Reconstruction Capital II Ltd

("RC2" or the "Fund")

Quarterly Report

31 March 2017

neweuropecapital

New Europe Capital SRL
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Statistics

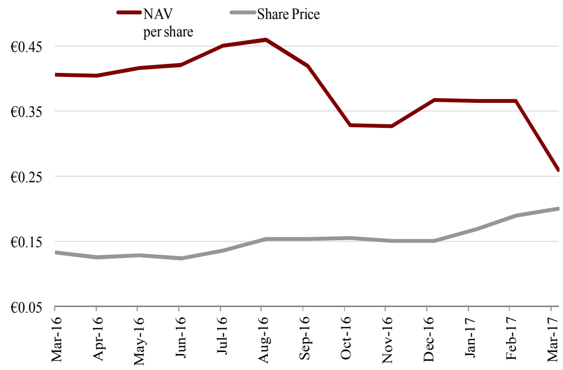
NAV per share (€)	0.2603
Total NAV (€ m)	38.4
Share price (€)	0.2000
Mk Cap (€ m)	29.5
# of shares (m)	147.6
NAV/share since inception†	-54.05%
12-month NAV/share perfomance	-36.27%
NAV/share annualized Return*†	-6.68%
NAV/share annualized Volatility*†	17.80%
Best month (NAV/share)*†	13.98%
Worst month (NAV/share)*†	-28.27%
# of months up (NAV/share)*†	71
# of months down (NAV/share)*†	64

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

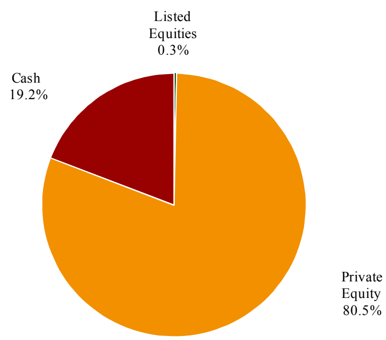
RC2 NAV returns

	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%	
May	2.70%	3.11%	3.09%	
Jun	0.28%	-0.38%	1.18%	
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%	-29.08%

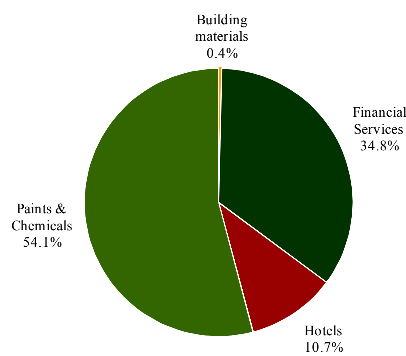
Share price / NAV per share (€)



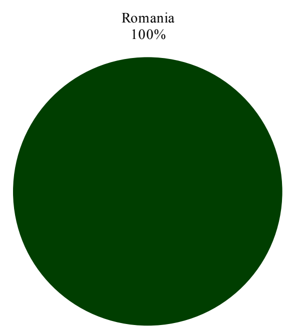
Portfolio Structure by Asset Class



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 € 15.8m and its NAV per share fell by 29.1%, from € 0.3670 to € 0.2603, reflecting the return of capital to shareholders by means of an early redemption of €10.1m of B Class shares, as well as an accrual for the remaining € 6.9m which was paid out to the remaining B Class shareholders in April. Excluding the redemptions, the NAV would have increased by € 1.2m, reflecting the € 2.0m uplift from the sale of the Top Factoring Group, which was signed and booked in March, whilst the sale was actually completed in April.

RC2's wholly-owned subsidiary Glasro used € 2.8m 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 will be presented in the April monthly report.

The Policolor Group had a good first quarter, both in terms of sales and operating profitability, with operating revenues up 8.6% year-on-year, from € 11.6m to € 12.6m, whilst negative EBITDA of € -0.3m, was lower than the € -0.6m recorded over the same quarter of the previous year. In March, Policolor reached a settlement with the former buyers of its main Bucharest real estate site by returning them their € 3m deposit plus € 0.7m of VAT, paving the way for Policolor to re-sell the plot to a third party. In order to fund the settlement, Policolor had to borrow € 2.2m from its 60% shareholder the Romanian Investment Fund Ltd, and another € 1.5m from RC2.

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

At the end of the quarter, the Fund had cash and cash equivalents of approximately € 7.4m and liabilities of € 8.7m, of which € 6.9m is related to the pending redemption of B Class shares and € 1.1m represents a shareholder loan from interests connected to Ion Florescu, which was used to advance monies to Policolor to finance the settlement with the former buyers of its land.

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

(EUR '000)	2015*	2016**	2017B	1Q16**	1Q17**	1Q17B
Group Consolidated Income statement						
Sales revenues	**56,935**	**58,985**	**63,869**	**11,592**	**12,524**	**12,321**
Other operating revenues	356	88		8	70	73
Total operating revenues	**57,291**	**59,073**	**63,869**	**11,600**	**12,594**	**12,394**
Gross margin	19,807	20,531	24,175	3,651	3,986	4,148
Gross margin %	*34.6%*	*34.7%*	*37.9%*	*31.5%*	*31.6%*	*33.5%*
Total operating expenses	**(59,378)**	**(61,389)**	**(63,387)**	**(13,029)**	**(13,756)**	**(13,898)**
Operating profit	**(2,087)**	**(2,316)**	**482**	**(1,429)**	**(1,162)**	**(1,504)**
Operating margin	*-3.6%*	*-3.9%*	*0.8%*			
Recurring EBITDA	2,089	1,173	3,452	(608)	(248)	(612)
Non-recurring items	(286)	(223)	331	(8)	(70)	(17)
Total EBITDA	**1,803**	**950**	**3,782**	**(616)**	**(318)**	**(629)**
EBITDA margin	*3.1%*	*1.6%*	*5.9%*	*-5.3%*	*-2.5%*	*-5.1%*
Net extraordinary result - land sale	490	(397)	324	3,749		
Financial Profit/(Loss)	(1,147)	(595)	(1,000)	(179)	(331)	(254)
Profit before tax	**(2,744)**	**(3,309)**	**(194)**	**2,141**	**(1,493)**	**(1,758)**
Income tax	(31)	(263)	(579)			
Profit after tax	**(2,775)**	**(3,572)**	**(773)**	**1,779**	**(1,493)**	**(1,758)**
avg exchange rate (RON/EUR)	*4.44*	*4.49*	*4.50*	*4.49*	*4.52*	*4.50*

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

Operations

The Group generated consolidated operating revenues of € 12.6m in the first quarter of 2017, slightly better than the budgeted € 12.4m and 8.6% above the first quarter of 2016. Overall, sales of paints and coatings grew by 8.7% year-on-year, whilst sales of resins were up 23.9%. Given the limited availability of raw materials during the quarter, the anhydrides division reduced its sales to third parties in order to prioritize the Group's internal needs.

Due to the low sales of paints during the winter season, the Group generated a recurring EBITDA loss (net of revenues and expenses allocated to the real estate division) of € -0.3m, significantly better than the loss of € -0.6m over same quarter of 2016, and the budgeted loss of € -0.6m. The EBITDA improvement is the combined result of an increase in sales at the paints and coatings divisions, and the postponement of certain marketing costs, whilst the operating profitably of the resins division was negatively affected by increased prices of raw materials.

Real Estate

In March, Policolor reached a settlement with the former buyers of its main Bucharest real estate site by returning them their € 3m deposit plus € 0.7m of VAT, enabling Policolor to re-sell the plot to a third party. In order to fund the settlement, Policolor had to borrow € 2.2m from its 60% shareholder the Romanian Investment Fund Ltd, and another € 1.5m from RC2.

Due to the settlement, the former buyers' advance and contractual penalties which had already been booked by Policolor were reversed, resulting in a net extraordinary loss of € -0.4m in 2016 compared to an estimated profit of € 3.8m as presented in the December Quarterly Report.

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	1Q16**	1Q17**	1Q17B
Income Statement						
Sales Revenues	**2,331**	**2,244**	**2,561**	**29**	**53**	**48**
Total Operating Revenues	**2,349**	**2,336**	**2,751**	**32**	**59**	**77**
Total Operating Expenses	(2,044)	(2,151)	(2,148)	(269)	(294)	(352)
Operating Profit	**305**	**185**	**603**	**(237)**	**(235)**	**(275)**
Operating margin	*13.0%*	*7.9%*	*21.9%*	*neg.*	*neg.*	*neg.*
EBITDA	**484**	**355**	**783**	**(194)**	**(192)**	**(232)**
EBITDA margin	*20.6%*	*15.2%*	*28.5%*	*neg.*	*neg.*	*neg.*
Profit after Tax	**176**	**89**	**651**	**(243)**	**(255)**	**(288)**
Net margin	*7.5%*	*3.8%*	*23.7%*	*neg.*	*neg.*	*neg.*
Avg exchange rate (RON/EUR)	*4.44*	*4.49*	*4.50*	*4.49*	*4.52*	*4.50*

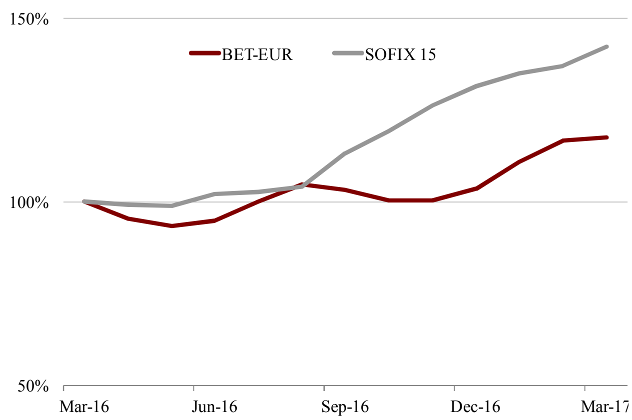
*Note: *RAS (audited), **RAS (management accounts)*

Although revenues over the first quarter are negligible due to the seasonality of the Hotel's business, the Company's financial performance was slightly better than budget in terms of profitability due to improved cost controls

From 2017, hotels have to pay a fixed tax based on their overall capacity (number of available rooms) instead of the usual corporate income tax rate of 16%. For the Company, this will mean an increase in its annual tax bill from € 20,000 in 2016 to approximately € 36,000. For revenues generated by activities not covered by the new law, namely the spa, beach area and other activities, the Company will continue to pay income tax at the 16% rate.

Capital Market Developments

BET-EUR and SOFIX-15: 1 year performance



Commentary

During the first quarter, the Romanian BET and the Bulgarian SOFIX 15 indices increased by 13.7% and 8.1%, respectively, all in euro terms. Over the same quarter, the MSCI Emerging Market Eastern Europe was down by 1.3%, whilst the MSCI Emerging Market, the FTSE100 and the S&P indices were up by 9.6%, 2.7% and 4.1%, respectively, all in euro terms.

Over the past year, the BET-EUR and SOFIX 15 indices were up by 17.6% and 42.1%, 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 23.2%, 21.9%, 9.9% and 22.0%, respectively, all in euro terms.

Macroeconomic Overview

Overview

	RO	as of:	BG	as of:
GDP Growth (y-o-y)	5.6%	3M17	3.4%	3M17
Inflation (y-o-y)	0.2%	Mar-17	1.9%	Mar-17
Ind. prod. growth (y-o-y)	10.2%	Mar-17	6.0%	Mar-17
Trade balance (EUR bn)	-2.3	3M17	-0.7	3M17
y-o-y	*18.5%*		*83.9%*	
FDI (EUR bn)	1.1	3M17	-0.1	3M17
y-o-y change	*-20.4%*		*n.m*	
Total external debt/GDP	52.0%	Mar-17	70.3%	Feb-17
Reserves to short-term debt	186.6%	Mar-17	296.0%	Jan-17
Loans-to-deposits	81.2%	Mar-17	76.8%	Mar-17
Public sector debt-to-GDP	42.0%	Mar-17	27.1%	Mar-17

Commentary

Romania

Romania's first quarter GDP grew by 1.7% quarter-on-quarter and by 5.6% year-on-year, the highest growth in the EU. Detailed data on the sources of growth is not yet available. However, considering the recently adopted populist fiscal measures, such as an increase in pensions and salaries for certain categories of state employees as of February 2017, an increase in the minimum wage (+16%), and a decrease in the standard VAT rate from 20% to 19%, it is likely that private consumption was the key driver. However, industry also performed well in the first quarter, with industrial production increasing by 6.7% compared to the same quarter of the previous year.

Inflation stepped into positive territory in 2017 as prices increased by 0.2% year-on-year in March. The increase in prices was mainly driven by robust domestic demand and higher international commodities prices.

The Romanian leu fell 0.2% against the euro over the first quarter, triggered by the fiscal relaxation measures promoted by the ruling Social Democratic Party (PSD). A weaker leu should help Romanian exports.

Romania achieved a budget surplus of € 0.3bn over the first quarter, equivalent to 0.2% of GDP, compared to a 0.4% surplus over the first quarter of 2016. Budgetary receipts increased by 7.1% year-on-year in RON terms, from € 12.4bn to € 13.2bn. VAT collections, which made up 21.8% of total budgetary receipts, fell by 9.1% year-on-year due to the reduction in the standard VAT rate mentioned above. Following an increase in social taxes related to higher salaries, receipts from social contributions, which account for 28.2% of total budgetary receipts (being the largest revenue item), increased by 14.8% year-on-year. Corporate profit taxes, which represent 6.4% of total receipts, fell by 3.6% year-on-year. Total budgetary expenses increased by 10.4% year-on-year in RON terms, from €11.7bn to € 12.8bn, with personnel and social expenditures, which account for 65.4% of total expenses, increasing by 12.4%. Public investments amounted to only € 0.2bn, a worrying 31.5% year-on-year decrease, in RON terms, compared to the prior year.

As domestic demand continued to grow, imports increased by 12.4% over the first quarter, whilst exports increased by 11.5%. Accordingly, the first quarter trade deficit of € 2.3bn was up 18.5% year-on-year. Due to the negative evolution of the trade deficit, the first quarter current account balance was negative by € -0.7bn (or the equivalent of 0.4% of GDP), compared to a deficit of € 0.3bn over the same quarter of 2016. FDI inflows amounted to € 1.1bn, down from € 1.4bn in the same quarter of 2016. Romania's total external debt was € 93.1bn at the end of March, which represents a 0.9% year-to-date increase and amounts to approximately 52% of GDP. Total public debt was € 63.6bn, or

38% of GDP, at the end of March, up 1.1% year-to-date. The increase was due to new issues of RON-denominated domestic debt of € 1.6bn in the first quarter.

Total domestic non-governmental credit (which excludes loans to financial institutions) amounted to € 49.0bn at the end of March, and was up 1.4% year-to-date in RON terms. Corporate loans increased by 1.4% year-to-date and accounted for 46.6% of the total loan stock at the end of March. Household loans increased by 1.7% year-to-date, mainly due to housing loans which grew by 1.9% year-on-year in RON terms. Consumer loans stood at € 11.5bn at the end of March, having increased by 0.6% over the quarter. The overall deposit base was € 60.35bn at the end of March, having increased by only 0.2% year-to-date, in RON terms. Household deposits increased by 1.2% year-to-date in RON terms, from € 36.2m to € 36.5m. The NPL ratio was 9.6% at the end of February, slightly up on the 9.5% recorded at the end of December 2016.

Bulgaria

Bulgaria's first quarter GDP grew by 3.4% year-on-year, and by 0.8% compared to the previous quarter. Due to increased domestic demand, Bulgaria recorded a 1.9% year-on-year increase in prices in March, compared to an inflation rate of 0.1% in December 2016. Consumption increased by 4.1% year-on-year.

Over the first quarter, Bulgaria achieved a budget surplus of € 0.5bn, or 1.1% of GDP, which compares to a 2.0% of GDP surplus achieved over the same period last year. Tax revenues fell by 2.9%, from € 4.7bn to € 4.5bn, whilst total budgetary expenses increased by 8.4% from € 3.6bn to € 3.9bn. Gross external debt amounted to 70.3% of GDP, down from 73.1% at the end of 2016. Bulgaria's public sector debt fell by 2.4% year-to-date, from € 13.8bn to € 13.4bn, and amounted to 27.1% of GDP at the end of March, down from 29.1% at the end of 2016.

Bulgaria's trade balance worsened from a deficit of € -0.4bn in the first quarter of 2016 to a deficit of € -0.7bn in the same quarter of 2017, with exports increasing by 17.7% and imports increasing by 21.9% year-on-year. Helped by a € 0.5bn surplus from primary and secondary income and a € 0.2bn surplus from services, the current account balance was € 0.06bn in surplus, significantly lower than the € 0.2bn surplus achieved a year ago. FDI flows amounted to a negative € -0.1bn, compared to positive FDI inflows of € 0.2bn over the same quarter of 2016. The € -0.3bn fall was due to lower equity investments, which decreased from € 0.2bn to € 0.03bn, whilst intra-group loans shrank by € 0.1bn.

Total domestic non-governmental credit (which excludes loans to financial institutions) amounted to € 25.4bn at the end of March, and was up 1.3% year-to-date. Both corporate and household loans increased by 0.4% and 1.5%, respectively. NPLs accounted for 14.3% of the overall loan stock at the end of March, an increase from 14% at the end of 2016. The deposit base was flat at € 33.1bn at the end of March compared to the end of 2016.

At the end of March, the centre-right GERB party won the early parliamentary elections, beating the Socialist Party. GERB has formed a government with the support of three nationalist parties.

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