Reconstruction Capital II Ltd

("RC2" or the "Fund")

Quarterly Report

30 September 2019

neweuropecapital

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Statistics

NAV per share (€)	0.2207
Total NAV (€ m)	30.1
Share price (€)	0.1625
Mk Cap (€ m)	22.1
# of shares (m)	136.3
NAV/share since inception†	-53.30%
12-month NAV/share perfomance	-5.49%

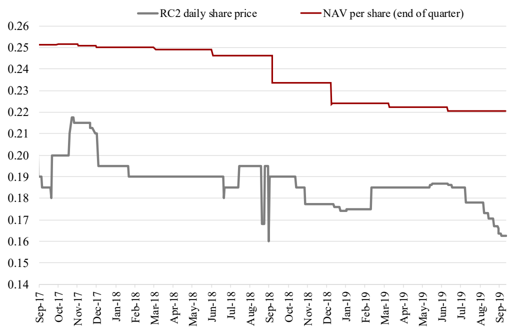
† assumes pro-rata participation in the 2008 share buy-back and the 2017 return of capital

RC2 Quarterly NAV returns

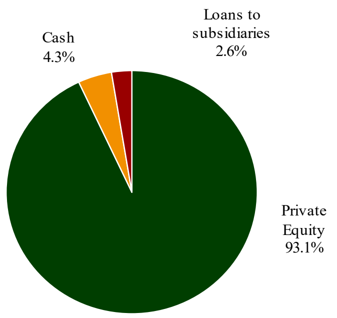
	2016	2017	2018	2019
1Q	8.62%	-29.08%*	-0.51%	0.12%
2Q	3.79%	-1.55%	-1.11%	-0.76%
3Q	-0.33%	-1.99%	-5.20%	-0.75%
4Q	-12.57%	-0.32%	-4.17%	
YTD	-1.75%	-31.79%	-10.61%	-1.38%

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

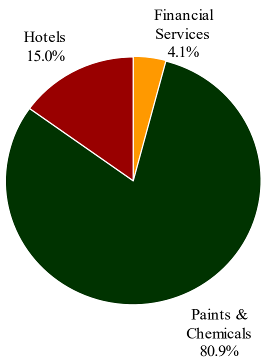
Share price / NAV per share (€)



Portfolio Structure by Asset Class



Equity Portfolio Structure by Sector



Message from the Adviser

Dear Shareholders

During the third quarter, RC2's NAV per share fell by 0.75% from € 0.2224 to € 0.2207.

At the end of September, Policolor sold the last plot of land on its main Theodor Pallady Bulevard Bucharest site, comprising 3.2 hectares, having cashed in € 3.4m at the date of the signing, whilst a further € 0.1m is due to be received in November 2019, and € 0.7m represents a "holdback" amount in respect of certain warranties and indemnities provided by Policolor, to be released, if applicable, in September 2020. In terms of operational results, whilst resins sales performed well, ongoing supply chain and production difficulties related to the relocation of production to a new factory affected the sales of paints and coatings. The construction works at Policolor's new Bucharest factory and warehouse plant were finalized at the end of July, with the production of test batches starting in August. Policolor is now in the process of obtaining authorizations for starting production, which is instrumental for securing the required production capacity in time for start of the 2020 season.

Mamaia Resort Hotels achieved an occupancy rate of 78% in the third quarter, in line with the budget. However, its nine-month EBITDA of € 0.6m was 32.8% below budget, mainly due to lower revenues in May and September, increased salary expenses and higher than expected expenses related to the re-decoration of the Hotel's beach-facing premium wing bedrooms, the restaurant terrace, and the kitchen's modernization, all of which were finalized just before the start of the summer season.

Following the launch of *Omnicredit*, a new platform for SME financing launched at the beginning of June, Telecredit has been focused on growing this business line, whilst pay day operations fell, as expected, due to the new regulatory debt service cap for Romanian individuals which came into force at the beginning of the year. At the end of September, the book value of the SME financing portfolio amounted to € 1.3m, significantly higher than the budgeted € 0.8m. At the same time, the net value of Telecredit's pay day loan book fell from € 0.2m at the end of June to € 0.1m at the end of September. By the end of September, Telecredit had drawn € 0.8m of the € 1.0m loan provided by RC2 in order to support the expansion of Telecredit's SME financing business.

At the end of September, RC2 and RC2 (Cyprus) Ltd had cash and cash equivalents of approximately € 1.3m, loan receivables of € 0.8m, 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	9M 2018**	9M 2019**	9M 2019B
Group Consolidated Income statement						
Sales revenues	**65,176**	**64,193**	**69,751**	**53,179**	**48,560**	**53,371**
sales growth year-on-year	*11.0%*	*-1.5%*	*8.7%*	*3.6%*	*-8.7%*	*0.4%*
Other operating revenues	764	143	87	115	92	35
Total operating revenues	**65,940**	**64,336**	**69,838**	**53,294**	**48,652**	**53,406**
Gross margin	21,825	21,055	23,409	17,077	16,423	18,670
Gross margin %	*33.1%*	*32.7%*	*33.5%*	*32.0%*	*33.8%*	*35.0%*
Other operating expenses	(21,787)	(22,235)	(22,339)	(15,485)	(15,641)	(16,526)
Operating profit	**37**	**(1,180)**	**1,069**	**1,591**	**782**	**2,144**
Operating margin	*0.1%*	*-1.8%*	*1.5%*	*3.0%*	*1.6%*	*4.0%*
Recurring EBITDA	**3,161**	**1,415**	**3,854**	**3,535**	**2,588**	**4,029**
EBITDA margin	*4.3%*	*2.2%*	*5.5%*	*6.6%*	*5.3%*	*7.5%*
Net extraordinary result - land sale	816	3,509	1,861	1,779	2,186	(531)
Nonrecurring items including relocation	555	386		(841)	(837)	(454)
Financial Profit/(Loss)	(942)	(735)	(246)	(560)	(590)	(284)
Profit before tax	**466**	**1,980**	**2,684**	**1,969**	**1,541**	**875**
Income tax	24	(1,011)	(1,269)	(334)	(319)	-
Profit after tax	**490**	**969**	**1,415**	**1,635**	**1,222**	**875**
avg exchange rate (RON/EUR)	*4.57*	*4.65*	*4.75*	*4.65*	*4.74*	*4.75*

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

2019 is a transition year dominated by the last phase of the Bucharest land sale, the construction of the new Bucharest factory and the problems these processes have generated, which have had a serious impact on the Group's operational performance.

The Group generated consolidated operating revenues of € 48.7m in the first nine months of 2019, 8.9% below the budget and 8.7% lower than the same period of last year. The lower sales reflect a relatively good performance by the resins division (4.4% above last year, although 4.8% below budget), weaker performance by the paints and coatings division (1.4% below last year and 10% below budget), whilst the anhydrides division has not generated any meaningful revenues, mainly due to the plant being closed for the replacement of its catalyst for the first four months of the year, and subsequently due to difficulties in sourcing raw materials.

In both Romania and Bulgaria, the sales of paints and coatings were negatively influenced by the production facility relocation which generated capacity constraints resulting in a number of difficulties in the supply of products and affected the sales performance.

Over the first nine months of the year, the Group generated recurring EBITDA (net of revenues and expenses allocated to the real estate division) of € 2.6m, significantly below the budgeted EBITDA of € 4.0m, mainly due to the lower paints and coatings sales.

The construction works at Policolor's new Bucharest factory and warehouse plant were finalized at the end of July, with the production of test batches starting in August. Policolor is now in the process of obtaining authorizations for starting production, which is instrumental for securing the required production capacity in time for start of the 2020 season.

At the end of September, Policolor sold the last plot of land on its main Theodor Pallady Boulevard Bucharest site, comprising 3.2 hectares, for a total price of € 5.2m, of which an advance of € 1m had already been received over 2017 and 2018. Originally, Policolor was due to receive the remaining balance of € 4.2m in the summer of 2019. However, pursuant to negotiations with the buyers, € 3.4m was received at the end of September, a further € 0.1m is due to be received in November 2019, and € 0.7m represents a "holdback" amount in respect of certain warranties and indemnities provided by Policolor, to be released, if applicable, in September 2020.

Overall, the Group made a net profit of € 1.2m for the nine-month period. However, that includes an extraordinary net revenue of € 2.2m from the land sale in September.

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	9M 2018**	9M 2019**	9M 2019B
Income Statement						
Total Operating Revenues, of which:	**2,562**	**2,584**	**3,046**	**2,459**	**2,825**	**2,831**
Accommodation revenues	1,265	1,338	1,742	1,290	1,598	1,668
Food & beverage revenues	1,135	1,066	1,159	1,013	1,087	1,034
others	162	181	145	156	139	128
Total Operating Expenses	(2,740)	(2,438)	(2,602)	(1,902)	(2,378)	(2,111)
Operating Profit	**(178)**	**146**	**443**	**557**	**447**	**720**
Operating margin	*neg.*	*5.6%*	*14.6%*	*22.7%*	*15.8%*	*25.4%*
EBITDA	**472**	**302**	**595**	**674**	**561**	**835**
EBITDA margin	*18.4%*	*11.7%*	*19.5%*	*27.4%*	*19.9%*	*29.5%*
Profit after Tax	**(284)**	**45**	**299**	**501**	**417**	**607**
Net margin	*neg.*	*1.8%*	*9.8%*	*20.4%*	*14.8%*	*21.5%*
Avg exchange rate (RON/EUR)	*4.57*	*4.65*	*4.75*	*4.65*	*4.74*	*4.75*

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

During the first nine months of 2019, the Hotel achieved revenues of € 2.8m, in line with the budget and up 15% year-on-year, a result of the new strategy of clearly differentiating the Hotel's product offering between a premium and a standard wing, and the related re-decoration of the Hotel's beach-facing "Junona" wing bedrooms and the restaurant terrace, which, together with the kitchen's modernization, were finalized just before the start of the summer season.

Overall, the occupancy rate of 39% over the first nine months of 2019 was better than the 36% achieved over the same period last year, but below the budgeted 42%, mainly due to a number of corporate events budgeted for May and September having been cancelled. The higher year-on-year occupancy rate and tariffs resulted in accommodation revenues of € 1.6m over January to September 2019%.

The nine-month EBITDA of € 0.6m was significantly lower than the budgeted EBITDA of € 0.8m, mainly due to certain renovation related costs which were not initially budgeted, but also due to increased salary expenses, which reflects both labour shortages and the government's policy of increasing the minimum wage. The Hotel is unlikely to generate significant revenues in the off-season remaining months of the year.

The second phase of the Hotel's renovation works, involving the facades, lobby, restaurants and bar area, are due to start in mid-November and are expected to last until April.

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	9M 2018**	9M 2019**	9M 2019B
Income Statement						
Interest revenues from pay day lending, of which:	**1,617**	**1,791**	**885**	**1,346**	**729**	**753**
"regular" interest	1,219	1,124	519	846	439	447
penalty interest	397	667	366	500	290	307
Interest revenues from SMEs lending			**329**		**146**	**136**
Total operating expenses:	**(1,450)**	**(1,719)**	**(836)**	**(1,273)**	**(702)**	**(589)**
Provisions	(159)	(564)	321	(463)	(87)	118
Other Operating expenses	(1,290)	(1,155)	(1,157)	(811)	(614)	(707)
Operating profit (before depreciation)	**167**	**73**	**378**	**72**	**28**	**165**
Depreciation	(19)	(23)	(52)	(17)	(37)	(36)
Operating profit (after depreciation)	**148**	**49**	**326**	**55**	**(10)**	**129**
Operating profit (after depreciation) margin	*9.2%*	*2.7%*	*26.9%*	*4.1%*	*-1.1%*	*14.5%*
Financial result	(1)	0	3	(1)	(9)	3
Profit before tax	148	49	329	54	(19)	131
Profit after tax	**122**	**18**	**265**	**35**	**(36)**	**99**
net margin	*7.6%*	*1.0%*	*29.7%*	*2.6%*	*-4.1%*	*11.2%*
Avg exchange rate (RON/EUR)	*4.57*	*4.65*	*4.75*	*4.65*	*4.74*	*4.75*

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

As expected due to the regulatory changes which took effect at the beginning of 2019, pay day lending activity continued to fall, with corresponding interest revenues down from € 1.3m in the first nine months of 2018 to € 0.7m over the same period this year. Telecredit granted 9,500 pay day loans over January to September 2019, which is 48% lower year-on-year, but slightly better than the budget target of 9,100 loans. Of the 9,500 loans granted, 37% were rollovers, 55% were to recurring clients, and only 8% represented loans to new clients. The net value of Telecredit's pay day loan book was € 0.1m at the end of September, down from € 0.2m at the end of the previous quarter.

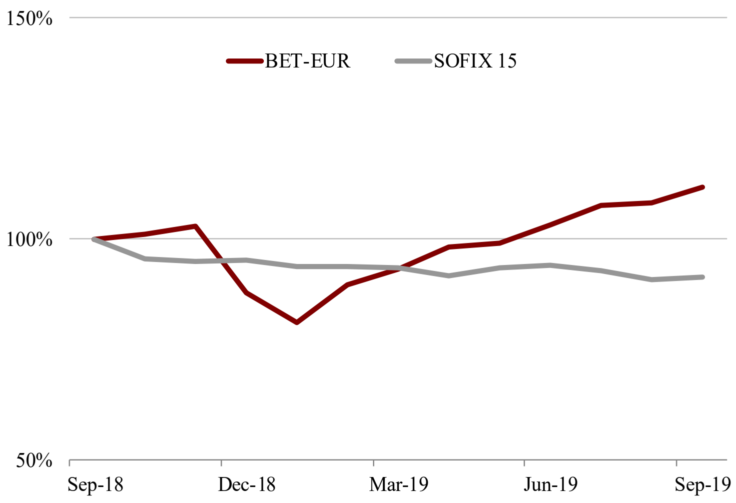
Following the official launch of *Omnicredit,* Telecredit's online financing platform for SME's at the beginning of June, there was a significant increase in the SME financing activity. Telecredit granted € 2.5m of factoring services and microloans over the third quarter, compared to € 1.2m in the prior quarter. The book value of Telecredit's SME-focussed portfolio increased from € 0.7m at the end of June to € 1.3m at the end of September, the latter being significantly higher than the budgeted figure of € 0.8m.

The company's operating result after depreciation for the first nine months of the year was a small loss of € -10,000, compared to a budgeted profit of € 0.13m, the main reason for the underachievement of the budget being delays in recovering the payday NPLs which translated in actual provision expenses of € -0.09m, instead of budgeted provision revenues of € 0.1m.

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, has provided Telecredit with a € 1m loan, of which € 0.8m had been drawn by the end of September.

Capital Market Developments

BET-EUR and SOFIX-15: 1 year performance



Commentary

During the third quarter, the Romanian BET index gained 8.3%, whilst the Bulgarian SOFIX 15 index lost 2.9%, both in euro terms. Over the same quarter, the FTSE100 and S&P indices were up by 0.6% and 5.4%, respectively, whilst the MSCI Emerging Market Eastern Europe and MSCI Emerging Market indices fell by 2.3% and 1.1%, respectively, all in euro terms.

Over the past twelve months, the BET-EUR index gained 11.7% while the SOFIX 15 index fell by 8.6%, both in euro terms. By comparison, the MSCI Emerging Market Eastern Europe, the MSCI Emerging Market and the S&P indices gained 10.6%, 1.8% and 8.8%, respectively, whilst the FTSE100 index lost 1%, all in euro terms.

Macroeconomic Overview

Overview

	RO	as of:	BG	as of:
GDP Growth (y-o-y)	4.7%	6M19	4.1%	6M19
Inflation (y-o-y)	3.5%	Sep-19	2.3%	Sep-19
Ind. prod. growth (y-o-y)	-6.1%	Aug-19	-1.3%	Aug-19
Trade balance (EUR bn)	-12.0	9M19	-0.4	8M19
y-o-y	*21.0%*		*-69.0%*	
FDI (EUR bn)	4.2	9M19	0.6	8M19
y-o-y change	*-6.3%*		*48.2%*	
Budget balance/GDP	-2.6%	9M19	1.1%	9M19
Total external debt/GDP	50.3%	Sep-19	57.5%	Aug-19
Public sector debt/GDP	35.0%	Jun-19	19.7%	Sep-19
Loans-to-deposits	77.1%	Sep-19	73.0%	Sep-19

Commentary

Romania

Romania's GDP grew by 4.7% year-on-year during the first semester of 2019. Whilst agriculture and industry increased by only 0.2% and 0.1% year-on-year, respectively, in the first half of the year, private consumption, investment (gross fixed capital formation) and construction activity increased by 6.1%, 13% and 14.4%, respectively. The growth dynamic of private consumption has slowed down, having increased by 0.5% in the second quarter, down from 6.2% year-on-year growth in the first quarter.

Romania's inflation rate reached 3.5% in September, up from 3.3% in December 2018, but below the 3.8% registered at the end of the second quarter.

The Romanian leu lost 0.3% against the euro in the third quarter, having depreciated by 1.9% against the euro since the beginning of the year.

Romania's fiscal outlook has continued to deteriorate, with the country posting a budget deficit of € -5.7bn over the first nine months, the equivalent of -2.6% of GDP, compared to a -1.8% deficit over the same period in 2018. In all likelihood, the 2.8% budget deficit target for the whole of 2019 is going to be missed. In its autumn forecast, the European Commission estimates that Romania will post a budget deficit of 3.6% of GDP in 2019, the highest of all EU countries. Over the first nine months of 2019, budgetary receipts increased from € 44bn to € 48.2bn (+11.6% year-on-year in RON terms), triggered by higher social contributions (+15.3%), as well as higher corporate income tax receipts (+14.5%) and higher VAT collections (+11.9%). On the other hand, total budgetary expenses increased by 15.3% in RON terms, from € 47.6bn to € 53.9bn, with personnel and social expenditures, which accounted for 63% of total expenses, increasing by 15.2%. On a positive note, public investment amounted to € 3.1bn (the equivalent of 1.4% of GDP) and were up 30.5% year-on-year.

The trade gap continued to widen, having increased by 21% year-on-year during the first nine months of 2019 (from € -10.0bn to € -12bn), with imports growing by 5.1% while exports increased by only 2.0%. The negative evolution of the trade balance resulted in a € -8.1bn current account deficit, which is the equivalent of -3.8% of GDP and compares unfavourably to the € -6.8bn deficit over the same period in 2018. FDI flows amounted to € 4.2bn over the first nine months of 2019, down on the € 4.5bn generated over the same period of the prior year. Romania's total external debt amounted to € 108.2bn at the end of September, which represents an 8.4% year-to-date increase and amounts to approximately 50% of GDP. According to the most recent available data, public debt was € 71.3bn, or 35% of GDP, at the end of June, up 2.4% year-to-date in nominal RON terms.

Total domestic non-governmental credit (which excludes loans to financial institutions) was € 56.2bn at the end of September, up 6.2% year-to-date in RON terms. Household loans reached € 29.7bn at the end of September, having increased by 6% year-to-date, and accounting for 53% of total loans outstanding. Consumer loans increased by 4.1% year-to date and accounted for 35% of household loans. Housing loans increased by 7% year-to-date, from € 15.8bn to € 16.6bn. Corporate loans reached € 24.7bn at the end of September, a 5.9% increase since the beginning of the year. The NPL ratio has continued to fall, from 5.05% at the end of 2018 to 4.6% at the end of August. The overall deposit base was € 72.8bn at the end of September, up 5% year-to-date in RON terms.

Bulgaria

Bulgaria's second quarter GDP grew by 3.5% year-on-year, helped by private consumption which increased by 7%, which in turn has been driven by improved employment rates and higher wages.

Bulgaria's inflation rate reached 2.3% in September, compared to 2.7% in December 2018, and was lower than the previous quarter's rate of 2.8%, helped by a fall in the price of services.

Over the first nine months of 2019, Bulgaria achieved a budget surplus of € 0.6bn, or 1.1% of GDP, lower than the € 1.4bn surplus recorded over the same period of the prior year. Tax proceeds, including revenues from social security contributions, increased by 8.8% year-on-year, whilst total budgetary expenses increased by 18.9%, as personnel and social expenditures increased by 8.3% and public investment grew by 113.4% year-on-year and amounted to 4% of GDP over the period. The increase in public spending was due to a one-off acquisition of military aircraft equipment by the Ministry of Defence. Bulgaria's public sector debt was 19.7% of GDP at the end of September, up from 19.3% at the end of the previous quarter. Gross external debt amounted to € 34bn, or 57.5% of GDP, at the end of August 2019, a 2.7% year-to-date increase.

Bulgaria's January-August trade deficit of € -0.4bn was better than the € -1.2bn deficit recorded in the same period of 2018. Exports grew by 4.8% year-on-year, while imports increased by 0.2%. The trade deficit was counter-balanced by a € 1.5bn surplus from primary and secondary incomes and a € 3bn surplus from services, resulting in a positive current account balance of € 4.1bn over the first eight months, which is a significant improvement over the € 2.4bn surplus recorded in the same period of 2018. FDI inflows amounted to € 0.6bn, 48.2% higher than the same period of 2018, with equity investments falling by € 0.5bn whilst intra-group loans increased by € 0.7bn.

Total domestic non-governmental credit (which excludes loans to financial institutions) increased from € 27.9bn at the end of December 2018 to € 29.6bn at the end of September, as corporate and household loans increased by 2.8% and 4.2%, respectively. The deposit base was € 40.5bn at the end of September, up from € 38.2bn at the end of December 2018. At the end of June 2019, the NPL ratio stood at 7.2%, compared to 7.6% at the end of December.

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