Reconstruction Capital II Ltd

("RC2" or the "Fund")

Quarterly Report

30 June 2019

neweuropecapital

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Statistics

NAV per share (€)	0.2224
Total NAV (€ m)	30.3
Share price (€)	0.1870
Mk Cap (€ m)	25.5
# of shares (m)	136.3
NAV/share since inception†	-53.12%
12-month NAV/share perfomance	-9.73%

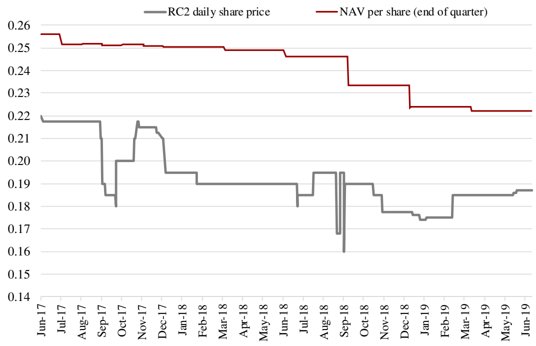
† assumes pro-rata participation in the 2008 share buy-back and the 2017 return of capital

RC2 Quarterly NAV returns

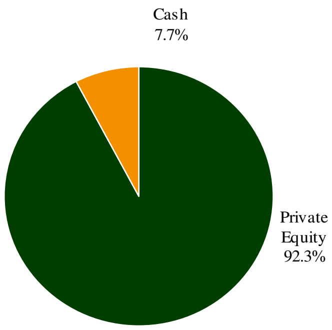
	2016	2017	2018	2019
1Q	8.62%	-29.08%*	-0.51%	0.12%
2Q	3.79%	-1.55%	-1.11%	-0.76%
3Q	-0.33%	-1.99%	-5.20%	
4Q	-12.57%	-0.32%	-4.17%	
YTD	-1.75%	-31.79%	-10.61%	-0.64%

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

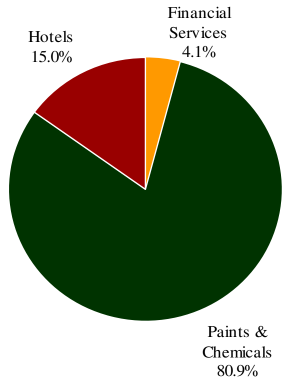
Share price / NAV per share (€)



Portfolio Structure by Asset Class



Equity Portfolio Structure by Sector



Message from the Adviser

Dear Shareholders

During the second quarter, RC2's NAV per share fell 0.76% from € 0.2241 to € 0.2224.

After a strong first quarter, Policolor's coatings sales weakened considerably in the second quarter, in part due to weak demand but also due to the difficulties in continuing to supply its full range of coatings prior to the opening of its new Bucharest factory. Over the first half of 2019, the Group generated recurring EBITDA (net of revenues and expenses allocated to the real estate division) of € 0.8m, significantly below the budgeted EBITDA of € 1.4m, mainly due to the lower coatings sales in the second quarter. The construction of Policolor's new Bucharest factory and warehouse has progressed well over the quarter, with construction works having been finalized by the end of July, one month later than originally planned.

Mamaia Resort Hotels' half year sales were better than over the same period last year, but higher expenses, especially related to staff costs and renovation works, resulted in an EBITDA loss of € -0.4m, compared to a loss of € -0.3m in the first semester of 2018. The re-decoration of the Hotel's beach-facing "Junona" wing bedrooms and the renovation of the kitchen were finalized in April, with the second phase of renovation works involving most of the public areas due to start in the autumn.

At the end of April, RC2 acquired 20% of Telecredit for € 185,000, bringing its shareholding in the Company to 100%. Over the second quarter, the shift in Telecredit's business model to SME financing services accelerated, with the book value of Telecredit's SME-focussed portfolio increasing from € 0.2m at the end of March to € 0.7m at the end of June, the latter being significantly higher than the budgeted figure of € 0.5m. Meanwhile, as expected due to the regulatory restrictions on pay day loans which came into effect at the beginning of 2019, pay day lending activity continued to fall, with the book value of the pay day loan book down from € 0.4m at the end of March to € 0.2m at the end of June. In order to support the expansion of Telecredit's SME loan book, at the end of June RC2 (Cyprus) Ltd, a wholly-owned subsidiary of RC2, provided Telecredit with a € 1m financing line.

At the end of June, RC2 and RC2 (Cyprus) Ltd had cash and cash equivalents of approximately € 2.3m, and short-term liabilities of € 0.1m.

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 produce and sell coatings, primarily in Romania and Bulgaria. The Group also includes Orgachim Resins, a producer of resins, and Ruse Chemicals, a producer of anhydrides, both being located in Bulgaria. All the Group companies are unlisted.

Group Financial results and operations

(EUR '000)	2017*	2018**	2019B	6M 2018**	6M 2019**	6M 2019B
Group Consolidated Income statement						
Sales revenues	**65,176**	**64,193**	**69,751**	**33,227**	**30,142**	**32,677**
sales growth year-on-year	*11.0%*	*-1.5%*	*8.7%*	*1.7%*	*-9.3%*	*-1.7%*
Other operating revenues	764	143	87	35	69	8
Total operating revenues	**65,940**	**64,336**	**69,838**	**33,262**	**30,211**	**32,685**
Gross margin	21,825	21,055	23,409	10,469	9,901	11,034
Gross margin %	*33.1%*	*32.7%*	*33.5%*	*31.5%*	*32.8%*	*33.8%*
Other operating expenses	(21,787)	(22,235)	(22,339)	(9,946)	(10,307)	(10,656)
Operating profit	**37**	**(1,180)**	**1,069**	**523**	**(406)**	**378**
Operating margin	*0.1%*	*-1.8%*	*1.5%*	*1.6%*	*-1.3%*	*1.2%*
Recurring EBITDA	**3,161**	**1,415**	**3,854**	**1,819**	**819**	**1,441**
EBITDA margin	*4.3%*	*2.2%*	*5.5%*	*5.5%*	*2.7%*	*4.4%*
Net extraordinary result - land sale	816	3,509	1,861	803	(598)	(519)
Nonrecurring items including relocation	555	386		16	(513)	(379)
Financial Profit/(Loss)	(942)	(735)	(246)	(357)	(303)	(118)
Profit before tax	**466**	**1,980**	**2,684**	**986**	**(1,820)**	**(638)**
Income tax	24	(1,011)	(1,269)	(102)		
Profit after tax	**490**	**969**	**1,415**	**884**	**(1,820)**	**(638)**
avg exchange rate (RON/EUR)	*4.57*	*4.65*	*4.75*	*4.65*	*4.74*	*4.75*

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

After a strong first quarter, sales of coatings weakened considerably in the second quarter, in part due to weak demand but also due to difficulties in continuing to supply the full range of coatings prior to the opening of Policolor's new Bucharest factory. On the other hand, sales of resins held up well in the second quarter, whilst the anhydrides plant has not generated any meaningful revenues since the beginning of the year, mainly due to the plant being closed for the replacement of its catalyst, a process which has to take place every 5 years. Overall, the Group generated consolidated operating revenues of € 30.1m in the first half of 2019, down 9.2% year-on-year and 7.6% below budget.

Over the first half of the year, the Group generated recurring EBITDA (net of revenues and expenses allocated to the real estate division) of € 0.8m, significantly below the budgeted EBITDA of € 1.4m, mainly due to the lower coatings sales in the second quarter.

The construction of Policolor's new Bucharest factory and warehouse has progressed well over the quarter, with the construction works having been finalized by the end of July, one month later than originally planned.

Mamaia Resort Hotels

Background

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

Financial results and operations

(EUR '000)	2017*	2018*	2019B	6M 2018**	6M 2019**	6M 2019B
Income Statement						
Total Operating Revenues, of which:	**2,562**	**2,584**	**3,046**	**614**	**735**	**772**
Accommodation revenues	1,265	1,338	1,742	271	366	413
Food & beverage revenues	1,135	1,066	1,159	297	319	309
others	162	181	145	46	51	50
Total Operating Expenses	(2,740)	(2,438)	(2,602)	(963)	(1,233)	(1,076)
Operating Profit	**(178)**	**146**	**443**	**(349)**	**(498)**	**(304)**
Operating margin	*neg.*	*5.6%*	*14.6%*	*neg.*	*neg.*	*neg.*
EBITDA	**472**	**302**	**595**	**(271)**	**(422)**	**(227)**
EBITDA margin	*18.4%*	*11.7%*	*19.5%*	*neg.*	*neg.*	*neg.*
Profit after Tax	**(284)**	**45**	**299**	**(384)**	**(541)**	**(360)**
Net margin	*neg.*	*1.8%*	*9.8%*	*neg.*	*neg.*	*neg.*
Avg exchange rate (RON/EUR)	*4.57*	*4.65*	*4.75*	*4.65*	*4.74*	*4.75*

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

The Hotel is highly seasonal, and makes most of its revenues over the months of July and August.

The re-decoration of the Hotel's beach-facing "Junona" wing bedrooms and the renovation of the kitchen, which started at the end of 2018, were finalized just before the 1st May holiday which is also the official start of the Romanian seaside's summer season.

Operating revenues over the first semester were € 0.7m, up 19.7% year-on-year but 4.7% below budget. The June occupancy rate was 70%, above the budgeted rate of 57% and last year's 54%. Overall, the occupancy rate of 19% over the first semester was better than the 15.6% achieved over the same period last year. The higher occupancy rate and higher tariffs resulted in accommodation revenues of € 0.4m over the first half of the year, up 34.8% year-on-year. Food & Beverage revenues also increased, but by a lesser 7.4%.

The six-month EBITDA loss of € -0.4m was worse than the budgeted loss of € -0.2m, due to the lower than expected revenues, but also increased salary expenses and certain renovation related costs which were not initially budgeted.

The second phase of the Hotel's renovation works, involving the facades, lobby, restaurants and bar area, is due to start in the autumn after the end of the summer season.

Telecredit

Background

RC2 owns, through two wholly-owned subsidiaries, a 100% shareholding in Telecredit IFN S.A. ("Telecredit" or the "Company"), a Romanian Non-Banking Financial Institution ("IFN") that provides consumer loans to individuals and financing services to SMEs.

Financial Results and operations

EUR'000	2017*	2018*	2019B	6M 2018**	6M 2019**	6M 2019B
Income Statement						
Interest revenues from pay day lending, of which:	**1,617**	**1,791**	**885**	**895**	**580**	**581**
"regular" interest	1,219	1,124	519	568	340	343
penalty interest	397	667	366	327	240	238
Interest revenues from SMEs lending			**329**		**39**	**42**
Total operating expenses:	**(1,450)**	**(1,719)**	**(836)**	**(832)**	**(627)**	**(582)**
Provisions	(159)	(564)	321	(264)	(122)	(40)
Other Operating expenses	(1,290)	(1,155)	(1,157)	(568)	(505)	(542)
Operating profit (before depreciation)	**167**	**73**	**378**	**63**	**(48)**	**(1)**
Depreciation	(19)	(23)	(52)	(11)	(23)	(23)
Operating profit (after depreciation)	**148**	**49**	**326**	**52**	**(70)**	**(24)**
Operating profit (after depreciation) mar	*9.2%*	*2.7%*	*26.9%*	*5.8%*	*-11.3%*	*-3.8%*
Financial result	(1)	0	3	(1)	2	3
Profit before tax	148	49	329	51	(68)	(21)
Profit after tax	**122**	**18**	**265**	**38**	**(68)**	**(29)**
net margin	*7.6%*	*1.0%*	*29.7%*	*4.2%*	*-11.0%*	*-4.6%*
Avg exchange rate (RON/EUR)	*4.57*	*4.65*	*4.75*	*4.65*	*4.74*	*4.75*

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

At the end of April, RC2 acquired 20% of Telecredit for € 185,000, thereby bringing its shareholding in the Company to 100%.

Over the second quarter, the shift in Telecredit's business model to SME financing services accelerated, with the official launch of *Omnicredit,* Telecredit's online financing platform for SME's, having taken place at the beginning of June. Telecredit granted € 1.2m of factoring services and microloans over the second quarter, compared to € 0.3m the prior quarter.

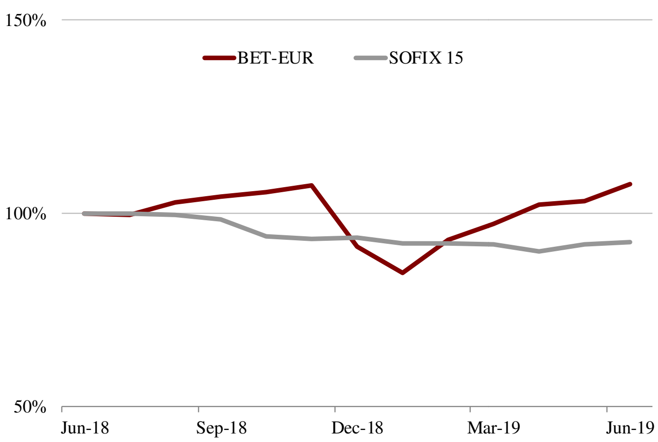
The book value of Telecredit's SME-focussed portfolio increased from € 0.2m at the end of March to € 0.7m at the end of June, the latter being significantly higher than the budgeted figure of € 0.5m. The SME book generated revenues of € 0.04m during the first half of 2019.

Meanwhile, as expected due to the regulatory changes which took effect at the beginning of 2019, pay day lending continued to fall, with corresponding interest revenues down from € 0.9m in the first half of 2018 to € 0.6m over the same period this year. Telecredit granted 7,100 pay day loans over the first semester, which is 45% lower year-on-year, but slightly better than the budget target of 6,900 loans. Of the 7,100 loans granted, 38% were rollovers, 54% were to recurring clients, and only 8% represented loans to new clients. The net value of Telecredit's pay day loan book was € 0.2m at the end of June, down from € 0.4m at the end of the previous quarter.

In order to support the expansion of the Company's SME loan book, at the end of June, RC2 Cyprus, a wholly-owned Cyprus subsidiary of RC2, provided Telecredit with a € 1m financing line, with funds to be deployed as needed by Telecredit during the next eighteen months.

Capital Market Developments

BET-EUR and SOFIX-15: 1 year performance



Commentary

During the second quarter, the Romanian BET index and the Bulgarian SOFIX 15 index gained 10.7% and 0.6%, respectively, both in euro terms. Over the same quarter, the MSCI Emerging Market Eastern Europe and S&P indices were up by 9% and 2.5%, respectively, whilst the MSCI Emerging Market and the FTSE100 indices both fell by 1.5% respectively, all in euro terms.

Over the past twelve months, the BET-EUR index gained 7.5% while the SOFIX 15 index fell by 7.3%, both in euro terms. By comparison, the MSCI Emerging Market Eastern Europe, the MSCI Emerging Market and the S&P indices gained 19.4%, 1.4% and 11.25%, respectively, whilst the FTSE100 index lost 3.8%, all in euro terms.

Macroeconomic Overview

Overview

	RO	as of:	BG	as of:
GDP Growth (y-o-y)	5.0%	3M19	3.5%	3M19
Inflation (y-o-y)	3.8%	Jun-19	2.8%	Jun-19
Ind. prod. growth (y-o-y)	-2.3%	May-19	0.6%	May-19
Trade balance (EUR bn)	-6.5	5M19	-0.6	5M19
y-o-y	*30.1%*		*-50.6%*	
FDI (EUR bn)	1.5	5M19	-0.1	5M19
y-o-y change	*-10.2%*		*n.m.*	
Budget balance/GDP	-1.4%	5M19	2.6%	5M19
Total external debt/GDP	48.4%	May-19	57.4%	May-19
Public sector debt/GDP	35.1%	May-19	19.6%	May-19
Loans-to-deposits	78.1%	Jun-19	73.8%	Jun-19

Commentary

Romania

The Romanian National Statistics Institute has slightly adjusted downwards the year-on-year first quarter GDP growth from the previously reported 5.1% to 5.0%. As expected, the main trigger of the growth was private consumption which increased by 4.5% year-on-year. Investments (especially new construction works) made an important contribution to the first quarter's economic growth, having increased by 5.7%. Meanwhile, industrial production increased by only 1.2% year-on-year over the first quarter. Information about Romania's second quarter GDP performance is not yet available.

Driven by a steep increase in food prices (+5% year-on-year), and services (+4.3%), the latter also the result of an increase in telecommunication prices due to the Government's decision to impose a 3% tax on the turnover of telecom companies, the inflation rate reached 3.8% in June, down from 4.0% in March, but up from 3.3% in December.

Voter turnout at the end of May European elections was 51% in Romania, slightly higher than the EU average of 50.6%. The opposition parties won a significantly higher share of the vote than the ruling Social Democratic Party's 22.5%, with the National Liberal Party gaining 27% and the Save Romania and Plus alliance gaining 22.4%. A referendum on the independence of the judiciary called by President Iohannis on the same day and supported by the opposition parties also resulted in over 80% of electors voting to stop the process of weakening anti-corruption measures.

Helped by the results of the European elections, and due to Romania's relatively high yields compared to its peers in the region, the Romanian leu gained 0.6% against the euro in the second quarter. However, the leu has depreciated by 1.5% against the euro since the beginning of the year.

Romania's fiscal outlook has worsened considerably, with the country posting a budget deficit of € -3.1bn over the first five months, the equivalent of -1.4% of GDP, compared to a -0.9% deficit over the same period in 2018. The 2.8% budget deficit target for the whole of 2019 is likely to be missed, given the under-achievement so far this year, and a newly approved pension law which envisages a three-year plan of pension increases. Budgetary receipts increased from € 23.8bn to € 26.1bn (+11.6% year-on-year in RON terms), triggered by higher social contributions (+18.5%), as well as higher corporate income tax receipts (+11.4%) and higher VAT collections (+12.8%). On the other hand, total budgetary expenses increased by 16.3% in RON terms, from € 25.6bn to € 29.2bn, with personnel and social expenditures, which accounted for 64% of total expenses, increasing by 19.3%. Public investment amounted to € 1.3bn, the equivalent of 0.6% of GDP, unchanged compared to the same period of 2018.

With consumption the main driver of GDP growth, the trade gap widened by 30.1% year-on-year over the first five months (from € -5bn to € -6.5bn), as imports grew by 8.3% while exports increased by a lesser 4.4%. The negative evolution of the trade balance resulted in a € -3.4bn current account deficit, which is the equivalent of -1.6% of GDP and compares unfavourably to the € -2.6bn deficit over the same period in 2018. FDI flows amounted to € 1.5bn over the first five months of 2019, down from € 1.7bn over the same period the previous year. Romania's total external debt amounted to € 103.5bn at the end of May, which represents a 4% year-to-date increase and amounts to approximately 48% of GDP. Public debt was € 71.8bn, or 35.1% of GDP, at the end of May, up 2.9% year-to-date in nominal RON terms. As expected, due to the considerably higher budget deficit, Romania has gone to the international financial markets for its borrowing needs. In March, it raised € 3bn in three eurobond issues, as follows: a € 1.15bn 7-year eurobond at a yield of 2.35%; a € 0.5bn 15-year eurobond at a yield of 3.65%; and a € 1.35bn 30-year eurobond at a yield of 4.65%. By way of comparison, Romania borrowed € 3.75bn and USD 1.2bn in 2018.

Total domestic non-governmental credit (which excludes loans to financial institutions) was € 55.4bn at the end of June, up 3.3% year-to-date in RON terms. Household loans reached € 29bn at the end of June, having increased by 3.1% year-to-date, and accounting for 52% of total loans outstanding. Consumer loans increased by 1.8% year-to date and accounted for 43% of household loans. Housing loans increased by 4.1% year-to-date, from € 15.8bn to € 16.1bn. In terms of quarter-on-quarter dynamics, the growth pace has slowed down for housing loans (from +2.4% in the first quarter to +1.7% in the second), whilst the quarterly growth rate for consumer loans increased from +0.2% in the first quarter to +1.5% in the second. Corporate loans reached € 24.4bn at the end of June, having increased by 2.7% since the beginning of the year.

The overall deposit base was € 70.9bn at the end of June, up 2.2% year-to-date in RON terms. The NPL ratio has continued to fall, from 5.05% at the end of 2018 to 4.8% at the end of May.

Bulgaria

Bulgaria's revised first quarter year-on-year GDP increase was 3.5% (compared to 3.4% as previously reported). As anticipated, private consumption was the main growth driver, having increased by 4.9% year-on-year over the first quarter.

Driven by higher food and utility prices, Bulgaria's inflation rate reached 2.8% in June, compared to 2.7% in December 2018, but lower than the previous quarter's inflation rate of 3.6%.

Bulgaria ran a positive budget surplus of € 1.5bn, or 2.6% of GDP, over the first five months of 2019, significantly better than the 1.3% surplus achieved over the same period of 2018. Tax proceeds increased by 17.2% year-on-year, whilst total budgetary expenses increased by a lesser 7.1%. Bulgaria's public sector debt was 19.6% of GDP at the end of May, down from 19.8% at the end of the previous quarter, owing to the fiscal surplus. Gross external debt amounted to € 34bn, or 57.4% of GDP, at the end of May 2019, a 1.9% year-to-date increase.

Bulgaria's January-May trade deficit of € -0.6bn was better than the € -1.1bn deficit recorded in the same period of 2018. Exports grew by 10.3% year-on-year, while imports increased by 4.4%. The trade deficit was counter-balanced by a € 0.9bn surplus from primary and secondary incomes and a € 0.7bn surplus from services, resulting in a positive current account balance of € 1bn over the first five months, a significant improvement over the € 76m deficit recorded in the same period of 2018. However, the FDI situation has continued to deteriorate in 2019, with net outflows amounting to € -56m, the net result of negative equity investment of € -0.7bn, and positive intra-group loans of € 0.66bn.

Total domestic non-governmental credit (which excludes loans to financial institutions) increased from € 27.9bn at the end of December 2018 to € 28.8bn at the end of June, as corporate and household loans increased by 2.6% and 4.2%, respectively. At the same time, housing and consumer loans increased by 5.7% and 6%, respectively. The deposit base was € 39bn at the end of June, up from € 38.2bn at the end of December 2018.

Within the context of a very low voter turnout of only 33%, the ruling centre-right GERB party won Bulgaria's European Parliament elections.

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