Reconstruction Capital II Ltd

("RC2" or the "Fund")

Quarterly Report

31 March 2020

neweuropecapital

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Statistics

NAV per share (€)	0.1439
Total NAV (€ m)	19.5
Share price (€)	0.1075
Mk Cap (€ m)	14.6
# of shares (m)	135.9
NAV/share since inception†	-61.33%
12-month NAV/share perfomance	-35.79%

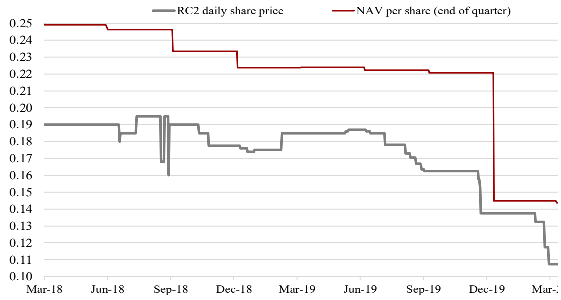
† assumes pro-rata participation in the 2008 share buy-back and the 2017 return of capital

RC2 Quarterly NAV returns

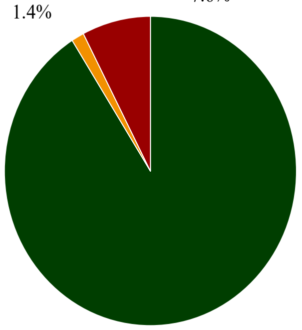
	2017	2018	2019	2020
1Q	-29.08%*	-0.51%	0.12%	-0.77%
2Q	-1.55%	-1.11%	-0.76%	
3Q	-1.99%	-5.20%	-0.75%	
4Q	-0.32%	-4.17%	-34.31%	
YTD	-31.79%	-10.61%	-35.22%	-0.77%

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

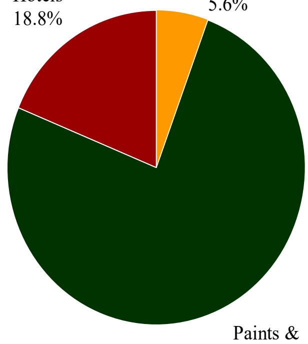
Share price / NAV per share (€)



Portfolio Structure by Asset Class



Equity Portfolio Structure by Sector



Message from the Adviser

Dear Shareholders

During the first quarter, RC2's total NAV fell by € 0.2m, and its NAV per share fell by 0.77% from € 0.1450 to € 0.1439, mainly due to the operating expenses incurred over the quarter.

The Romanian and Bulgarian governments took severe and timely measures to contain the spread of Covid-19 when the numbers of cases and fatalities were still relatively low compared to Western Europe. In Romania, a strict lockdown started on the 25 March, with people only being allowed to leave their residences for a limited number of reasons; whilst in Bulgaria (where there were proportionately even fewer declared cases of Covid-19), intercity travel was banned from the 13 March, but freedom of movement within one's locality continued to be allowed.

The first quarter of the year is typically the "low season" for the Policolor Group, with weak sales of building materials during the coldest months of the year. This year, the Group's first quarter results were more influenced by the unseasonally good weather which meant that both Romania and Bulgaria avoided a harsh winter, than by the anti-Covid governmental measures, which in any event only affected sales during the last few days of the quarter. Sales of coatings were only 4.6% below budget, but 8% higher than last year when the business was forced to operate without two of its new production plants. During the first quarter of 2020, the Group reported a recurring EBITDA loss of only € -0.1m, compared to a much higher budgeted loss of €-0.7m. Looking forward, Policolor appears to be the investee company least affected by the pandemic, with practically all DIY large-scale stores (and many smaller stores) remaining open during the lockdown, and some customers even using the lockdown to undertake DIY activities in their homes.

Mamaia Resort Hotels was closed for renovation works during the quarter. Its initial plan was to re-open in late April in time for the 1 May vacation, but due to the Covid-19 pandemic it is still unclear when the Hotel will be allowed to re-open and in what conditions.

Telecredit deployed € 2.9m in financing products to small and medium sized enterprises in the first quarter, generating a marginal Operating Profit before Depreciation, compared to a marginal loss in the budget. Due to the impact of the pandemic, the company has had to tighten its lending criteria to reflect the difficulties small and medium-sized companies are currently facing.

At the end of March, RC2 and RC2 (Cyprus) Ltd had cash and cash equivalents of approximately € 0.3m, loan receivables from Telecredit of € 1.5m, and short-term liabilities of € 0.2m.

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)	2018*	2019*	2020B***	3M 2019**	3M 2020**	3M 2020B***
Group Consolidated Income statement						
Sales revenues	**64,038**	**59,982**	**72,825**	**11,299**	**12,903**	**13,495**
sales growth year-on-year	*-1.7%*	*-6.3%*	*13.7%*	*-6.2%*	*14.2%*	*19.4%*
Other operating revenues	575	577		124	6	
Total operating revenues	**64,613**	**60,560**	**72,825**	**11,423**	**12,909**	**13,495**
Gross margin	21,055	18,947	23,687	3,418	3,921	3,869
Gross margin %	*32.6%*	*31.3%*	*32.5%*	*30.3%*	*30.4%*	*28.7%*
Other operating expenses	(22,352)	(22,229)	(21,526)	(5,146)	(4,525)	(5,074)
Operating profit	**(1,297)**	**(3,282)**	**2,161**	**(1,728)**	**(604)**	**(1,205)**
Operating margin	*-2.0%*	*-5.4%*	*3.0%*	*-15.1%*	*-4.7%*	*-8.9%*
Recurring EBITDA	**1,884**	**887**	**4,160**	**(546)**	**(96)**	**(708)**
EBITDA margin	*2.9%*	*1.5%*	*5.7%*	*-4.8%*	*-0.7%*	*-5.2%*
Net extraordinary result - land sale	1,706	2,057		(271)	(7)	-
Nonrecurring items including relocation	(620)	(1,749)	120	(204)	(31)	(45)
Financial Profit/(Loss)	(751)	(879)	(722)	(127)	(116)	(154)
Profit before tax	**(342)**	**(2,103)**	**1,439**	**(1,855)**	**(720)**	**(1,359)**
Income tax	(371)	(319)	(190)			
Profit after tax	**(713)**	**(2,423)**	**1,249**	**(1,855)**	**(720)**	**(1,359)**
avg exchange rate (RON/EUR)	*4.65*	*4.75*	*4.75*	*4.74*	*4.80*	*4.75*

*Note: * IFRS audited, ** IFRS unaudited, *** Management's budget*

At € 9.2m, sales of coatings during the first quarter were only 4.6% below budget, and 8% higher than last year when the Group was forced to operate without two of its new production plants due to the relocation of production. During the quarter, the Group's coatings sales were more affected by the unseasonally warm weather (with Romania and Bulgaria both avoiding a harsh winter), than by the Covid-19 outbreak, which only affected sales during the last days of March, and in any event with the bulk of large DIY retailers as well as many smaller paints and building material shops remaining open in both countries.

Sales of resins (including sales to Group companies) amounted to € 3.7m, which was 20% above last year and 7% above budget, whilst sales of anhydrides (including sales to Group companies) reached € 1.0m, 31% below the budget due to limited availability of the main raw material at commercially viable prices.

Over the first quarter of 2020, the Policolor Group generated a recurring EBITDA loss (excluding revenues and expenses allocated to the real estate division) of € -0.1m, significantly better than the budgeted loss of € -0.7m, helped by production efficiencies, lower raw material costs, a favourable mix of products sold and operating cost savings.

In the light of the Covid-19 outbreak, which will have a greater effect on Policolor in the second quarter, the Group's management has implemented a number of cost reduction and cash preservation measures, as well as measures for the protection of its employees.

The 2020 budget shown above does not reflect the effects of the Covid-19 pandemic.

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)	2018*	2019**	2020B***	3M 2019**	3M 2020**	3M 2020B***
Income Statement						
Total Operating Revenues, of which:	**2,584**	**2,955**	**3,212**	**64**	**6**	**11**
Accommodation revenues	1,338	1,627	1,854	26	0	-
Food & beverage revenues	1,066	1,127	1,191	29	1	1
others	181	200	167	9	5	10
Total Operating Expenses	(2,438)	(2,911)	(2,939)	(404)	(409)	(434)
Operating Profit	**146**	**44**	**273**	**(340)**	**(403)**	**(423)**
Operating margin	*5.6%*	*1.5%*	*8.5%*	*neg.*	*neg.*	*neg.*
EBITDA	**302**	**196**	**423**	**(302)**	**(366)**	**(385)**
EBITDA margin	*11.7%*	*6.6%*	*13.2%*	*neg.*	*neg.*	*neg.*
Profit after Tax	**45**	**(55)**	**183**	**(342)**	**(412)**	**(445)**
Net margin	*1.8%*			*neg.*	*neg.*	*neg.*
Avg exchange rate (RON/EUR)	*4.65*	*4.75*	*4.80*	*4.74*	*4.80*	*4.80*

*Note: *RAS (audited), **RAS (management accounts), ***Management's budget*

The Hotel remained closed over the first quarter due to ongoing renovation works on its facades, the lobby, bar area and restaurants.

According to the 2020 budget shown above, which was prepared by management before the Covid-19 outbreak and which does not reflect the potential effects of the pandemic, the Hotel was due to open at the end of April in time for the 1 May holiday, which is typically the start of the summer season. However, so far, the Romanian Government has yet to decide on a specific calendar for allowing the re-opening of seaside hotels and restaurants, as well as the social distancing and hygiene conditions under which such hotels will be allowed to operate.

Due to the sudden withdrawal of a planned bank loan in the light of the Covid-19 crisis, RC2 provided a bridge loan of € 0.3m to the Hotel in early April, in order to help it finalize those renovation works necessary for the Hotel to re-open during the summer months.

The Company has also applied for new loans to help it complete its investment plan in the autumn and to meet its working capital needs, under a programme of state-guaranteed loans to support small and medium sized enterprises affected by the Covid-19 pandemic, but its application has not yet received final approval.

Telecredit

Background

Telecredit IFN S.A. ("Telecredit" or the "Company") is a Romanian Non-Banking Financial Institution ("IFN") whose main activity is providing factoring and discounting services, and microloans, to small and medium-sized companies ("SMEs"). RC2 owns, through one of is wholly-owned subsidiaries, an 85% shareholding, whilst the balance of 15% is owned by the Company's CEO, Elisa Rusu.

Financial Results and operations

(EUR '000)	2018*	2019*	2020B***	3M 2019**	3M 2020**	3M 2020B***
Income Statement						
Interest revenues from pay day lending	**1,791**	**824**	**13**	**344**	**23**	**13**
Interest revenues from SMEs lending, of which:		**340**	**1,330**	**3**	**234**	**179**
Factoring and Discounting		287	1,144	3	200	150
Microloans		53	186		33	29
Total operating expenses:	**(1,719)**	**(1,074)**	**(1,015)**	**(391)**	**(249)**	**(211)**
Provisions, of which:	(564)	(64)	74	(113)	(45)	72
Pay day lending	(564)	(61)	181	(113)	42	83
SMEs lending		(3)	(107)	-	(87)	(11)
Other Operating expenses	(1,155)	(1,010)	(1,089)	(278)	(204)	(283)
Operating profit before depreciation	**73**	**77**	**328**	**(44)**	**8**	**(19)**
Depreciation	(23)	(81)	(87)	(13)	(15)	(17)
Operating profit after depreciation	**49**	**(4)**	**241**	**(57)**	**(7)**	**(36)**
Operating profit after depreciation margi	*2.7%*	*-0.4%*	*17.9%*	*-16.4%*	*-2.6%*	*-18.7%*
Financial result	-	(27)	(151)	3	(26)	(11)
Profit after tax	**18**	**(54)**	**75**	**(54)**	**(32)**	**(47)**
net margin	*1.0%*	*-4.6%*	*5.6%*	*-15.6%*	*-12.5%*	*-24.6%*
Avg exchange rate (RON/EUR)	*4.65*	*4.75*	*4.80*	*4.74*	*4.80*	*4.80*

*Note: *RAS (audited), **RAS (management accounts), ***Management's budget*

Over the quarter, Telecredit generated interest revenues from SME financing of € 0.2m, 31% over budget. However, the effects of the Covid-19 crisis resulted in higher provisions of € 0.09m on the Company's SME financing book, compared to a budgeted € 0.01m.

Telecredit deployed € 2.9m in financing products to SMEs in the first quarter, 95% of which was factoring and discounting operations, with the balance of 5% being microloans. The book value of Telecredit's SME portfolio fell from € 2.2m at the end of December to € 2.0m at the end of March, in line with the budget. At the end of March, the SME loan book was split between € 1.1m of factoring services, € 0.6m of discounting services, and € 0.3m of micro loans.

The pay day activity generated only € 23,000 of interest revenues over the quarter, as the Company continued to wind down its pay day business, limiting itself to only refinancing existing loans. At the end of March, the net value of the pay day loan book amounted to € 0.01m, down from € 0.07m at the beginning of the year.

Prospects

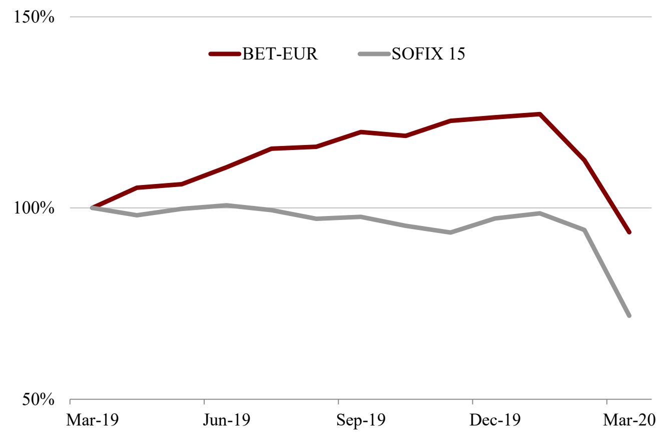
The Covid-19 pandemic has resulted in Telecredit tightening its lending criteria, whilst collections have also been affected, as its clients have been hit by the crisis to various degrees depending on the sectors in which they operate. Furthermore, at the end of March, the Romanian government passed an Ordinance enforcing a nine-month moratorium on principal repayments for companies which have been affected by the Covid-19 crisis. This only directly affects Telecredit's microloans business. However, the company also received a number of requests to reschedule payments from factoring and discounting clients.

Telecredit has applied for both a working capital and an investment loan under a programme of state-guaranteed loans to support small and medium sized enterprises affected by the Covid-19 pandemic, but its application has not received final approval.

The 2020 budget included in the table above does not take into account the effects of the Covid-19 pandemic.

Capital Market Developments

BET-EUR and SOFIX-15: 1 year performance



Commentary

During the first quarter, worldwide capital markets were severely affected by the Covid-19 crisis. The Romanian BET and the Bulgarian SOFIX 15 indices fell by 24.3% and 26.2%, respectively, in euro terms. Meanwhile, the MSCI Emerging Market Eastern Europe, the MSCI Emerging Market, and the FTSE100 and S&P indices were down by 35.2%, 22.1%, 28.1% and 18.1%, respectively, also all in euro terms.

Over the past year, the BET-EUR index lost 6.3% whilst the SOFIX 15 index fell by 28.2%, both in euro terms. By comparison, the MSCI Emerging Market Eastern Europe, the MSCI Emerging Market, the FTSE100 index and the S&P indices lost 24.2%, 18.0%, 24.0% and 6.7%, respectively, all in euro terms.

Macroeconomic Overview

Overview

	RO	as of:	BG	as of:
GDP Growth (y-o-y)	2.7%	3M20	2.4%	3M20
Inflation (y-o-y)	3.0%	Mar-20	3.0%	Mar-20
Ind. prod. growth (y-o-y)	-14.5%	Mar-20	-6.9%	Mar-20
Trade balance (EUR bn)	-4.5	3M20	-0.1	2M20
y-o-y	*19.7%*		*-30.6%*	
FDI (EUR bn)	- 0.6	3M20	0.0	2M20
y-o-y change	*n.a.*		*-11.2%*	
Budget balance/GDP	-1.7%	3M20	1.2%	3M20
Total external debt/GDP	48.1%	Mar-20	52.0%	Feb-20
Public sector debt/GDP	37.9%	Mar-20	20.1%	Mar-20
Loans-to-deposits	72.5%	Mar-20	72.2%	Mar-20

Commentary

Romania

Due to the Covid-19 pandemic, Romania declared a 30-day state of emergency on 16 March and subsequently extended it until mid-May, imposing restrictions on the freedom of movement from 25 March: Romanian citizens were allowed to travel only for work that could not be performed from home and for "essential" needs, whilst persons over 65 years old could only leave their homes during certain time intervals, and hotels, bars, restaurants, shopping malls, private medical clinics, gyms and parks were all closed. However, many shops remained open during the period. Schools and universities were closed on 12 March.

The state of emergency will end on 15 May, with a gradual lifting of restrictions thereafter: Romanians will be allowed free movement within the areas where they live, but travel between regions will still be limited. Schools will remain closed until September, whilst a date for the re-opening of indoor restaurants, coffee shops and shopping malls has not yet been announced. Hotels will still not to be allowed to accommodate tourists until 1 June at the earliest.

Romania's first quarter GDP grew by 0.3% quarter-on-quarter and by 2.7% year-on-year, but details about the sources of growth are not yet available. Due to the pandemic, the IMF is forecasting Romania's GDP to fall by 5% year-on-year in 2020, whilst in its latest Spring Economic Forecast, the European Commission is predicting that the country will go through a deeper recession with an annual GDP fall of 6%.

Given the circumstances, Romania's fiscal outlook has worsened, with the country posting a budget deficit of € -3.8bn over the first quarter, the equivalent of -1.7% of GDP, compared to a -0.5% deficit over the same quarter in 2019. Budgetary receipts fell from € 15.6bn to € 15.0bn, mainly due to 32% lower corporate tax receipts (the effect of falling economic activity and the postponement of taxes, which is one of the measures taken by the Government to help businesses in the light of the pandemic), and a 19% fall in VAT inflows. On the other hand, total budgetary expenses increased by 12.7% in RON terms, from € 16.7bn to € 18.8bn, with personnel and social expenditures, which accounted for 65.3% of total expenses, increasing by 13.5%. Public investment amounted to € 0.7bn, virtually unchanged year-on-year. Whilst Romania's fiscal problems preceded the pandemic, its budgetary position is expected to worsen significantly, with the European Commission forecasting the 2020 budget deficit to reach the equivalent of -9.25% of GDP.

With limited freedom of manoeuvre due to its weak fiscal position, the Romanian government has taken some measures to help businesses in the light of the Covid-19 pandemic, such as the postponement of certain taxes, the partial payment of the cost of furloughing employees, and a State-guaranteed financing programme to support small and medium sized companies applying for investment and working capital loans. In addition, the Government imposed a moratorium on loan repayments for mortgages and SME loans until the end of the year,

During the first quarter, the trade gap continued to widen, having increased by 19.7% year-on-year (from € -3.7bn to € -4.5bn), with imports growing by 1.3% while exports fell by 2.6%. The negative evolution of the trade balance resulted in a € -1.4bn current account deficit over the first quarter, which is the equivalent of -0.6% of GDP and compares unfavourably to the € -1.1bn deficit over the same period last year. Foreign Direct Investment also weakened, with quarterly net flows amounting to € -0.6bn, compared to positive flows of € 1.2bn over the same quarter last year, as equity investments fell by € 0.7bn, and intra-group loans fell by € 1.1bn. Romania's total external debt amounted to € 106.2bn at the end of March, which represents a 3.3% year-to-date increase, and amounts to approximately 48% of GDP. Public debt was € 83bn, or 38% of GDP, at the end of March, up 7.6% year-to-date in nominal RON terms.

With oil prices plummeting, the inflation rate reached 3% in March, down from 4% at the end of 2019. Although the pandemic has reduced overall demand, the National Bank of Romania ("NBR") is forecasting the December 2020 inflation rate to remain at 3% due to the effects of an expected poor agricultural harvest. Although the Romanian leu lost 1% against the euro over the first quarter, this compares favourably to its central European peers. In response to the Covid-19 crisis, the NBR cut its key monetary policy rate from 2.5% to 2.0%, and started purchasing RON-denominated government securities on the secondary market in order to support the public finances.

Total domestic non-governmental credit (which excludes loans to financial institutions) was € 56.4bn at the end of March, up 1.9% year-to-date in RON terms. Household loans reached € 30.1bn at the end of March, having increased by 1.5% year-to-date, and accounting for 53% of total loans outstanding. Consumer loans increased by 0.5% year-to-date and accounted for 42% of household loans, whilst housing loans increased by 2.4% year-to-date and accounted for 57% of household loans. Corporate loans reached € 24.9bn at the end of March, a 0.7% increase since the beginning of the year. The NPL ratio was 3.98% at the end of February, down from 4.08% at the end of December 2019. The overall deposit base was € 77.8bn at the end of March, up 2.2% year-to-date in RON terms.

Bulgaria

Bulgaria declared a state of emergency on 13 March due to the Covid-19 pandemic, closing all schools, bars, restaurants, gyms, cultural venues and parks, and imposing restrictions on intercity travel. Shops remained open during the period, and travel within one's locality was allowed. The restrictions will be lifted gradually from the 13 May.

Bulgaria's GDP increased by 2.4% year-on-year in the first quarter of 2020, driven by a 4.1% year-on-yar increase in consumption (both private and public consumption expenditures). Mainly due to the pandemic, the European Commission is forecasting Bulgaria's GDP to fall by 7% year-on-year in 2020.

In the first quarter, Bulgaria ran a budget surplus of € 0.7bn, or 1.2% of GDP, lower than the surplus of 1.6% recorded over the first quarter of 2019. Tax proceeds increased by 1.1% year-on-year, whilst total budgetary expenses increased by 6.9%, mainly due to personnel and social expenditures increasing by 8.4%, due to the base effect of a July 2019 pensions increase. Bulgaria's public sector debt was 20.1% of GDP at the end of March, marginally up from 19.9% at the end of 2019. Gross external debt amounted to € 33.8bn, or 52% of GDP, at the end of March, a 0.7% year-to-date fall.

In spite of its positive fiscal surplus, the measures taken by the Bulgarian government to contain the effect of the Covid-19 pandemic have been limited, including postponing the payment of certain taxes, and supporting (under certain conditions) the payment of employees' wages for companies whose activities have been affected by the pandemic. The Government has also mandated that borrowers affected by the pandemic can defer the repayment of principal and interest on their loans for up to six months under certain conditions.

Bulgaria's January to February trade deficit of € -0.1bn was better than the € -0.2bn deficit recorded over the same period last year. Exports grew by 4.9% year-on-year, while imports increased by 3.4%. The trade deficit was counter-balanced by a € 0.5bn surplus from primary and secondary incomes, and a € 0.3bn surplus from services, resulting in a positive current account balance of € 0.7bn, which is a significant improvement on the € 0.3bn surplus recorded over the same period last year. FDI inflows amounted to only € 37m, € 4.7m lower than over the first two months of 2019.

Bulgaria's inflation rate reached 3% at the end of March, compared to 3.8% in December 2019, driven by lower oil prices.

Total domestic non-governmental credit (which excludes loans to financial institutions) increased from € 30.0bn at the end of the previous quarter to € 30.3bn at the end of March, as corporate and household loans increased by 0.6% and 1.9%, respectively. The deposit base was € 41.9bn at the end of March, virtually unchanged since the beginning of the year. At the end of March, the NPL ratio was 6.4%, slightly down from 6.5% at the end of December 2019.

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