarter of 2018 is not yet available. In its recently published World Economic Outlook, the IMF sees Romania's GDP increasing by 5.1% over 2018.

The inflation rate reached 5% in March 2018, the highest rate of the past five years. The increase in consumer prices is the effect of increasing domestic demand and higher energy prices.

The Romanian leu was virtually unchanged against the euro over the first quarter of 2018, but the exchange rate suffered from heightened volatility in January when the acting prime minister was forced to resign after only six months in office due to a conflict with the president of the ruling Social Democratic Party (PSD).

Romania's fiscal situation has worsened, with the country posting a budget deficit of € -1bn in the first quarter of 2018, equivalent to -0.5% of GDP, compared to a 0.2% surplus over the same quarter in 2017. Whilst budgetary receipts increased by 11.5% year-on-year, triggered by higher social contribution collections, corporate income tax revenues fell by 3.3%, and budgetary expenses increased by 22.1%, mainly due to higher personnel and social expenditures triggered by the recent public wage increases. Infrastructure and public investments increased from € 0.2bn to € 0.6bn due to higher military spending.

As consumption continues to increase, the trade gap widened by 31.6% year-on-year in the first two months of 2018 (from € -1.3bn to € -1.7bn), as imports grew by 13.9% while exports increased by 11.6%. The negative evolution of the trade balance was the main reason behind the € -0.2bn current account deficit, which is the equivalent of 0.1% of GDP and compares to a € -0.07bn deficit over the same period of 2017. FDI flows amounted to € 0.8bn, virtually flat year-on-year, of which € 0.6bn were equity investments, whilst net intra-group loans amounted to € 0.2bn. Romania's total external debt was € 95bn at the end of February, which represents a 1.7% year-to-date increase and amounts to approximately 48% of Romania's 2018 estimated GDP of € 199bn. Total public debt was € 80.2bn, or 40% of GDP, at the end of February, up 1.2% year-to-date in RON terms. In February, Romania successfully placed an € 0.8bn 12-year eurobond at a yield of 2.585%, and a € 1.3bn 20-year eurobond at a yield of 3.45%.

Total domestic non-governmental credit (which excludes loans to financial institutions) was € 50.8bn at the end of March, up 1.9% year-to-date in RON terms. Household loans increased by 2.5% year-to-date and accounted for 52.8% of the total loan stock at the end of 2017, slightly higher than the 52.4% recorded at the end of 2017. The main trigger for the increase in household lending was higher consumer loans which account for 44% of household loans and grew by 3% year-on-year in RON terms. Corporate loans increased by 1.4% year-to-date and accounted for 45% of the total loan stock. The overall deposit base has increased by 0.3% in RON terms since the end of December, and amounted to € 65.2bn at the end of March. The NPL ratio was 6.2% at the end of February, slightly down from the 6.4% recorded at the end of 2017.

Bulgaria

Following a recent assessment of the Bulgarian economy, the IMF sees Bulgaria's GDP growing by 3.8% in 2018, driven by stronger exports, looser financing conditions and growing confidence. Bulgaria's inflation rate fell to 2.2% in March, from 2.8% in December 2017.

Over the first quarter of 2018, Bulgaria achieved a budget surplus of € 0.3bn, or 0.6% of GDP, compared to a 1.1% surplus over the same period last year. Tax proceeds, including revenues from social security contributions, increased by 4.3% year-on-year, whilst total budgetary expenses increased by 10%, mainly due to the July and October 2017 two-step increase in the minimum pension. Bulgaria's public sector debt fell by 4.2% year-to-date, from € 12.7bn to € 12.1bn, and amounted to 22.7% of GDP at the end of March, down from 24.9% at the end of December 2017. Gross external debt amounted to 61.8% of GDP at the end od February, down from 66.1% at the end of 2017.

Bulgaria's trade deficit doubled from € 0.3bn over the first two months of 2017 to a € 0.6bn deficit over the same period in 2018. While exports grew by 14.5% (from € 3.8bn to € 4bn), the 13.5% year-on-year increase in imports from € 4.1bn to € 4.6bn negatively influenced the trade balance. Helped by a € 0.4bn surplus from secondary incomes and a € 0.2bn surplus from services, the current account balance was € 0.06bn in surplus over the first two months, which is nevertheless significantly lower than the € 0.2bn surplus achieved over the same period of 2017. FDI inflows amounted to € 0.2bn, 42% lower than the same period of 2017. Both equity investments and intra-group loans fell by € 0.06bn and € 0.09bn, respectively.

Total domestic non-governmental credit (which excludes loans to financial institutions) increased from € 25.9bn to € 26.3bn over the first quarter. Total corporate and household loans increased by 1.2% and 1.8%, respectively. The deposit base was € 35.7bn at the end of March, virtually unchanged year-to-date.

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