Reconstruction Capital II Ltd

("RC2" or the "Fund")

Quarterly Report

30 June 2017

neweuropecapital

New Europe Capital SRL
Str. Tudor Arghezi nr.21, et.6
Bucuresti - Sector 2
Tel +40 21 316 7680
bucharest@neweuropecapital.com

Statistics

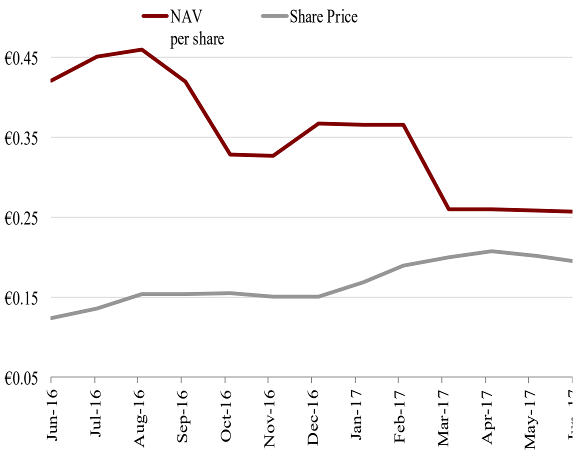
NAV per share (€)	0.2563
Total NAV (€ m)	37.5
Share price (€)	0.1950
Mk Cap (€ m)	28.6
# of shares (m)	146.5
NAV/share since inception†	-49.58%
12-month NAV/share perfomance	-39.16%
NAV/share annualized Return*†	-5.78%
NAV/share annualized Volatility*†	17.90%
Best month (NAV/share)*†	13.98%
Worst month (NAV/share)*†	-28.27%
# of months up (NAV/share)*†	72
# of months down (NAV/share)*†	66

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

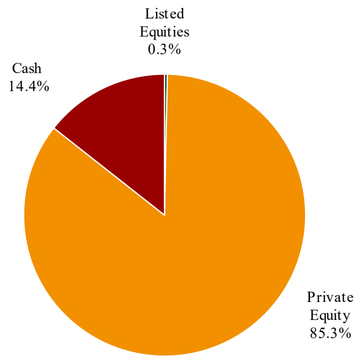
RC2 NAV returns

	2014	2015	2016	2017
Jan	-0.65%	-0.07%	8.03%	-0.26%
Feb	-0.34%	-0.34%	1.22%	-0.21%
Mar	2.94%	-0.70%	-0.66%	-28.75%
Apr	2.73%	0.93%	-0.49%	-0.31%
May	2.70%	3.11%	3.09%	-0.23%
Jun	0.28%	-0.38%	1.18%	-1.02%
Jul	0.44%	3.24%	6.83%	
Aug	3.23%	-0.85%	2.11%	
Sep	0.01%	0.31%	-8.63%	
Oct	1.87%	-0.35%	-21.79%	
Nov	0.15%	3.17%	-0.24%	
Dec	0.73%	-8.47%	12.06%	
YTD	14.91%	-0.94%	-1.75%	-30.18%

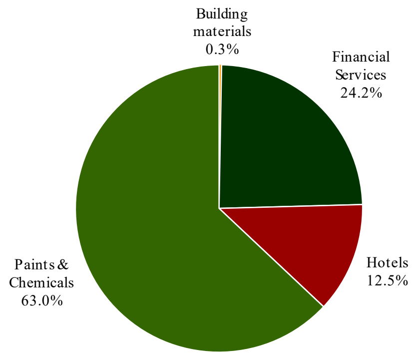
Share price / NAV per share (€)



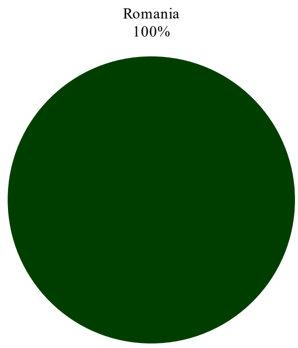
Portfolio Structure by Asset Class



Equity Portfolio Structure by Sector



Portfolio Structure by Geography



Message from the Adviser

Dear Shareholders

During the second quarter, RC2's total NAV fell by € 0.9m, and its NAV per share by 1.5% from € 0.2603 to € 0.2563. During the quarter, RC2 returned € 6.9m of capital to its shareholders and bought back for cancellation 1.1m shares for € 0.18m. Overall, RC2 has returned € 17m to its shareholders in 2017.

The sale of Top Factoring and of Glasro's portfolio of non-portfolio loans, which was agreed in the previous quarter, was completed in April. RC2's wholly-owned subsidiary Glasro used € 2.7m of the exit proceeds to make an investment in Telecredit S.A., a Romanian non-banking financial institution that provides consumer loans to individuals. The acquisition was also completed in April and a description of Telecredit is presented in this report. In May, Glasro distributed dividends of € 3.5m to RC2.

In May, Policolor signed an agreement for the sale of its main Bucharest site (where its current Romanian production plant is located) to a Romanian real estate development company for a total consideration of € 22m, of which € 11.4m was received to date. In June, Policolor delivered approximately half the site to the buyer, leaving a total of € 0.7m as advance payments for the second half, which is due to be sold in 2019, when the balance of € 9.9m should be cashed.

Meanwhile, the Policolor Group's operating business had a decent first half of the year, both in terms of sales and operating profitability, with operating revenues up 9.4% year-on-year from € 30.0m to € 32.9m, whilst EBITDA of € 1.8m was better than the € 1.0m recorded over the same period of the previous year

Mamaia Resort Hotels' results were disappointing due to poor sales in May and increased pressures on operating expenses, mainly salaries. Management expects to recover the shortfall to budget over the critical summer season, and during the remaining months of 2017.

At the end of the quarter, the Fund had cash and cash equivalents of approximately € 5.5m, a further € 5.0m cash in Glasro, and liabilities of € 0.7m, of which € 0.15m represents outstanding B Class share redemptions, and € 0.39m represent sundry liabilities related to the exits from Albalact and Top Factoring.

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)	2015*	2016**	2017B	1H16**	1H17**	1H17B
Group Consolidated Income statement						
Sales revenues	**56,935**	**58,985**	**63,869**	**30,006**	**32,793**	**32,886**
Other operating revenues	356	88		41	91	168
Total operating revenues	**57,291**	**59,073**	**63,869**	**30,047**	**32,884**	**33,055**
Gross margin	19,807	20,531	24,175	10,408	11,508	12,117
Gross margin %	*34.6%*	*34.7%*	*37.9%*	*35.6%*	*36%*	*36%*
Total operating expenses	**(59,378)**	**(61,389)**	**(63,387)**	**(30,679)**	**(32,714)**	**(32,964)**
Operating profit	**(2,087)**	**(2,316)**	**482**	**(632)**	**170**	**91**
Operating margin	*-3.6%*	*-3.9%*	*0.8%*	*-2.1%*	*0.5%*	*0.3%*
Recurring EBITDA	2,089	1,173	3,452	1,001	1,998	1,856
Non-recurring items	(286)	(223)	331	(14)	(183)	(33)
Total EBITDA	**1,803**	**950**	**3,782**	**987**	**1,816**	**1,822**
EBITDA margin	*3.1%*	*1.6%*	*5.9%*	*3.3%*	*5.5%*	*5.5%*
Net extraordinary result - land sale	490	(397)	324	3,749	5,126	
Financial Profit/(Loss)	(1,147)	(595)	(1,000)	(474)	(1,241)	(515)
Profit before tax	**(2,744)**	**(3,309)**	**(194)**	**2,644**	**4,056**	**(424)**
Income tax	(31)	(263)	(579)	(366)	(493)	
Profit after tax	**(2,775)**	**(3,572)**	**(773)**	**2,277**	**3,562**	**(424)**
avg exchange rate (RON/EUR)	*4.44*	*4.49*	*4.50*	*4.50*	*4.54*	*4.50*

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

The Group generated consolidated operating revenues of € 32.9m in the first half of 2017, marginally below budget and 9.4% above the same period of 2016. The Group’s consolidated results reflect a good performance by the paints and coatings business, and lower than expected sales of resins by volume due to price increases triggered by increased raw materials costs. Given the limited availability of raw materials during the period, the anhydrides division reduced its sales to third parties in order to prioritize the Group’s internal needs. Overall, sales of paints and coatings grew by 7.8% year-on-year, and sales of resins were up 22.3% year-on-year, but 3.9% below the budget.

The Group generated recurring EBITDA (net of revenues and expenses allocated to the real estate division) of approximately € 2.0m, almost two times higher than the previous year’s figure, and 7.7% above the budget. The improvement in EBITDA is the combined result of increases in sales at the Group’s paints and coatings divisions, and the postponement of certain marketing and personnel costs, whilst the operating profitably of the resins division was negatively impacted by higher raw material prices.

Real Estate

In April, Policolor signed a pre-contract for the sale of its main Bucharest site where its current Romanian production plant is located to a Romanian real estate development company for a total price of € 22m, of which € 4.5m was received at signing. A further € 6.9m was received in June, when Policolor sold approximately half the site. Policolor is due to further receive € 0.7m in the summer of 2018 and € 9.9m in June 2019, when it is due to deliver the remaining land. Policolor has used part of the proceeds received to date to repay € 3.7m of shareholder loans it had received earlier in the year.

Mamaia Resort Hotels

Background

Mamaia Resort Hotels SRL (the “Company”) is the owner and operator of the now re-branded 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)	2015*	2016*	2017B	1H16**	1H17**	1H17B
Income Statement						
Sales Revenues	**2,331**	**2,332**	**2,561**	**524**	**523**	**636**
Total Operating Revenues	**2,349**	**2,337**	**2,751**	**540**	**556**	**708**
Total Operating Expenses	(2,044)	(2,200)	(2,148)	(823)	(913)	(879)
Operating Profit	**305**	**137**	**603**	**(283)**	**(357)**	**(171)**
Operating margin	*13.0%*	*5.9%*	*21.9%*	*-52.4%*	*-64.2%*	*-24.2%*
EBITDA	**484**	**353**	**783**	**(196)**	**(267)**	**(81)**
EBITDA margin	*20.6%*	*15.1%*	*28.5%*	*-36.3%*	*-48.1%*	*-11.5%*
Profit after Tax	**176**	**40**	**651**	**(325)**	**(388)**	**(103)**
Net margin	*7.5%*	*1.7%*	*23.7%*	*-60.2%*	*-69.8%*	*-14.5%*
Avg exchange rate (RON/EUR)	*4.44*	*4.49*	*4.50*	*4.50*	*4.54*	*4.50*

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

Operating revenues over the first semester were € 0.56m, up 3.5% year-on-year, but 21.5% below budget, mainly due to poor results in May, which is the first month of the year with consistent activity at the Hotel. In terms of occupancy, June was a good month, with a 56% occupancy rate, higher than both the budget (49%), and the rate achieved in June 2016 (40%). Overall, the occupancy rate of 14.7% over the first semester was slightly better than the 14.4% achieved over the same period last year.

44% of accommodation revenues over the first half of the year were generated by walk-ins and online reservation channels, including the Hotel's own website, compared to 36% generated by these channels in the same period of 2016.

The six-month EBITDA loss of € 0.27m was higher than over the same period last year due to the operating costs coming in 10.9% higher year-on-year. The Hotel faces continued pressures on the salaries side due to, on the one hand the Romanian government's policy of increasing the minimum wage, and on the other hand, the difficulty in finding personnel prepared to work in the hotel industry. This has led to higher salary costs, which has negatively affected the Hotel's operational efficiency.

Telecredit

Background

As part of the exit transaction from Top Factoring, RC2's wholly-owned subsidiary Glasro Holdings Ltd has used € 2.7m of the proceeds from the sale of its non-performing loan book to make an investment in Telecredit IFN S.A. ("Telecredit" or the "Company"), a Romanian non-banking financial institution that provides consumer loans to individuals. Accordingly, Glasro has acquired 74.5% of Telecredit, with the balance of 25.5% being owned by RC2's former partner in Top Factoring and his family, and has committed to making a € 0.15m capital increase, thus bringing RC2's total shareholding to 80%.

Financial Results

EUR'000	2014*†	2015*	2016*	2017B	1H16**	1H17**
Income Statement						
Total interest revenues	**6**	**441**	**1,020**	**1,799**	**528**	**791**
Total operating expenses	**(23)**	**(233)**	**(550)**	**(1,085)**	**(216)**	**(509)**
Operating profit (before depreciation)	(17)	48	220	309	106	87
Depreciation	(1)	(5)	(9)	(19)	(3)	(9)
Operating profit (after depreciation)	**(17)**	**43**	**211**	**291**	**103**	**78**
Operating profit (after depreciation) margin	*-275.1%*	*9.8%*	*20.6%*	*16.2%*	*19.5%*	*9.9%*
Finance result	2	(4)	(4)		(2)	(2)
Profit before tax	(15)	39	207		101	77
Profit after tax	**(15)**	**36**	**175**		**85**	**61**
† November to December 2014						
Avg exchange rate (RON/EUR)	*4.445*	*4.445*	*4.491*		*4.495*	*4.536*

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

Telecredit was set up in November 2014, and provides unsecured personal loans ranging from € 60 to € 450 and an average value of € 150, with an average maturity of less than a month. The bulk of the application and approval process takes place online, with the decision on a loan being taken within a couple of hours from application. The typical client for this type of loans comes from the lower income segments of the population with an average monthly income of € 400.

As at 31 December 2016, Telecredit had net assets of € 0.62m, of which € 0.53m was the net value of its loan book, including accrued interest of € 0.07m. At the end of December 2016, 1% of the loan stock was represented by NPLs. At the end of June 2017, the net book value of loans stood at € 0.56m, including accrued interest of € 0.08m.

In 2016, the total interest revenues amounted to € 1m, which is more than twice the interest revenues generated in 2015. In 2016, the Company made an operating profit after depreciation of € 0.2m, which compares to € 0.04m in the previous year.

In the first half of 2017, the revenues generated by Telecredit amounted to € 0.8m, up 49.8% year-on-year, whilst the profitability was negatively influenced by increased promotion and marketing expenses generated by a TV campaign with a limited run which was launched in February 2017 to improve general awareness of the Company. Marketing and personnel expenses are the two most important expense items for Telecredit. The Company uses mainly online marketing tools, and additionally works with affiliate online partners to attract clients, usually through paid advertisements (pay-per-click). Telecredit's social media optimization involves activities on Facebook and other commonly used social media tools.

Operations

The number of loan applications more than doubled in 2016, from 3,714 loan applications per month in December 2015 to 8,564 applications per month in December 2016. Over the first half of 2017, the average number of loan applications per month was 6,800. During the course of 2016, the number of loans provided on a monthly basis increased from 1,379 loans granted in January to 3,270 loans granted in December. In the first half of 2017, Telecredit granted an average of 3,000 loans per month.

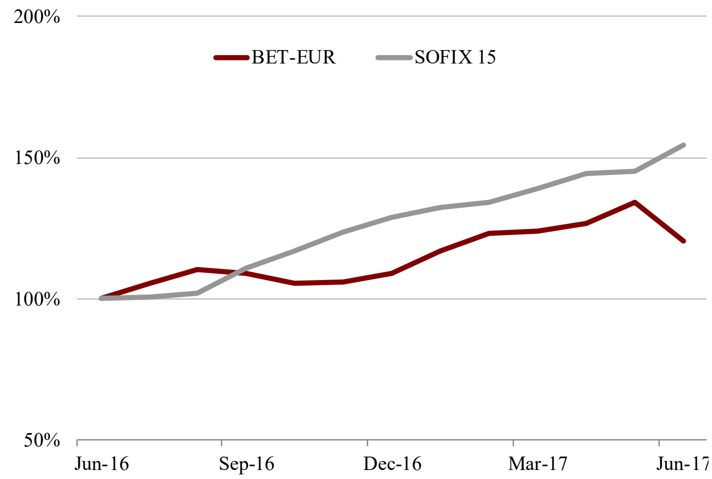
In 2016, Telecredit granted 25,700 loans with a total value of € 3.3m. From January to June 2017, the Company granted 17,800 loans with a total value of € 2.6m.

Prospects

The 2017 budget provides for interest revenues of € 1.8m, and an operating profit after depreciation of € 0.29m, based on a 52% increase in the number of loans granted.

Capital Market Developments

BET-EUR and SOFIX-15: 1 year performance



Commentary

During the second quarter, the Romanian BET index fell by 2.8%, whilst the Bulgarian SOFIX 15 indices increased by 10.9%, all in euro terms. Over the same quarter, the MSCI Emerging Market Eastern Europe, the MSCI Emerging Market, the FTSE100 and the S&P indices were down by 10.0%, 1.1%, 2.9% and 3.9%, respectively, all in euro terms.

Over the past year, the BET-EUR and SOFIX 15 indices were up by 20.4% and 54.4%, respectively, all in euro terms. By comparison, the MSCI Emerging Market Eastern Europe, the MSCI Emerging Market, the FTSE100 and the S&P indices gained 11.3%, 17.6%, 6.9% and 12.0%, respectively, all in euro terms.

Macroeconomic Overview

Overview

	RO	as of:	BG	as of:
GDP Growth (y-o-y)	5.6%	3M17	3.5%	3M17
Inflation (y-o-y)	0.9%	Jun-17	1.9%	Jun-17
Ind. prod. growth (y-o-y)	14.6%	May-17	9.6%	May-17
Trade balance (EUR bn)	-4.5	5M17	-1.1	5M17
y-o-y	*18.0%*		*61.1%*	
FDI (EUR bn)	1.4	5M17	0.1	5M17
y-o-y change	*-12.6%*		*-77.2%*	
Budget balance/GDP	-0.8%	6M17	1.7%	5M17
Total external debt/GDP	52.6%	May-17	70.0%	Apr-17
Public sector debt-to-GDP	41.9%	Apr-17	27.1%	May-17
Loans-to-deposits	81.3%	Jun-17	77.0%	May-17

Commentary

Romania

Romania's first quarter GDP grew by 5.6% year-on-year, mainly due to private consumption which increased by 7.3% year-on-year. Industry made an important contribution to the economic growth, having increased by 6.8% over the same period. Information about Romania's second quarter GDP performance is not yet available.

Romania recorded a 0.9% year-on-year increase in prices in June, the result of a 2.9% increase in food prices, which was a direct consequence of lower agricultural output due to the negative impact of bad weather at the beginning of the year.

The Romanian leu fell by 0.1% against the euro over the second quarter, and 0.3% year-to-date. In mid-June, the leu hit an all-time low against the euro over the past five years. The volatility of the forex rate was influenced by worries about the risk of high budget deficits due to the fiscal relaxation measures promoted by the ruling Social Democratic Party (PSD).

The budget deficit over the first six months of 2017 came in at € 1.4bn, equivalent to -0.8% of GDP, compared to a deficit of -0.5% over the same period in 2016. Budgetary receipts increased by 8.2% year-on-year, triggered by higher social contributions and personal income taxes which increased by 11.1%, whilst VAT collections were 4.3% lower year-on-year. The fall in VAT inflows is explained by the reduction in the standard VAT rate from 20% to 19% introduced in 2017, but also reflect poor collections by the tax authorities. The receipts from corporate profit taxes fell by 6.3% year-on-year. On the other hand, total budgetary expenses increased by 10.0% year-on-year, from € 24.7bn to € 27.2bn, with personnel and social expenditures, which account for 63% of total expenses, increasing by 13.8% year-on-year. Public investments are still depressed and amounted to only € 0.9bn, 19% less than the same period of the prior year, and equivalent to only 0.5% of GDP.

Over the first five months of 2017, the trade gap widened by 18.0% year-on-year (from € -3.8bn to € -4.5bn), as imports grew by 12.0%, while exports increased by 11.1%. The negative evolution of the trade balance triggered by higher private consumption was the main reason behind the € -2.0bn current account deficit, which is the equivalent to 1.1% of GDP and compares to a € -1.7bn deficit over the same period of 2016. Over the first five months of 2017, FDI flows amounted to €1.4bn, of which € 1.8bn were equity investments, whilst net intra-group loans stood at € -0.4bn. Overall, FDI flows were 12.6% lower year-on-year. Romania's total external debt was € 94.3bn at the end of May, which represents a 2.0% year-to-date increase and amounts to approximately 53% of GDP. Total public debt was € 75.1bn, or 41.9% of GDP, at the end of April, up 0.8% year-to-date in RON terms. The increase was due to new issues of RON-denominated domestic debt totalling € 2.1bn during the first four months of 2017.

Total domestic non-governmental credit (which excludes loans to financial institutions) amounted to € 49.9bn at the end of June, and was up 3.0% year-to-date in RON terms. Corporate loans increased by 1.9% year-to-date and accounted for 46% of the total loan stock at the end of June. Household loans increased by 3.2% year-to-date in June, as housing loans grew by 5.2% while consumer loans increased by 1.8% from the beginning of the year, both in RON terms. The overall deposit base was € 61.0bn at the end of June, having increased by 1.7% year-to-date in RON terms. The NPL ratio was 9.3% at the end of April, slightly down on the 9.5% recorded at the end of December 2016.

Bulgaria

Whilst data on Bulgaria's second quarter GDP growth is not yet available, Bulgaria revised its first quarter GDP growth to 3.5% year-on-year, compared to the previously reported 3.4%. Consumption increased by 5.0% year-on-year and was one of the main triggers of the GDP growth. Bulgaria's inflation rate stood at 1.9% in June, which is unchanged quarter-on-quarter but higher than the inflation rate of 0.1% recorded in December 2016.

Over the first five months of 2017, Bulgaria achieved a budget surplus of € 0.9bn, or 1.7% of GDP, which compares to a 3.1% GDP surplus achieved over the same period last year. Tax revenues fell by 0.9%, from € 7.6bn to € 7.5bn, whilst total budgetary expenses increased by 8.1% from € 6.0bn to € 6.5bn. Gross external debt amounted to 70% of GDP as of end April, down from 73.1% at the end of 2016. Bulgaria's public sector debt fell by 2.3% year-to-date, from € 13.8bn to € 13.5bn, and amounted to 27.1% of GDP at the end of May, down from 29.1% at the end of 2016.

Bulgaria's trade balance worsened from a deficit of € -0.7bn over the first five months of 2016 to a deficit of € -1.1bn over the same period this year. While exports grew by an impressive 17.7%, the year-on-year increase in imports was higher at 21%. Helped by a € 0.6bn surplus from primary and secondary incomes and a € 0.6bn surplus from services, the current account balance was € 0.08bn in surplus, significantly lower than the € 0.1bn surplus achieved a year ago. FDI inflows amounted to € 0.1bn, which was 77.2% lower than over the same period of 2016. The fall was due to lower equity investments, which fell by € 0.2bn, whilst intra-group loans were € 0.17bn lower.

Total domestic non-governmental credit (which excludes loans to financial institutions) amounted to € 25.6bn at the end of May, up 2.2% year-to-date. Both corporate and household loans increased by 1.4% and 3.3%, respectively. NPLs accounted for 15.2% of the overall loan stock at the end of May, which compares to 15.7% at the end of 2016 (this also includes restructured loans, as per the data reported by the National Bank of Bulgaria). The deposit base stood at € 33.3bn at the end of May, up 0.5% year-to-date.

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 SRL.