Reconstruction Capital II Ltd

("RC2" or the "Fund")

Quarterly Report

31 March 2019

New Europe Capital SRL
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Statistics

NAV per share (€)	0.2241
Total NAV (€ m)	30.5
Share price (€)	0.1850
Mk Cap (€ m)	25.2
# of shares (m)	136.3
NAV/share since inception†	-52.95%
12-month NAV/share perfomance	-10.05%

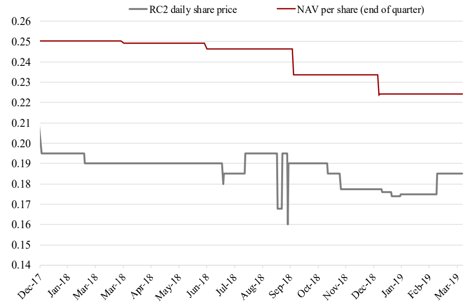
† assumes pro-rata participation in the 2008 share buy-back and the 2017 return of capital

RC2 Quarterly NAV returns

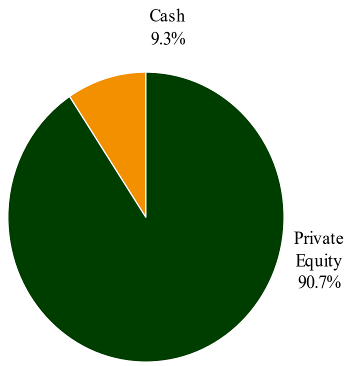
	2016	2017	2018	2019
1Q	8.62%	-29.08%*	-0.51%	0.12%
2Q	3.79%	-1.55%	-1.11%	
3Q	-0.33%	-1.99%	-5.20%	
4Q	-12.57%	-0.32%	-4.17%	
YTD	-1.75%	-31.79%	-10.61%	0.12%

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

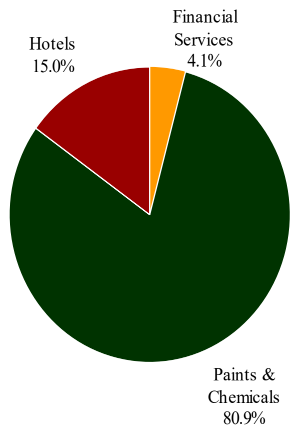
Share price / NAV per share (€)



Portfolio Structure by Asset Class



Equity Portfolio Structure by Sector



Message from the Adviser

Dear Shareholders

During the first quarter, RC2's bought back for cancellation 4.1m of its own shares at a total cost of € 0.65m. Whilst its total NAV fell by € 0.88m, RC2's NAV per share was up 0.12% from € 0.2238 to € 0.2241, mainly due to the accretive effect of the share buyback.

The Policolor Group's coatings division, which is by far its largest as well as its most profitable, performed slightly ahead of budget, with sales growing by 9.3% year-on-year, whilst sales of resins were around 10% below budget due to its clients' purchasing shifting towards cheaper products. The anhydrides plant was shut over the quarter due to the need to replace its catalyst. The first quarter is typically loss-making for the Group at operating level, due to the seasonality of coatings sales. Policolor achieved an EBITDA group loss of € 0.62m over the quarter compared to a budgeted EBITDA loss of € 0.94m, due to a better control of operating costs and the better than expected coatings sales.

Mamaia Resort Hotels' results were slightly above budget over the first quarter, but its operations are negligible over the winter months, and the results are not particularly significant. The renovations of the Hotel's beach-facing "Junona" wing bedrooms and the kitchen which started at the end of 2018 were finalized just before the 1 May holiday, which is also the official start of the Romanian seaside's summer season.

During the quarter, Telecredit started offering financing services to SME's, in line with its strategy to diversify away from pay day lending activities, due to new regulatory restrictions on such lending activities. By the end of the quarter, Telecredit had already granted € 0.25m of factoring services and micro loans to SME's. The Company is currently developing a new online platform for such services which should become functional by June. Telecredit has also continued to grant pay day loans in the first quarter, although, as expected, volumes fell by 40% year-on-year, due to the regulatory changes outlined above.

At the end of March, RC2 had cash and cash equivalents of approximately € 2.9m, and short-term liabilities of € 0.4m.

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	3M 2018**	3M 2019**	3M 2019B
Group Consolidated Income statement						
Sales revenues	**65,176**	**64,193**	**69,751**	**12,042**	**11,384**	**11,708**
sales growth year-on-year	*11.0%*	*-1.5%*	*8.7%*	*-3.8%*	*-5.5%*	*-2.8%*
Other operating revenues	764	143	87	(619)	39	4
Total operating revenues	**65,940**	**64,336**	**69,838**	**12,062**	**11,423**	**11,712**
Gross margin	21,825	21,055	23,409	3,508	3,352	3,435
Gross margin %	*33.1%*	*32.7%*	*33.5%*	*29.1%*	*29.4%*	*29.3%*
Other operating expenses	(21,787)	(21,840)	(22,339)	(13,184)	(12,639)	(13,186)
Operating profit	**37**	**(785)**	**1,069**	**(1,122)**	**(1,216)**	**(1,474)**
Operating margin	*0.1%*	*-1.2%*	*1.5%*	*-9.3%*	*-10.6%*	*-12.6%*
EBITDA	**3,161**	**1,810**	**3,854**	**(468)**	**(623)**	**(943)**
EBITDA margin	*4.3%*	*2.8%*	*5.5%*	*-3.9%*	*-5.5%*	*-8.1%*
Net extraordinary result - land sale	816	3,509	1,861	(94)	(271)	(343)
Nonrecurring items including relocation	555	(9)		(18)	(238)	(216)
Financial Profit/(Loss)	(942)	(735)	(246)	(162)	(123)	(60)
Profit before tax	**466**	**1,980**	**2,684**	**(1,396)**	**(1,848)**	**(2,093)**
Income tax	25	(1,011)	(1,269)			
Profit after tax	**491**	**969**	**1,415**	**(1,396)**	**(1,848)**	**(2,093)**
avg exchange rate (RON/EUR)	*4.57*	*4.65*	*4.75*	*4.66*	*4.74*	*4.75*

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

The final 2018 consolidated unaudited results of Policolor show an EBITDA of €1.8m, €0.8m lower than presented in the December quarterly, mainly as a result of expenses generated by the write off and impairment of historical stocks of products and raw materials, most of them in relation to the closure of production at Policolor’s Bucharest factory.

The first quarter results of the Policolor Group reflect a good performance of its coatings divisions, whose sales increased by 9.3% year-on-year, from € 7.8m to € 8.5m. On the other hand, sales of resins and chemicals fell from € 4.1m to € 2.8m, mainly due to the anhydrides plant being closed for the replacement of its catalyst.

In terms of budget achievement, sales of coatings were slightly above the budget (+0.5%), whilst sales of resins were 10% below budget due to a change in the sales mix as a result of a shift in clients’ buying patterns towards cheaper resins.

Due to the seasonality of sales of coatings, the first quarter of the year is typically loss-making at an operating level. Over the first quarter of 2019, the Group generated a recurring EBITDA loss (net of revenues and expenses allocated to the real estate division) of € -0.6m, which is better than the budgeted loss of € -0.9m, mainly helped by the coatings divisions’ good performance, and a better control of operating costs.

The construction of Policolor’s new Bucharest factory and warehouse is progressing according to plan, with both facilities being on track to be finalized during the summer of 2019.

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	3M 2018**	3M 2019**	3M 2019B
Income Statement						
Total Operating Revenues, of wh	**2,562**	**2,584**	**3,046**	**63**	**64**	**61**
Accommodation revenues	1,265	1,338	1,742	23	26	17
Food & beverage revenues	1,135	1,066	1,159	31	29	33
others	162	181	145	9	9	11
Total Operating Expenses	(2,740)	(2,438)	(2,602)	(311)	(404)	(405)
Operating Profit	**(178)**	**146**	**443**	**(248)**	**(340)**	**(344)**
Operating margin	*neg.*	*5.6%*	*14.6%*	*neg.*	*neg.*	*neg.*
EBITDA	**472**	**302**	**595**	**(209)**	**(302)**	**(306)**
EBITDA margin	*18.4%*	*11.7%*	*19.5%*	*neg.*	*neg.*	*neg.*
Profit after Tax	**(284)**	**45**	**299**	**(262)**	**(342)**	**(368)**
Net margin	*neg.*	*1.8%*	*9.8%*	*neg.*	*neg.*	*neg.*
Avg exchange rate (RON/EUR)	*4.57*	*4.65*	*4.75*	*4.66*	*4.74*	*4.75*

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

The first quarter revenues, although negligible at € 0.07m due to the seasonality of the hotel, were on budget, with the EBITDA loss of € -0.3m being also on target.

The renovations related to upgrading the Hotel’s beach-facing “Junona” wing bedrooms and 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.

The renovation of 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	3M 2018**	3M 2019**	3M 2019B
Income Statement						
Interest revenues from pay day lending, of which:	**1,617**	**1,791**	**885**	**434**	**344**	**347**
"regular" interest	1,219	1,124	519	279	198	204
penalty interest	397	667	366	154	146	144
Interest revenues from SMEs lending			**329**		**3**	**8**
Total operating expenses:	**(1,450)**	**(1,719)**	**(836)**	**(435)**	**(391)**	**(311)**
Provisions	(159)	(564)	321	(119)	(113)	(69)
Other Operating expenses	(1,290)	(1,155)	(1,157)	(316)	(278)	(242)
Operating profit (before depreciation)	**167**	**73**	**378**	**(2)**	**(44)**	**44**
Depreciation	(19)	(23)	(52)	(5)	(13)	(10)
Operating profit (after depreciation)	**148**	**49**	**326**	**(7)**	**(57)**	**34**
Operating profit (after depreciation) mar	*9.2%*	*2.7%*	*26.9%*	*-1.7%*	*-16.4%*	*9.7%*
Financial result	(1)	0	3	(0)	3	-
Profit before tax	148	49	329	(8)	(54)	34
Profit after tax	**122**	**18**	**265**	**(14)**	**(54)**	**34**
net margin	*7.6%*	*1.0%*	*29.7%*	*-3.3%*	*-15.6%*	*9.9%*
Avg exchange rate (RON/EUR)	*4.57*	*4.65*	*4.75*	*4.66*	*4.74*	*4.75*

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

Following the recruitment of a new CEO as part of its strategy to re-direct its business towards B2B lending, whilst continuing with pay day lending to the extent permitted by the more restrictive prudential regulations introduced by the National Bank of Romania, Telecredit started to finance SMEs in the first quarter of 2019, with € 0.25m having been already granted as factoring services and micro loans over the first quarter. The book value of Telecredit's SME-focussed portfolio was € 0.1m at the end of March.

The interest revenues generated by pay day lending decreased as expected, from € 0.4m in the first quarter of 2018 to € 0.3m in the same quarter this year, due to the recent regulatory changes outlined above which capped the indebtedness level (debt service-to-income) for RON-denominated loans to individuals at 40%.

Telecredit granted 4,100 pay day loans over the quarter, which is 40% lower year-on-year, but slightly better than the budgeted 4,000. Of the 4,100 loans granted, 38% were rollovers, 52% were to recurring clients, and only 10% represented loans to new clients. The net value of Telecredit's pay day loan book was € 0.36m at the end of March, down from € 0.52m at the end of 2018.

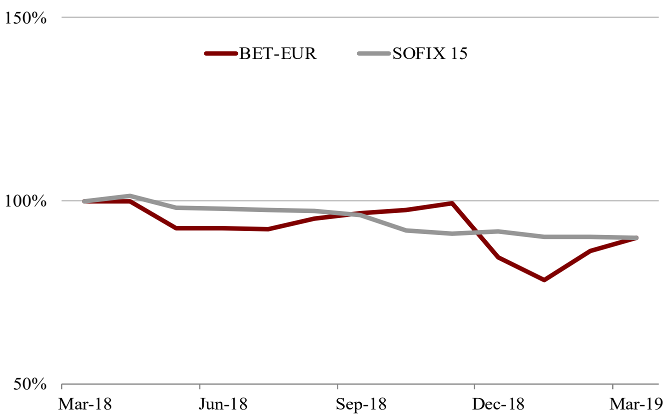
Prospects

The 2019 budget presented in the December 2018 Quarterly had been prepared shortly after the new CEO joined Telecredit in late January. Now that she has been in office for a few months she has presented a revised budget which also takes into a number of one-off expenses in the first quarter of 2019 due to the transition to the new business model. The revised budget, which is presented in the table above, provides for interest revenues of € 0.89m from pay day lending and € 0.33m of revenues from SME financing operations. The overall 2019 operating profit after depreciation is now budgeted at € 0.33m compared to € 0.5m in the initial budget.

The Company is currently developing software and an online platform for its SME financing activities, which is expected to go live in early June.

Capital Market Developments

BET-EUR and SOFIX-15: 1 year performance



Commentary

During the first quarter, the Romanian BET index gained 6.2% whilst the Bulgarian SOFIX 15 index fell by 1.8%, both in euro terms. Over the same quarter, the MSCI Emerging Market Eastern Europe, the MSCI Emerging Market, the FTSE100 and S&P indices were up by 10.6%, 11.8%, 12.6% and 15.4%, respectively, all in euro terms.

Over the past year, the BET-EUR and SOFIX 15 indices were both down by 10%, in euro terms. By comparison, the MSCI Emerging Market Eastern Europe, FTSE100 and S&P indices gained 5.1%, 4.7% and 17.6%, respectively, while the MSCI Emerging Market index lost 0.7%, all in euro terms.

Macroeconomic Overview

Overview

	RO	as of:	BG	as of:
GDP Growth (y-o-y)	5.1%	3M19	3.4%	3M19
Inflation (y-o-y)	4.0%	Mar-19	3.6%	Mar-19
Ind. prod. growth (y-o-y)	1.4%	Mar-19	2.8%	Mar-19
Trade balance (EUR bn)	-3.6	3M19	-0.2	3M19
y-o-y	*33.9%*		*-61.4%*	
FDI (EUR bn)	1.2	3M19	-0.3	3M19
y-o-y change	*-20.1%*		*n.m.*	
Budget balance/GDP	-0.5%	3M19	1.6%	3M19
Total external debt/GDP	46.6%	Mar-19	56.4%	Feb-19
Public sector debt/GDP	34.5%	Feb-19	19.8%	Mar-19
Loans-to-deposits	77.1%	Mar-19	73.3%	Mar-19

Commentary

Romania

Romania's first quarter GDP grew by 1.3% quarter-on-quarter and by 5.1% year-on-year. Although details about the sources of growth are not yet available, private consumption was most likely the main growth driver as in the prior year. Since construction activity grew by 5.7% year-on-year in the first quarter, unlike in 2018 when construction activity fell by 0.3%, construction was most likely also a trigger of the first quarter GDP growth.

Consumer prices continued to increase, with the inflation rate reaching 4% in March, up from 3.3% in December, mainly the effect of increased food prices, higher international oil prices and higher tobacco excises. The latest developments have prompted the National Bank of Romania ("NBR") to amend its forecast regarding the December 2019 inflation rate which is now 4.2%, up from an initial forecast of 3%.

The Romanian leu has been on a downward trend since the end of 2018, having fallen by 2.1% against the euro in the first quarter.

Romania's fiscal outlook has not improved, with the country posting a budget deficit of € -1.16bn over the first quarter, the equivalent of -0.54% of GDP, compared to a -0.47% deficit over the same quarter in 2018. Budgetary receipts increased from € 14.3bn to € 15.8bn (+12.5% year-on-year in RON terms), triggered by higher social contributions (+21.9%), but also higher excise receipts (+16.8%) and higher VAT collections (+14.8%). On the other hand, total budgetary expenses increased by 13.2% in RON terms, from € 15.2bn to € 16.9bn, with personnel and social expenditures, which accounted for 64.8% of total expenses, increasing by 19.7%. Public investment amounted to € 0.7bn, down 20% year-on-year.

As consumption continued to increase, the trade gap widened by 33.9% year-on-year in the first quarter (from € -2.7bn to € -3.6bn), as imports grew by 7.4% while exports increased by only 3.2%. The negative evolution of the trade balance led to a € -1.21bn current account deficit, which is the equivalent of -0.57% of GDP and compares unfavourably to the € -1.0bn deficit over the same quarter in 2018. FDI flows amounted to € 1.2bn over the first quarter of 2019, down from € 1.6bn over the first quarter of the previous year. Romania's total external debt amounted to € 98.8bn at the end of March, which represents a 0.4% year-to-date increase and amounts to 47% of GDP. Total public debt was € 68.8bn, or 34.5% of GDP, at the end of February 2019, down 1.2% year-to-date in nominal RON terms.

Total domestic non-governmental credit (which excludes loans to financial institutions) was € 53.5bn at the end of March, up 1.5% year-to-date in RON terms. Household loans reached € 28.5bn at the end of March, having increased by 1.4% year-to-date, and accounting for 52.9% of total loans outstanding. Whilst consumer loans were virtually unchanged over the quarter, housing loans increased by 2.4% year-to-date. Corporate loans reached € 23.8bn at the end of March, having increased by 2.2% since the beginning of the year. The overall deposit base was € 69.5bn at the end of March, up 0.4% year-to-date in RON terms. The NPL ratio has continued to fall, from 4.95% at the end of 2018 to 4.82% at the end of March.

Bulgaria

Bulgaria's GDP increased by 3.4% year-on-year in the first quarter of 2019. Although details about the sources of growth are not yet available, domestic demand is likely to be the main growth driver, albeit at a slower pace.

Bulgaria's inflation rate also increased over the first quarter, reaching 3.6% in March, compared to 2.7% in December 2018, driven by higher food and utility prices.

In the first quarter, Bulgaria ran a positive surplus of € 0.9bn, or 1.6% of GDP, significantly better than the first quarter of 2018's surplus of 0.5%. Tax proceeds increased by 8.8% year-on-year, whilst total budgetary expenses increased by 3.2%, with public investment falling by 5.2% year-on-year. Bulgaria's public sector debt was 19.8% of GDP at the end of March, down from 22.1% at the end of 2018, owing to the fiscal surplus registered over the quarter, and the decision of the Bulgarian authorities not to issue any new external debt. Gross external debt amounted to € 33.3bn, or 56.4% of GDP, at the end of February 2019, and was virtually flat year-to-date.

Bulgaria's first quarter trade deficit of € -0.2bn was better than the € -0.6bn deficit recorded in the same period of 2018. Overall exports grew by 10.8% year-on-year, while overall imports increased by 4.2% over the same period. The trade deficit was aided by a € 0.6bn surplus from primary and secondary incomes and a € 0.3bn surplus from services, resulting in a positive current account balance of € 0.7bn over the first quarter, a significant improvement over the tiny € 5.7m surplus recorded in the first quarter of 2018. However, the FDI situation deteriorated considerably over the first quarter of 2019, with net outflows amounting to € -0.25bn, the net result of equity investments which were negative at € -0.64bn, whilst intra-group loans amounted to a positive € 0.38m.

Total domestic non-governmental credit (which excludes loans to financial institutions) increased from € 27.9bn to € 28.4bn over the first quarter, as corporate and household loans increased by 1.4% and 1.6%, respectively. At the same time, housing and consumer loans increased by 2.2% and 2.4%, respectively. The deposit base was € 38.7bn at the end of March, up from € 38.2bn at the end of December 2018. The NPL ratio fell from 7.6% at the end of 2018 to 7.4% at the end of March.

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