Reconstruction Capital II Ltd

("RC2" or the "Fund")

Quarterly Report

30 September 2021

neweuropecapital

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Statistics

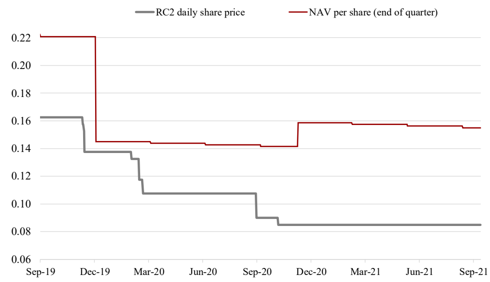
NAV per share (€)	0.1550
Total NAV (€ m)	21.1
Share price (€)	0.0850
Mk Cap (€ m)	11.5
# of shares (m)	135.9
NAV/share since inception†	-60.16%
12-month NAV/share perfomance	9.51%

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

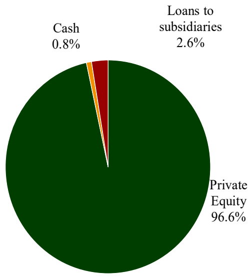
RC2 Quarterly NAV returns

	2018	2019	2020	2021
1Q	-0.51%	0.12%	-0.77%	-0.75%
2Q	-1.11%	-0.76%	-0.75%	-0.78%
3Q	-5.20%	-0.75%	-0.86%	-0.74%
4Q	-4.17%	-34.31%	12.04%	
YTD	-10.61%	-35.22%	9.40%	-2.25%

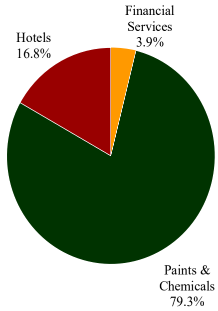
Share price / NAV per share (€)



Portfolio Structure by Asset Class



Equity Portfolio Structure by Sector



Message from the Adviser

Dear Shareholders

During the third quarter, RC2's total NAV fell by € 0.16m, mainly due to the operating expenses incurred over the quarter, with its NAV per share decreasing by 0.74% from € 0.1562 to € 0.1550.

After a summer with low numbers of Covid-19 cases in Romania and Bulgaria, during which most pandemic-related restrictions had been lifted, cases started to rise again in September, reaching around 19,000 per day in Romania by mid-October, and a peak of around 7,000 per day at the end of October in Bulgaria. With Romania and Bulgaria having the lowest vaccination rates in the EU, the two countries have suffered very high Covid mortality rates: 2.97% for Romania, and 3.96% for Bulgaria, computed as the number of deaths due to Covid-19 divided by the total number of Covid cases.

Due to the above, in late October the Romanian and Bulgarian governments took measures to contain the pandemic and increase vaccination rates, such as the mandatory need for an EU Digital COVID Certificate for entry into large retail spaces, restaurants, entertainment venues, and, in the case of Romania, all public institutions. Romania also instituted a night-time lockdown for unvaccinated persons.

Helped by these measures, Romania and Bulgaria's vaccination rates increased from 33.1% and 21.8% of their eligible populations, respectively having received at least one dose at the beginning of September, to 40% and 27.4%, respectively, at the beginning of November, which is still very low compared to an EU average of 80%.

The Policolor Group had a good performance over the first nine months of the year, mainly helped by better-than-expected sales results from the resins and chemicals divisions, whose combined sales were 69% above budget, whilst the coatings division posted sales 9.8% below budget, mainly due to weaker demand and political instability in Bulgaria. Helped by the higher resins and chemicals sales, the Group posted recurring EBITDA of € 5.2m, significantly higher than the prior year's € 3.8m, but still below budget.

Mamaia Resort Hotels achieved January-September revenues of € 2.8m, or 8.6% above budget, and nine-month 2021 EBITDA of € 0.71m, compared to budgeted EBITDA of € 0.65m. However, due to the evolution of the Covid-19 pandemic in Romania since the summer, a number of planned corporate events at the Hotel were cancelled during the fourth quarter, making it difficult for it to reach its fourth quarter budget targets.

Telecredit deployed € 12.8m in financing products to small and medium sized enterprises over the first nine months, which was 22% above budget. The company generated an Operating Profit before Depreciation of € 237,000 over the period which represents a significant turnaround from the € -87,000 loss of last year, albeit slightly below budget.

At the end of September, RC2 and RC2 (Cyprus) Ltd had cash and cash equivalents of € 0.13m, loan receivables from Telecredit and Mamaia Resort Hotels of € 0.55m, and short-term liabilities of € 0.08m. Telecredit borrowed and additional € 0.1m from RC2 over the quarter, resulting in an outstanding shareholder loan balance of € 0.25m.

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)	2019*	2020A**	2021B	9M 2020**	9M 2021**	9M 2021B
Group Consolidated Income statement						
Sales revenues	**60,726**	**64,084**	**70,411**	**51,458**	**63,585**	**57,885**
sales growth year-on-year	*-5.2%*	*5.5%*	*9.9%*	*6.0%*	*23.6%*	*12.5%*
Other operating revenues	129	141	81	51		
Total operating revenues	**60,855**	**64,226**	**70,492**	**51,510**	**63,585**	**57,885**
Gross margin	20,857	21,133	24,667	17,581	19,625	20,932
Gross margin %	*34.3%*	*32.9%*	*35.0%*	*34.1%*	*30.9%*	*36.2%*
Other operating expenses	(23,064)	(21,296)	(22,484)	(15,407)	(16,073)	(16,990)
Operating profit	**(2,208)**	**(163)**	**2,183**	**2,174**	**3,552**	**3,943**
Operating margin	*-3.6%*	*-0.3%*	*3.1%*	*4.2%*	*5.6%*	*6.8%*
Recurring EBITDA	**984**	**2,412**	**4,607**	**3,787**	**5,160**	**5,785**
EBITDA margin	*1.6%*	*3.8%*	*6.5%*	*7.4%*	*8.1%*	*10.0%*
Net extraordinary result - land sale	996	9		(113)		
Nonrecurring items	(484)	(503)		85	(183)	
Financial Profit/(Loss)	(772)	(699)	(684)	(489)	(110)	(480)
Profit after tax	**(3,152)**	**(859)**	**1,321**	**1,657**	**3,260**	**3,463**
avg exchange rate (RON/EUR)	*4.75*	*4.84*	*4.87*	*4.83*	*4.91*	*4.87*

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

Over January-September 2021, the Policolor Group achieved strong sales performance (€ 63.6m), 24.3% higher than the same period last year and 9.8% above budget, mainly driven by higher resins and chemicals (anhydrides) sales.

Coatings sales of € 39.1m were slightly above the same period last year, but 9.8% below budget, mainly due to weak market demand over May-July in both Romania and Bulgaria, political instability in Bulgaria which temporarily halted state-funded construction and infrastructure projects, as well as a weak September performance in Romania. On the other hand, resins sales of € 20.1m (of which € 2.3m to Group companies) were 53% above last year, and 48% above budget. Sales of anhydrides (including sales to Group companies of € 2.1m) reached € 8.7m, significantly above the budgeted € 4.8m.

Mainly helped by improved EBITDA at the resins and anhydrides divisions, the Group's recurring nine-month EBITDA reached € 5.2m, significantly higher than € 3.8m achieved over the same period last year.

Mamaia Resort Hotels

Background

Mamaia Resort Hotels SRL (the "Company") is the owner and operator of the ZENITH – Conference & Spa Hotel (the "Hotel") 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)	2019*	2020A*	2021B	9M 2020**	9M 2021**	9M 2021B
Total Operating Revenues, of which:	**2,964**	**1,778**	**2,746**	**1,732**	**2,843**	**2,617**
Accommodation revenues	1,627	1,135	1,579	1,112	1,710	1,488
Food & beverage revenues	1,127	570	1,028	554	1,067	999
Other operating revenues	210	73	139	66	66	130
Total Operating Expenses, of which	(2,921)	(3,249)	(2,526)	(1,746)	(2,245)	(2,078)
Impairment expense related to fixed assets revaluation	-	(1,017)	-			
Operating Result	**43**	**(1,470)**	**220**	**(14)**	**598**	**539**
Operating margin	*1.5%*	*neg.*	*8.0%*	*neg.*	*21.0%*	*20.6%*
EBITDA	**195**	**(311)**	**364**	**93**	**705**	**647**
EBITDA margin	*6.6%*	*neg.*	*13.3%*	*5.4%*	*24.8%*	*24.7%*
Profit after Tax	**(55)**	**(1,621)**	**(16)**	**(100)**	**552**	**367**
Net margin	*neg.*	*neg.*	*neg.*	*neg.*	*19.4%*	*14.0%*
avg exchange rate (RON/EUR)	*4.75*	*4.84*	*4.87*	*4.83*	*4.91*	*4.87*

*Note: * RAS audited, ** RAS management accounts, unaudited*

Nine-month sales of € 2.8m were 8.6% above budget, driven by a 44% occupancy rate (compared to a budgeted 40%) mainly due to a contract signed in December 2020 for hosting a large group of individuals over the first four months of 2021, as well as very good third quarter revenues which were 6% above budget.

Helped by a higher occupancy rate and average net tariff, the latter being 6% above budget, the Hotel generated accommodation revenues of € 1.7m over the first nine months, which was 14.9% above budget, whilst Food & Beverage revenues of € 1.1m were 6.8% above budget.

The nine-month EBITDA of € 0.71m was better than the budgeted € 0.65m, mainly due to the higher revenues, as the operating expenses came in € 0.2m above budget, mainly due to higher salary expenses, with the pandemic making it increasingly difficult to recruit and retain personnel in the HORECA sector.

Due to the resurgence of Covid cases in Romania this autumn, a number of corporate events were cancelled in October and November, making it unlikely that the Hotel will be able to achieve its fourth quarter budget.

Telecredit

Background

Telecredit IFN S.A. ("Telecredit" or the "Company") is a Romanian FinTech company, licensed by the National Bank of Romania as a Non-Banking Financial Institution ("IFN"), whose main activity is to provide factoring and discounting services to small and medium-sized companies ("SMEs") via a digital platform. RC2 owns an 85% shareholding, with the balance of 15% being owned by the Company's CEO.

Financial Results and operations

(EUR '000)	2019*	2020A*	2021B	9M 2020**	9M 2021**	9M 2021B
Income Statement						
Interest revenues from pay day lending	**824**	**29**	**-**	**29**		
Interest revenues from SMEs lending, of which:	**340**	**839**	**1,078**	**637**	**716**	**772**
Factoring and Discounting	287	712	1,045	539	662	739
Microloans	53	127	33	99	54	33
Total operating expenses:	**(1,087)**	**(864)**	**(706)**	**(754)**	**(480)**	**(509)**
Provisions, of which:	(64)	(126)	11	(179)	0	14
Pay day lending	(61)	139	48	107	46	41
SMEs lending	(3)	(265)	(37)	(286)	(46)	(27)
Other Operating expenses	(1,024)	(738)	(717)	(574)	(480)	(523)
Operating profit before depreciation	**77**	**5**	**372**	**(87)**	**237**	**263**
Depreciation	(81)	(83)	(114)	(60)	(74)	(83)
Operating profit after depreciation	**(4)**	**(78)**	**259**	**(147)**	**162**	**180**
Operating profit after depreciation margin	*neg.*	*neg.*	*24.0%*	*neg.*	*22.7%*	*23.3%*
Profit after tax	**(54)**	**(149)**	**139**	**(203)**	**16**	**94**
net margin	*neg.*	*neg.*	*12.9%*	*neg.*	*2.3%*	*12.2%*
Avg exchange rate (RON/EUR)	*4.75*	*4.84*	*4.87*	*4.83*	*4.91*	*4.87*

*Note: * RAS audited, ** RAS management accounts, unaudited*

Over the first nine months of 2021, Telecredit generated Operating Profit before Depreciation of € 237,000, just short of the budgeted € 263,000 (mainly due to slightly lower financing fees and a slower than expected reversal of provisions), but a significant turnaround compared to the € -87,000 loss generated over the same period of 2020. 2021 is the first year that Telecredit has generated an Operating Profit after Depreciation since it changed its business model to factoring in 2019.

Over the first nine months of 2021, Telecredit generated interest revenues from SME financings of € 0.72m, which is 7.2% below budget, but 12.4% above the € 0.64m achieved over the same period last year.

Total provisioning expense was virtually nil over the period, with SME lending generating provisions of € 46,000, significantly below the € -286,000 incurred in 2020, while collections on the now-discontinued payday activity resulted in revenues from reversals of provisions of € 46,000.

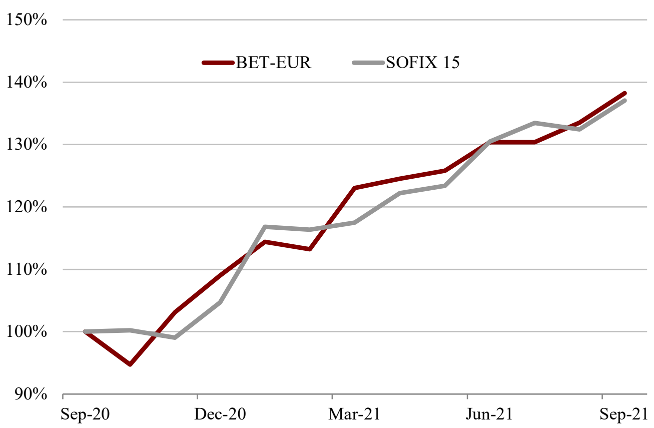
Over January-September, Telecredit deployed € 12.8m in financing products to SMEs, compared to € 7.4m over the same period last year, and a budget target of € 10.5m.

The net book value of Telecredit's SME financing portfolio increased significantly over the quarter, from € 2.3m at the end of June to € 3.1m at the end of September, divided between € 3m of factoring and discounting services, and € 0.1m of micro loans. The non-performing loan (NPL) rate (defined as the balance of receivables over 90 days' overdue divided by the gross book value of receivables) fell from 8.7% at the end of June to 6.9% at the end of September.

In order to finance its operations, Telecredit borrowed a net € 1.94m from related and third parties over the first nine months of the year. At the end of September, outstanding loans amounted to € 2.4m, of which € 0.25m was from RC2.

Capital Market Developments

BET-EUR and SOFIX-15: 1 year performance



Commentary

During the third quarter, the Romanian BET and the Bulgarian SOFIX 15 indices gained 6% and 5%, respectively, both in euro terms. At the same time, the MSCI Emerging Market Eastern Europe, the FTSE100 and S&P indices were up by 9%, 0.6%, 2.6%, respectively, whilst the MSCI Emerging Market index was down by 6.7%, all in euro terms.

Over the past year, the BET-EUR and SOFIX 15 indices have increased by 38.2% and 37%, respectively, both in euro terms. By comparison, the MSCI Emerging Market Eastern Europe, the MSCI Emerging Market, and the FTSE100 and S&P indices gained 50.4%, 17.3%, 27.6% and 29.8% respectively, all in euro terms.

Macroeconomic Overview

Overview

	RO	as of:	BG	as of:
GDP Growth (y-o-y)	7.0%	6M21	4.1%	6M21
Inflation (y-o-y)	6.3%	Sep-21	4.8%	Sep-21
Ind. prod. growth (y-o-y)	-3.7%	Sep-21	10.6%	Sep-21
Trade balance (EUR bn)	-16.7	9M21	-1.7	8M21
y-o-y	*28.2%*		*107.6%*	
FDI (EUR bn)	5.3	9M21	0.8	8M21
y-o-y change	*214.8%*		*-60.7%*	
Budget balance/GDP	-3.8%	9M21	0.8%	9M21
Total external debt/GDP	56.1%	Sep-21	62.7%	Aug-21
Public sector debt/GDP	49.7%	Aug-21	23.5%	Sep-21
Loans-to-deposits	69.5%	Sep-21	67.4%	Sep-21

Commentary

Romania

In the first semester, Romania's GDP increased by 7% year-on-year, as private consumption and investment (gross fixed capital formation) increased by 6.3%, and 12.3%, respectively, whilst government consumption fell by 3% year-on-year. With the exception of agriculture and financial services, both decreasing by 1% and 0.8% year-on-year, respectively, all sectors of the economy grew in the first semester.

Romania posted a budget deficit of € -9bn over the first nine months, the equivalent of -3.8% of GDP, compared to -6.4% over the same period in 2020. Budgetary receipts amounting to € 54.6bn were up 18.7% up year-on-year, mainly due to a lower base as Romania was mostly under lockdown over March-May 2020, as well as due to the receipt of certain taxes and social contributions which had been allowed to be postponed in 2020 due to the pandemic. At the same time, total budgetary expenses increased by 6.7% in RON terms, from € 60.2bn to € 63.6bn, with personnel and social expenditures, which accounted for 62% of total expenses, growing by 5% in RON terms. Public investment amounted to € 6.8bn, or 2.9% of GDP, compared to 2.8% over the same period last year.

During the first nine months of the year, the trade gap increased by 28.2% year-on-year (from € -13.1bn to € -16.7bn), with exports growing by 21.7%, while imports increased by 23.2% from a larger base. The widening trade deficit was only partially compensated by a € 6.5bn surplus from services, and, with a € 1.7bn deficit from primary and secondary incomes, the current account deficit came in at € -11.5bn, compared to € -7.8bn over the same period last year. FDI inflows amounted to € 5.3bn, significantly higher than the € 1.7m recorded over the first nine months of 2020.

Romania's total external debt amounted to € 135.2bn at the end of August, which is approximately 57% of GDP, and represents a 6.6% year-to-date increase. Public debt reached € 111bn at the end of the September, up 10% year-to-date in nominal RON terms.

Due to higher oil and gas prices as well as the recovery in aggregate demand, but also the deregulation of the domestic retail electricity market in 2021, the inflation rate continued to rise, reaching 6.3% in September, up from 3.9% at the end of the second quarter. The higher inflation rate forced the National Bank of Romania ("NBR") to increase its monetary policy rate from 1.25% to 1.5% in October. The Leu has fallen 1.6% against the euro since the beginning of the year, having reached an all-time low of 4.9495 in the second half of September.

Lending activity continued to expand over the third quarter, with total domestic non-governmental credit (which excludes loans to financial institutions) amounting to € 64.2bn at the end of September, up 4.6% in RON terms from the end of the previous quarter. Household loans reached € 32.9bn at the end of September, having increased by 3.5% from € 31.8bn at the end of the previous quarter, and accounting for 51.2% of total loans outstanding at the end of the quarter. Consumer loans, which account for 38% of household loans, increased by 2.8% over the quarter. Housing loans increased by 3.8% since the end of the previous quarter and accounted for 60% of household loans. At the same time, corporate loans reached € 28.9bn at the end of June, up 6.1% over the quarter. The NPL ratio was 3.65% at the end of August, down from 3.8% at the end of 2020. The overall deposit base has continued to expand, reaching € 91.6bn at the end of September, up 3.3% in RON terms since the end of June.

The EU has approved Romania's request for approximately € 30bn of EU "Next Generation" funds - half as grants and half as loans, with the first advance payments, amounting to € 3.7bn, expected to be disbursed by the end of the year.

Since early September, Romania has been going through a political crisis, due to USR-PLUS, a junior party in the governing coalition, walking out of the government due to the dismissal of their appointed Minister of Justice. Due to the walk-out, the National Liberal Party ("PNL") - led government fell at the beginning of October following a no-confidence vote in parliament. Currently, the PNL and the Social Democratic Party are negotiating to form a new coalition in order to be able to secure a majority in parliament.

Bulgaria

Bulgaria's second quarter GDP increased by 9.9%, with private consumption and investment (gross capital formation) having increased by 7.1% and 12.1%, respectively. Overall, GDP increased by 4.1% year-on-year during the first six months of 2021.

Bulgaria has continued to achieve budget surpluses, posting a surplus of € 0.5m, or 0.8% of GDP, over the first nine months of the year, compared to a 0.7% GDP surplus over the same period last year. Tax proceeds increased by 16.5% year-on-year, but this includes a € 0.3m upfront fee received by the Bulgarian State from the concession of the Sofia airport. Excluding this one-off fee, tax proceeds would have increased by 15% year-on-year. Total budgetary expenses grew by 16.4%, mainly due to the effects of the pandemic and a 10% average increase in public sector wages which became effective from January 2021, as well as an increase in pensions in July 2021.

Bulgaria's public sector debt increased by 4.4% year-to-date to € 15.4bn at the end September, and is now approximately 23.5% of GDP. Gross external debt amounted to € 41.2bn, or 62.7% of GDP, at the end of August, up 9.9% year-to-date.

Bulgaria's January-August trade deficit of € -1.7bn was more than double the € -0.8bn recorded over the same period last year. Exports increased by 23.7%, and imports by 27.5%. The trade deficit was counter-balanced by a € 2bn surplus from services, primary and secondary incomes, resulting in a January-August current account surplus of € 0.3bn, compared to a surplus of € 0.8bn over the same period last year. FDI inflows amounted to € 0.8bn over the period, compared to € 2bn over the first eight months of 2020.

Bulgaria's inflation rate reached 4.8% at the end of September, significantly above the 2.7% recorded at the end of the second quarter, mainly triggered by higher energy prices.

Total domestic non-governmental credit (which excludes loans to financial institutions) increased from € 33.6bn at the end of June 2021 to € 34.6bn at the end of September, with corporate loans increasing by 2.6%, whilst household loans grew by 3.8%. The deposit base was € 51.3bn at the end of September, up 3.2% from € 49.7bn at the end of the previous quarter. The NPL rate was 6.4% at the end of September, down from 6.7% at the end of June.

Within the context of very low voter turnout of only 42%, Bulgaria's July snap elections did not result in a clear majority, with the "There Is Such a People" party and the GERB party winning 24.1% and 23.5% of the votes, respectively. The Bulgarian Socialist party came third with 13.4% of the vote. As none of these parties has managed to form a government, Bulgaria had a new round of parliamentary elections at the same time as presidential elections in mid-November. With voter turnout remaining very low at around 40%, the "We Continue the Change" party, created just a few weeks before the elections, won 26% of the votes, with the GERB party coming second with 23%, according to preliminary counting. The presidential elections will go to a runoff at the end of November, with the incumbent president, Rumen Radev, gaining almost 50% of the votes, and the GERB party candidate coming second with only 21%.

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