Reconstruction Capital II Ltd

("RC2" or the "Fund")

Quarterly Report

30 June 2018

New Europe Capital SRL
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Statistics

NAV per share (€)	0.2463
Total NAV (€ m)	35.7
Share price (€)	0.1900
Mk Cap (€ m)	27.5
# of shares (m)	144.9
NAV/share since inception†	-50.62%
12-month NAV/share perfomance	-3.88%

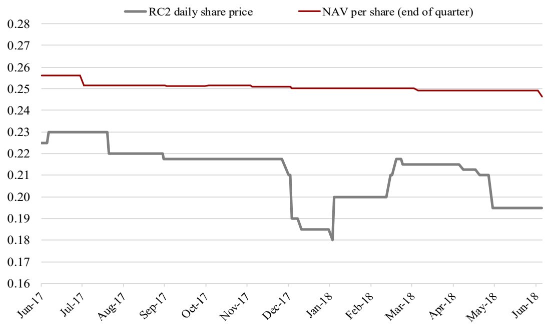
† assumes pro-rata participation in the 2008 share buy-back and the 2017 return of capital

RC2 Quarterly NAV returns

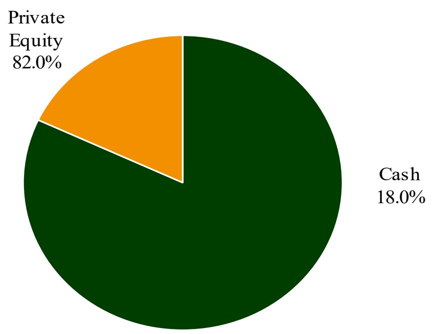
	2015	2016	2017	2018
1Q	-1.11%	8.62%	-29.08%*	-0.51%
2Q	3.68%	3.79%	-1.55%	-1.11%
3Q	2.67%	-0.33%	-1.99%	
4Q	-5.90%	-12.57%	-0.32%	
YTD	-0.94%	-1.75%	-31.79%	-1.61%

** € 17m returned to shareholders in 1Q 2017*

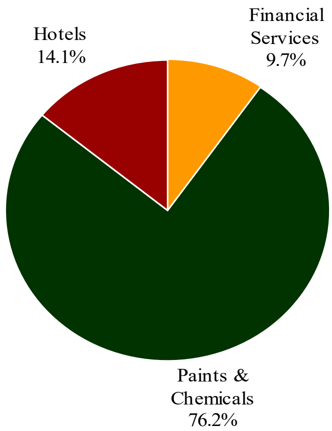
Share price / NAV per share (€)



Portfolio Structure by Asset Class



Equity Portfolio Structure by Sector



Message from the Adviser

Dear Shareholders

During the second quarter, RC2's total NAV fell by € 0.4m, and its NAV per share fell by 1.1% from € 0.2491 to € 0.2463.

Over the quarter, RC2 acquired a 22% shareholding in Reconstruction Capital Plc ("RC") and a 10% shareholding in The Romanian Investment Fund Ltd ("RIF"). RC and RIF are two Romanian-focussed investment funds whose main underlying asset is a 60% shareholding in Policolor, in which RC2 already owns the balance of 40%. Following the acquisition, RC2 now has a further 15.36% indirect shareholding in Policolor. The total investment in RC and RIF, which amounts to € 3.3m, is categorized as Paints & Chemicals in the above Equity Portfolio Structure by Sector chart. To date, only part of the acquisition has settled as the vendors still have to resolve certain technical issues to enable the settlement to take place.

In May, Policolor and the buyers of its main site in Bucharest agreed to bring forward the sale of 4.4 out of its remaining 7.6 hectares from 2019 to 2018. The land being sold in 2018 has been divided into three plots, with the first plot having been sold in May, generating cash proceeds of € 1.4m. A second plot was sold in July, generating proceeds of € 1.5m, and a further 2.2ha is due to be sold in the autumn, generating cash proceeds of € 3m. In May, Policolor also signed the contract for the construction of its new Bucharest plant, which is due to be completed in the spring of 2019, and to become operational in the summer of that year.

Meanwhile, the Policolor Group's half year operating revenues were marginally above the same period last year, whilst the Group's recurring EBITDA fell by 11%.

Mamaia Resort Hotels' half year sales were better than over the same period last year, but higher expenses, especially related to staff costs, resulted in an EBITDA loss of € -0.27m which is in line with the EBITDA loss of the same period in 2017.

Telecredit granted fewer loans than budgeted over the second quarter, due to heightened competition from other non-banking financial institutions, as well as from banks, which have become more aggressive in offering quick retail loans to individuals due to the improved macroeconomic situation.

At the end of the quarter, the Fund had cash and cash equivalents of approximately € 6.9m and short-term liabilities of € 2.5m, of which € 2.1m are due for the acquisition of shares in RC and RIF.

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	6M 2017**	6M 2018**	6M 2018B
Group Consolidated Income statement						
Sales revenues	**58,722**	**64,992**	**72,254**	**32,664**	**33,227**	**36,621**
sales growth year-on-year	*3.1%*	*10.7%*	*11.2%*	*8.9%*	*1.7%*	*12.1%*
Other operating revenues	160	209		91	35	302
Total operating revenues	**58,882**	**65,201**	**72,254**	**32,755**	**33,262**	**36,923**
Gross margin	20,577	22,031	23,711	11,386	10,469	12,006
Gross margin %	*34.9%*	*33.8%*	*32.8%*	*34.8%*	*31.5%*	*32.5%*
Total operating expenses	**(60,923)**	**(65,492)**	**(70,308)**	**(32,033)**	**(32,471)**	**(35,438)**
Operating profit	**(2,041)**	**(291)**	**1,946**	**543**	**670**	**1,316**
Operating margin	*-3.5%*	*-0.4%*	*2.7%*	*1.7%*	*2.0%*	*3.6%*
EBITDA	**1,219**	**2,815**	**4,745**	**2,188**	**1,956**	**2,571**
EBITDA margin	*2.1%*	*4.3%*	*6.6%*	*6.7%*	*5.9%*	*7.0%*
Net extraordinary result - land sale	(668)	4,689	(424)	4,754	673	(365)
Orgachim squeeze out revenues		555	-			
Financial Profit/(Loss)	(1,023)	(1,825)	(1,077)	(1,241)	(111)	(1,230)
Profit before tax	**(3,732)**	**3,128**	**445**	**4,056**	**1,232**	**(279)**
Income tax	(279)	(719)	(217)	(493)	(102)	-
Profit after tax	**(4,011)**	**2,409**	**228**	**3,563**	**1,130**	**(279)**
avg exchange rate (RON/EUR)	*4.49*	*4.57*	*4.65*	*4.54*	*4.65*	*4.65*

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

The Group generated consolidated operating revenues of € 33.3m in the first half of 2018, marginally above the same period last year but 10% below budget. The gross margin decreased from 34.8% in the first half of 2017 to 31.5%, mainly due to increased raw materials costs. The Group generated recurring EBITDA (net of revenues and expenses allocated to the sale of real estate) of approximately € 2m, 24% below budget and 11% below the same period last year.

In May, Policolor and the buyers of its main site in Bucharest agreed to bring forward the sale of 4.4 out of its remaining 7.6 hectares from 2019 to 2018. The 4.4 hectares of land being sold in 2018 has been divided into three plots, with the first plot having been sold in May, generating cash proceeds of € 1.4m. A second plot was sold in July, generating proceeds of € 1.5m, and a further 2.2 hectares is due to be sold in the autumn, generating cash proceeds of € 3m. The remainder of 3.2 hectares left is due to be sold, as initially agreed with the buyers, in 2019.

In May, Policolor also signed the contract for the construction of its new Bucharest plant, which is due to be completed in the spring of 2019 and to become operational in the summer of that year.

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	6M 2017**	6M 2018**	6M 2018B
Income Statement						
Total Operating Revenues	**2,337**	**2,562**	**2,759**	**556**	**614**	**713**
Total Operating Expenses	(2,200)	(2,740)	(2,222)	(913)	(963)	(936)
Operating Profit	**137**	**(178)**	**537**	**(357)**	**(348)**	**(223)**
Operating margin	*5.9%*	*neg.*	*19.5%*	*neg.*	*neg.*	*neg.*
EBITDA	**353**	**472**	**710**	**(271)**	**(271)**	**(137)**
EBITDA margin	*15.1%*	*18.4%*	*25.7%*	*neg.*	*neg.*	*neg.*
Profit after Tax	**40**	**(284)**	**364**	**(393)**	**(384)**	**(307)**
Net margin	*1.7%*	*neg.*	*13.2%*	*neg.*	*neg.*	*neg.*
Avg exchange rate (RON/EUR)	*4.49*	*4.57*	*4.65*	*4.54*	*4.65*	*4.65*

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

Operating revenues over the first semester were € 0.61m, up 10.5% year-on-year, but 13.9% below budget, mainly due to poor results in May, which is the first month of the year with consistent activity at the Hotel. The June occupancy rate was 54%, slightly below the budgeted rate of 55% and last year's (56%). Due to the Hotel's low level of activity outside of the summer months, the Hotel has a low year-round occupancy rate. Overall, the occupancy rate of 15.5% over the first semester was slightly better than the 14.7% achieved over the same period last year. 34% of accommodation revenues over the first half of the year were generated by walk-ins and online reservation channels, whilst agency contracts generated 53% of overall accommodation revenues, with the balance of 13% having been generated by corporate contracts.

Accommodation revenues amounted to € 0.27m, up 8.7% year-on-year, but 22.3% below the budget. The Hotel is facing increased competition from Airbnb-type short term holiday lets. Food & beverage revenues accounted for 48% of overall operating revenues, and achieved the budgeted year-on-year increase of 15.6%.

The six-month EBITDA loss of € -0.27m was unchanged compared to the same period last year, but worse than the budgeted loss of € -0.14m, due to lower than expected sales in May, and increased salary expenses. The latter reflects labour shortages, with the Romanian seaside hospitality industry facing severe difficulties in finding suitable personnel.

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	6M 2017**	6M 2018**	6M 2018B
Income Statement						
Total interest revenues:	**1,020**	**1,617**	**1,785**	**791**	**895**	**901**
"regular" interest	814	1,219	1,137	637	568	574
penalty interest	175	397	648	154	327	327
fixed fees	31	0		0	0	
Total operating expenses	**(800)**	**(1,450)**	**(1,475)**	**(704)**	**(832)**	**(776)**
Operating profit (before depreciation)	**220**	**167**	**311**	**87**	**63**	**125**
Depreciation	(9)	(19)	(24)	(9)	(11)	(12)
Operating profit (after depreciation)	**211**	**148**	**286**	**78**	**52**	**113**
Operating profit (after depreciation) margin	*20.6%*	*9.2%*	*16.0%*	*9.9%*	*5.9%*	*12.5%*
Financial result	(4)	(1)		(2)	(2)	
Profit before tax	207	148		77	51	
Profit after tax	**175**	**122**		**61**	**38**	
net margin	*17.2%*	*7.6%*		*7.7%*	*4.2%*	
Net Operating Cash Flow	**(155)**	**98**	**(23)**	**(59)**	**38**	**(5)**
Avg exchange rate (RON/EUR)	*4.49*	*4.57*	*4.65*	*4.54*	*4.65*	*4.65*

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

Telecredit's interest revenues were on budget at € 0.9m over the first half of 2018, with the Company having granted 12,700 loans with a total value of € 2.2m over the semester. Of these, 33% were rollovers, 54% were to recurring clients, and the balance of 13% represents new clients. The number of new clients has decreased over the year, with an average of 330 loans per month granted to new clients at the beginning of 2018 falling to an average of 200 loans per month at present.

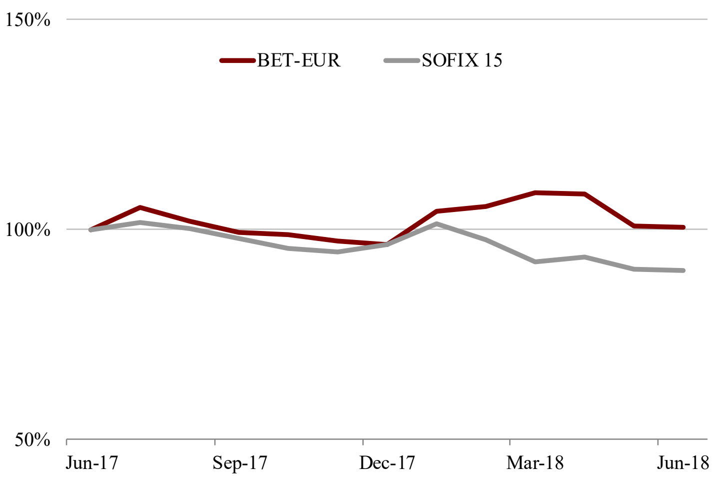
Overall, Telecredit experienced a fall in the number of credit requests compared to last year: the monthly average number of credit requests was 6,800 over the first six months of 2017, compared to a monthly average of 4,600 over the same period this year. The decrease is most likely due to an improving macroeconomic environment and higher competition, not only from non-banking financial institutions, but also from commercial banks which are increasingly offering their customers quicker and easier access to loans.

After depreciation, Telecredit made an operating profit of € 52,000 in the first half of 2018, compared to a budgeted profit of € 113,000. The main reason for the difference is higher than expected provisions for unpaid penalty interest.

Following an assessment of the Romanian financial sector by the IMF, the National Bank of Romania is planning to tighten lending conditions for individuals, by capping the indebtedness level (debt service-to-income) at 30%. This would severely restrict Telecredit's current business model, as many of its customers have a higher debt service-to-income ratio. Consequently, Telecredit is currently reviewing its options to alter its business model once the above proposals come into effect.

Capital Market Developments

BET-EUR and SOFIX-15: 1 year performance



Commentary

During the second quarter, the Romanian BET and the Bulgarian SOFIX 15 indices lost 7.4% and 2.3%, respectively, all in euro terms. Over the same quarter the MSCI Emerging Market Eastern Europe and the MSCI Emerging Market indices were down by 4% and 3.6, respectively, whilst the FTSE100 and S&P indices were up by 7.2% and 8.3%, respectively, all in euro terms.

Over 2018, the BET-EUR index gained 0.6% while the SOFIX 15 index fell by 9.8%, both in euro terms. By comparison, the MSCI Emerging Market Eastern Europe, the MSCI Emerging Market, the FTSE100 and the S&P indices gained 8.6%, 3.4%, 3.5% and 9.6%, respectively, all in euro terms.

Macroeconomic Overview

Overview

	RO	as of:	BG	as of:
GDP Growth (y-o-y)	4.2%	1Q18	3.6%	1Q18
Inflation (y-o-y)	5.4%	Jun-18	3.2%	Jun-18
Ind. prod. growth (y-o-y)	3.6%	May-18	0.0%	May-18
Trade balance (EUR bn)	-5.0	5M18	-1.5	5M18
y-o-y	*12.3%*		*49.0%*	
FDI (EUR bn)	1.7	5M18	0.1	5M18
y-o-y change	*17.6%*		*-58.7%*	
Budget balance/GDP	-1.6%	6M18	1.6%	6M18
Total external debt/GDP	48.3%	May-18	62.1%	May-18
Public sector debt/GDP	39.6%	May-18	22.6%	Jun-18
Loans-to-deposits	77.5%	Jun-18	74.0%	Jun-18

Commentary

Romania

Romania's first quarter GDP grew by 4.2% year-on-year, mainly driven by private consumption which grew by 5.9%. However, industry also made an important contribution to economic growth, having increased by 4.4%, whilst construction was the only GDP component which fell (by 2.1% over the period). Information about Romania's second quarter GDP performance is not yet available.

Consumer prices continued their upward trend, with the inflation rate reaching 5.4% in June. The increase in consumer prices was driven by growing domestic demand, higher energy prices and increased production prices, mainly triggered by higher salaries.

The Romanian leu fell by 0.1% against the euro over the second quarter, bringing the total year-to-date fall to 0.03%.

The budget deficit over the first six months of 2018 was € 3.2bn, or -1.6% of GDP, worse than the January-June 2017 deficit of -0.8%. Budgetary receipts increased by 12.6% year-on-year, triggered by higher social contributions which increased by 36.8%, whilst receipts from corporate profit taxes increased by only 1.3% year-on-year. On the other hand, total budgetary expenses increased by 19.0% year-on-year in RON terms, from € 27.2bn to € 31.6bn, with personnel and social expenditures, which account for 62% of total expenses, increasing by 18.4% due to wage increases for public sector workers. Given the large half-year deficit, the government target of a -2.97% full year budget deficit would be difficult to achieve.

The trade gap continued to widen, having increased by 12.3% year-on-year in the first five months of 2018 (from € -4.5bn to € -5.0bn), as imports grew by 9.3% while exports increased by a more modest 8.8%. The negative evolution of the trade balance was the main reason behind the € -3.0bn current account deficit, which is the equivalent of 1.5% of GDP and compares to a € -2.6bn deficit over the same period of 2017. FDI flows amounted to € 1.7bn, up from € 1.5bn over the same period last year. Romania's total external debt amounted to € 96bn at the end of May, which represents a 2.7% year-to-date increase and amounts to approximately 48% of Romania's 2018 estimated GDP of € 199bn. Total public debt was € 79.3bn, or 39.6% of GDP, at the end of May, unchanged in nominal RON terms.

Total domestic non-governmental credit (which excludes loans to financial institutions) was € 52bn at the end of June, up 4.4% year-to-date in RON terms. Household loans increased by 5.2% year-to-date and accounted for 52.9% of the total loan stock at the end of June, slightly higher than the 52.4% recorded at the end of 2017. RON-denominated loans registered a 10.8% year-to-date increase, whereas the stock of loans denominated in euros fell by 5.3%. Both the two major categories of household loans (consumer and housing loans) which together account for 99% of the loans stock, increased by 5.2% and 5.5% year-to-date, respectively. The increase in the stock of housing loans was mainly due to the *Prima Casa* programme whereby the Romanian state guarantees the loans of first time buyers under certain circumstances. During a review conducted in June, the IMF recommended a gradual scaling down of this programme to mitigate the risk of the residential market over-heating. Corporate loans increased by 3.3% year-to-date and accounted for 44% of the total loan stock. The overall deposit base has increased by 3.3% in RON terms since the end of December, and amounted to € 67.1bn at the end of June. The NPL ratio continued to fall, reaching 5.98% at the end of May, down from 6.4% at the end of 2017.

Political risks remain high, mainly due to the ruling Social Democratic Party's (PSD) intentions to weaken the Penal Code, which has triggered criticism from the EU. Some of the most controversial changes relate to limiting the length of criminal investigations before charges can be pressed to one year, as well as partly decriminalizing the abuse of office offence.

Bulgaria

Bulgaria's first quarter GDP grew by 3.6% year-on-year, and by 0.9% compared to the previous quarter. Due to increased domestic demand and higher international oil prices, Bulgaria's inflation rate reached 3.2% in June, compared to a rate of 2.8% in December 2017. Private consumption increased by 3.4% year-on-year.

Over the first half of 2018, Bulgaria achieved a budget surplus of € 0.9bn, or 1.6% of GDP, compared to a 1.8% surplus over the same period last year. Tax proceeds, including revenues from social security contributions, increased by 9.9% year-on-year, whilst total budgetary expenses increased by 11%, mainly due to the July and October 2017 two-step increase in the minimum pension. Bulgaria's public sector debt fell by 4.7%

year-to-date, from € 12.7bn to € 12.1bn, and amounted to 22.6% of GDP at the end of June, down from 24.9% at the end of December 2017. Gross external debt amounted to 62.1% of GDP at the end of May, down from 66.1% at the end of 2017, mainly due to a € 0.4bn fall in external private sector debt.

Bulgaria's trade deficit continued to worsen, reaching € -1.5bn over the first five months of 2018, compared to a € -1bn deficit over the same period in 2017. While exports grew by only 3% (from € 10.1bn to € 10.4bn), imports increased by 7.1% year-on-year, from € 11.1bn to € 11.9bn. The trade deficit was partly compensated by a € 0.8bn surplus from secondary incomes and a € 0.6bn surplus from services, resulting in a current account balance of € -0.2bn over the first five months, which compares to a small surplus of € 0.02bn over the same period of 2017. FDI inflows amounted to € 0.1bn, 58.7% lower than the same period of 2017, as equity investments fell by € 0.2bn and intra-group loans increased by € 0.04bn.

Total domestic non-governmental credit (which excludes loans to financial institutions) increased from € 25.9bn to € 27.1bn over the first half of 2018. Over the first half of 2018, total corporate and household loans increased by 3.1% and 7.2%, respectively. Whilst housing loans increased by 5.7% year-on-year, consumer loans grew at a much higher rate of 12.9%. The deposit base was € 36.7bn at the end of June, up 2.6% year-to-date. The NPL ratio fell from 10.2% at the end of 2017 to 9.1% at the end of the second quarter.

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