Reconstruction Capital II Ltd

("RC2" or the "Fund")

Quarterly Report

30 September 2020

neweuropecapital

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Statistics

NAV per share (€)	0.1416
Total NAV (€ m)	19.2
Share price (€)	0.0900
Mk Cap (€ m)	12.2
# of shares (m)	135.9
NAV/share since inception†	-61.57%
12-month NAV/share perfomance	-35.86%

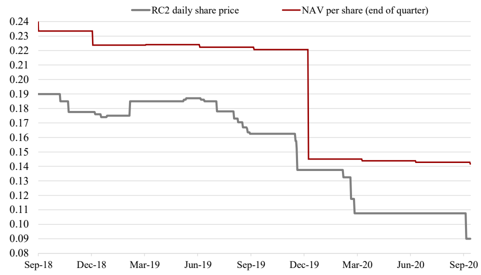
† assumes pro-rata participation in the 2008 share buy-back and the 2017 return of capital

RC2 Quarterly NAV returns

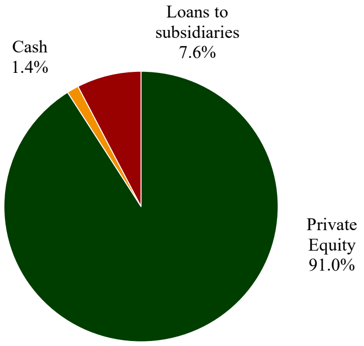
	2017	2018	2019	2020
1Q	-29.08%*	-0.51%	0.12%	-0.77%
2Q	-1.55%	-1.11%	-0.76%	-0.75%
3Q	-1.99%	-5.20%	-0.75%	-0.86%
4Q	-0.32%	-4.17%	-34.31%	
YTD	-31.79%	-10.61%	-35.22%	-2.36%

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

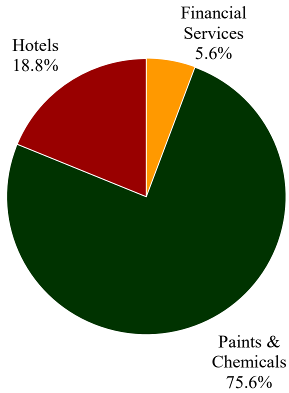
Share price / NAV per share (€)



Portfolio Structure by Asset Class



Equity Portfolio Structure by Sector



Message from the Adviser

Dear Shareholders

During the third quarter, RC2's total NAV fell by € 0.2m, with its NAV per share falling by 0.86% from € 0.1428 to € 0.1416, mainly reflecting the operating expenses incurred over the quarter.

Romania has experienced a sharp rise in the number of new Covid-19 cases since the summer. At the beginning of August, it was reporting approximately 1,300 new cases per day. This almost doubled by the end of September, and by the beginning of November it reached approximately 10,000. In Bulgaria, the new number of cases lingered around 250 per day in August and September, but increased dramatically to approximately 4,000 at the beginning of November. Considering the recent growth in the rate of infections, at the beginning of November the Romanian and Bulgarian governments tightened their measures to combat the pandemic, such as mandatory masks in public spaces indoors and outdoors, online schooling, restricting the activity of restaurants and entertainment venues. These measures, which include a night-time curfew in Romania, fall short of a full lockdown.

At the end of July, EU leaders approved a recovery package ("Next Generation") of € 750bn to be disbursed over 2021-2027 to help its member states tackle the difficulties generated by the Covid-19 crisis. Romania is set to receive € 33.5 bn (half as grants and half as loans), whilst Bulgaria is due to receive € 29bn (of which a third as grants) over 2021-2027

Unlike Telecredit and Mamaia, the Policolor Group did not revise its 2020 budget in the light of the Covid-19 pandemic. The Group's nine-month sales were up 5.9% year-on-year but 12.2% below budget. The paints and coatings division's sales were 3.3% higher than last year but 13.5% below budget, whilst the resins division's sales were on budget and 6.7% above last year. The chemicals division was closed for part of the period, posting sales 33% below budget. Overall, the main underperformance compared to budget took place in the second quarter, when Romania was in lockdown. In May, the Group also suffered from an IT failure which disrupted its operations for several weeks. In spite of the above issues, the Group achieved EBITDA of € 3.8m over the first nine months, compared to € 2.6m the prior year. Irina Mandoiu, who played an important role in the growth and eventual sale of Albalact, an earlier investment of RC2 which it exited in 2017, was appointed as the new Policolor Group CEO at the beginning of September.

Following the finalization of the second phase of the renovation works on its public areas, the Mamaia Hotel re-opened at the beginning of June, which coincided with the Romanian authorities re-allowing open air restaurants to operate. The occupancy rate over June-September was 56%, slightly above its revised (post-pandemic) budget of 55%, but considerably below the 76% achieved in the same period last year, while the average room tariff was 11% below the revised budget. Overall, the nine-month EBITDA of € 0.09m was lower than the revised target of € 0.2m, mainly due to the lower revenues and higher operating expenses within the context of the pandemic.

Telecredit deployed € 5.6m in financing products to small and medium sized enterprises in the first nine months, generating an Operating Loss before Depreciation of € -0.08m, which was better than the revised budgeted figure of € -0.18m. It has now stopped its payday business, and is focussing entirely on its SME factoring and discounting business.

In August, RC2 entered into a €1million unsecured loan facility with Portadrix Investments Limited, a company beneficially owned by Ion Florescu, a substantial shareholder in RC2, in order to support the working capital requirements of the Company following a delay in the repayment of €1.5 million of loans from the Mamaia Hotel and Telecredit, due to these companies not being able to access loans from third-parties which were being arranged when the COVID-19 pandemic struck Romania.

At the end of September, RC2 and RC2 (Cyprus) Ltd had cash and cash equivalents of € 0.25m, loan receivables from Telecredit and Mamaia Resort Hotels of € 1.5m, short-term liabilities of € 0.08m, and had drawn € 0.4m on the shareholder loan.

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***	9M 2019**	9M 2020**	9M 2020B***
Group Consolidated Income statement						
Sales revenues	**64,038**	**59,982**	**72,825**	**48,560**	**51,458**	**58,685**
sales growth year-on-year	*-1.7%*	*-6.3%*	*13.7%*	*-8.7%*	*6.0%*	*14.0%*
Other operating revenues	575	577		92	51	5
Total operating revenues	**64,613**	**60,560**	**72,825**	**48,652**	**51,510**	**58,690**
Gross margin	21,055	18,947	23,687	16,420	17,581	20,317
Gross margin %	*32.6%*	*31.3%*	*32.5%*	*33.8%*	*34.1%*	*34.6%*
Other operating expenses	(22,352)	(22,229)	(21,526)	(15,712)	(15,407)	(16,948)
Operating profit	**(1,297)**	**(3,282)**	**2,161**	**709**	**2,174**	**3,369**
Operating margin	*-2.0%*	*-5.4%*	*3.0%*	*1.5%*	*4.2%*	*5.7%*
Recurring EBITDA	**1,884**	**887**	**4,160**	**2,583**	**3,787**	**4,945**
EBITDA margin	*2.9%*	*1.5%*	*5.7%*	*5.3%*	*7.4%*	*8.4%*
Net extraordinary result - land sale	1,706	2,057		2,186	(113)	
Nonrecurring items including relocation	(620)	(1,749)	120	(766)	85	90
Financial Profit/(Loss)	(751)	(879)	(722)	(590)	(489)	(558)
Profit before tax	**(342)**	**(2,103)**	**1,439**	**1,539**	**1,657**	**2,902**
Income tax	(371)	(319)	(190)	(319)		
Profit after tax	**(713)**	**(2,423)**	**1,249**	**1,220**	**1,657**	**2,902**
avg exchange rate (RON/EUR)	*4.65*	*4.75*	*4.75*	*4.74*	*4.83*	*4.75*

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

The Group generated consolidated sales revenues of € 51.5m in the first nine months of 2020, 12.2% below budget, but 5.9% higher than the same period last year. The paints and coatings division posted sales of € 38.8m over the first nine months, which is 3.3% above the same period last year but 13.5% below budget, mainly due to weaker sales in the second quarter when Romania was in lockdown. In addition, the Group suffered a serious IT failure, which generated disruptions across the Group's operations during the second quarter. The paints and coatings sales performance was much better in the third quarter, with a 12.2% year-on-year growth in July, a slight (1.2%) year-on-year decrease in August and an 11.3% year-on-year increase in September.

At the same time, sales of resins (including sales to Group companies) amounted to € 13.2m, which was 6.7% above last year and on budget.

Since the anhydrides plant stopped working at the end of March due to limited availability of the main raw material at commercially viable prices, and only resumed at the end of October, sales of anhydrides (including sales to Group companies) were only € 2.9m, or 33% below budget.

Over the first nine months, the Group generated recurring EBITDA of € 3.8m, 47% above the same period of 2019, but below the budgeted EBITDA of € 4.9m, mainly due to the lower paints and coatings sales, and increased transportation and logistics costs which were significantly over budget and which the Group is now trying to rein in.

Irina Mandoiu, an experienced professional who was a key player in the growth and eventual sale of Albalact, an earlier investment of RC2 which it exited in 2017, was appointed as the new Policolor Group CEO at the beginning of 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)	2019†	2020B*	2020E**	9M 2019***	9M 2020A***	9M 2020E**
Income Statement						
Total Operating Revenues, of which:	**2,964**	**3,212**	**2,033**	**2,825**	**1,752**	**1,839**
Accommodation revenues	1,627	1,854	1,335	1,598	1,112	1,235
Food & beverage revenues	1,127	1,191	635	1,087	554	559
others	210	167	63	139	86	44
Total Operating Expenses	(2,921)	(2,939)	(2,179)	(2,378)	(1,767)	(1,722)
Operating Profit	**43**	**273**	**(146)**	**447**	**(14)**	**117**
Operating margin	*1.5%*	*8.5%*	*neg.*	*15.8%*	*-0.8%*	*6.4%*
EBITDA	**195**	**423**	**1**	**561**	**93**	**227**
EBITDA margin	*6.6%*	*13.2%*	*0.1%*	*19.9%*	*5.3%*	*12.3%*
Profit after Tax	**(55)**	**183**	**(243)**	**417**	**(100)**	**48**
Net margin	*neg.*	*5.7%*	*neg.*	*14.8%*	*-5.7%*	*2.6%*
Avg exchange rate (RON/EUR)	*4.75*	*4.80*	*4.85*	*4.74*	*4.83*	*4.85*

*Note: † RAS audited, * original (pre-Covid19) budget, **revised management's budget, *** RAS management accounts, unaudited*

In May, the Hotel adopted a new budget, to reflect the likely effects of the Covid-19 pandemic. The revised budget is shown alongside the Hotel's original 2020 budget in the table above.

As expected, the performance of the Hotel was significantly affected by the pandemic. The Hotel re-opened during the first week of June, having completed the second phase of its renovation works, mainly in the lobby, bar, restaurant and terrace areas. This coincided with the Romanian authorities re-allowing open-air restaurants to operate, although the Hotel was forced to keep its indoor restaurants closed throughout the summer, and to observe strict hygiene and social distancing rules. Fortunately, the Hotel did not experience any cases of Covid-19 at its premises.

Up to the end of September, the Hotel managed to generate operating revenues of € 1.75m, 5% below its revised budget, but 38% below the same period of 2019.

The occupancy rate over the first nine months was 56%, slightly above the budgeted 55%, but considerably below the 76% achieved over the same period last year, whilst the average room tariff was 11% below the revised budget. Overall, accommodation revenues stood at € 1.1m, 10% below the revised budget.

With the Hotel only allowed to operate its open-air restaurant, food&beverage revenues amounted to € 0.55m during the first nine months, in line with the revised budget, but half the food&beverage revenues generated during the same period of 2019.

Overall, the nine-month EBITDA of € 0.09m was lower than the revised target of € 0.2m, mainly due to the lower revenues and higher costs generated by the pandemic.

In mid-August, the Company received a new € 0.5m working capital loan, under a state-guaranteed loan programme aimed at supporting small and medium sized enterprises affected by the Covid-19 pandemic.

Considering the restrictions on hosting events and on operating the spa during the remaining months of 2020, the Hotel is unlikely to generate significant revenues until the year end, which means that it is unlikely to meet its revised budget for the year. Due to its weak performance, the Company has not been able to reimburse the € 0.3m emergency bridge loan received in May from RC2.

Telecredit

Background

Telecredit IFN S.A. (“Telecredit” or the “Company”) is a Romanian Non-Banking Financial Institution (“IFN”) whose main activity is providing factoring, discounting and microloans to small and medium-sized companies (“SMEs”). RC2 owns an 85% shareholding, with the balance of 15% being owned by the Company’s CEO, Elisa Rusu.

Financial Results and operations

(EUR '000)	2019†	2020B*	2020E**	9M 2019***	9M 2020A***	9M 2020E**
Income Statement						
Interest revenues from pay day lending	**824**	**13**	**31**	**729**	**29**	**31**
Interest revenues from SMEs lending, of which:	**340**	**1,330**	**760**	**146**	**637**	**533**
Factoring and Discounting	287	1,144	717	123	539	495
Microloans	53	186	42	23	99	38
Total operating expenses:	**(1,087)**	**(1,015)**	**(963)**	**(702)**	**(748)**	**(745)**
Provisions, of which:	(64)	74	(88)	(87)	(179)	(121)
Pay day lending	(61)	181	139	(84)	107	103
SMEs lending	(3)	(107)	(227)	(3)	(286)	(223)
Other Operating expenses	(1,024)	(1,089)	(874)	(614)	(569)	(625)
Operating profit before depreciation	**77**	**328**	**(172)**	**28**	**(82)**	**(181)**
Depreciation	(81)	(87)	(89)	(37)	(60)	(60)
Operating profit after depreciation	**(4)**	**241**	**(261)**	**(10)**	**(141)**	**(242)**
Operating profit after depreciation margin	*neg.*	*17.9%*	*neg.*	*-1.1%*	*-21.2%*	*-42.9%*
Profit after tax	**(54)**	**63**	**(387)**	**(36)**	**(197)**	**(311)**
net margin	*neg.*	*4.7%*	*neg.*	*-4.1%*	*-29.5%*	*-55.2%*
Avg exchange rate (RON/EUR)	*4.75*	*4.80*	*4.85*	*4.74*	*4.83*	*4.85*

*Note: † RAS audited, * original (pre-Covid19) budget, **revised management's budget, *** RAS management accounts, unaudited*

In May, Telecredit adopted a new budget, reflecting the expected effects of the pandemic, which is shown alongside its original 2020 budget in the table above.

Over the first nine months, Telecredit generated interest revenues from SMEs of € 0.64m, higher than the € 0.53m anticipated in the revised budget. However, the Covid-19 crisis also generated an increase in provisions, which at € 0.29m were higher than the € 0.22m anticipated in the revised budget.

Overall, lower than expected operating expenses resulted in an operating loss after depreciation of € -0.14m, which is better than the loss of € -0.24m expected in the revised budget.

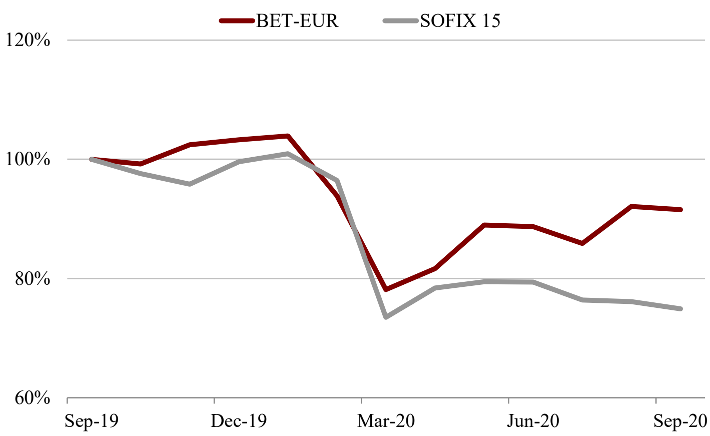
Telecredit deployed € 5.6m in financing products to SMEs over the first nine months of 2020, € 5.5m of which was factoring and discounting operations, with the balance of € 0.1m being microloans, all of the latter having been granted in the first quarter. Due to the ongoing effects of the pandemic, the Company has continued to be selective in approving new factoring and discounting transactions, and halted the granting of microloans.

At the end of September, the SME loan book was split between € 1m of factoring operations (up from € 0.9m at the end of June), € 0.3m of discounting (down from € 0.4m at the end of June), and € 0.2m of micro loans (down from € 0.3m at the end of June).

The pay day activity generated only € 29,000 of interest revenues over the nine months, due to the Company continuing to wind down this business, only refinancing existing loans up to early May when the pay day lending activity stopped altogether. At the end of September, the net book value of the pay day loan book was nil.

Capital Market Developments

BET-EUR and SOFIX-15: 1 year performance



Commentary

During the third quarter, the Romanian capital markets continued to recover some of the first quarter loss suffered due to the Covid-19 pandemic, with the BET index gaining 3.2% in euro terms. At the same time, the Bulgarian SOFIX 15 index lost 5.7% over the third quarter in euro terms, whilst the MSCI Emerging Market and S&P indices were up by 4.3% and 4.0%, respectively, and the FTSE100 and MSCI Emerging Market Eastern Europe indices fell by 4.9% and 10.0%, respectively, all in euro terms.

Over the past twelve months, the BET-EUR and SOFIX 15 indices fell by 8.4% and 25.1%, respectively, both in euro terms. By comparison, the MSCI Emerging Market and the S&P indices gained 0.5% and 5.1%, respectively, whilst the FTSE100 and the MSCI Emerging Market Eastern Europe indices lost 22.6% and 26.2% respectively, all in euro terms.

Macroeconomic Overview

Overview

	RO	as of:	BG	as of:
GDP Growth (y-o-y)	-3.9%	6M20	-3.8%	6M20
Inflation (y-o-y)	2.5%	Sep-20	0.9%	Sep-20
Ind. prod. growth (y-o-y)	-7.4%	Jul-20	-6.0%	Jul-20
Trade balance (EUR bn)	-11.5	8M20	-0.7	8M20
y-o-y	*5.9%*		*-59.1%*	
FDI (EUR bn)	1.4	8M20	0.4	8M20
y-o-y change	*-68.0%*		*-63.5%*	
Budget balance/GDP	-6.4%	9M20	0.7%	9M20
Total external debt/GDP	52.6%	Aug-20	63.5%	Aug-20
Public sector debt/GDP	42.8%	Aug-20	24.5%	Sep-20
Loans-to-deposits	69.9%	Sep-20	69.2%	Sep-20

Commentary

Romania

Following the strict lockdown imposed from late-March to mid-May, the Romanian economy shrank by 10.5% in the second quarter compared to the same quarter of last year, significantly less than the EU average of -14.0%. In the first semester, Romania's GDP fell by 3.9% year-on-year, as private consumption, a key driver of GDP growth in the past, decreased by 5.3%, whilst government consumption and investment (gross fixed capital formation) increased by 11.6% and 6.1% year-on-year, respectively. The only sectors of the economy which grew in the second semester were construction and IT (by 15.6% and 12.4%, respectively).

Romania's negative fiscal outlook continued to worsen, with the country posting a budget deficit of € -13.9bn over the first nine months, the equivalent of -6.4% of GDP, compared to a -2.6% deficit over the same period in 2019. According to the Ministry of Finance, half of the deficit is due to the exceptional measures (such as the postponement of certain taxes, prioritizing VAT reimbursements, and part paying the cost of furloughing employees) taken in the context of the pandemic. Budgetary receipts stood at € 47bn and were virtually unchanged year-on-year. On the other hand, total budgetary expenses increased by 15.4% in RON terms, from € 54bn to € 60.8bn, with personnel and social expenditures, which accounted for 63% of total expenses, increasing by 15% in RON terms. Public investment amounted to € 3.7bn, or 1.7% of GDP, compared to 1.4% of GDP over the same period last year.

During the first eight months of the year, the trade gap further deteriorated. increasing by 5.9% year-on-year (from € -10.8bn to € -11.5bn), with imports shrinking by 11.2%, and exports falling by an even higher 15.3%. The widening trade deficit was counter-balanced by a € 5.8bn surplus from services, and a € 0.2bn surplus from primary and secondary incomes, resulting in a current account deficit of € 5.8bn over the first eight months of 2020, which is an improvement compared to the € 7.1bn deficit recorded over the same period last year. FDI flows amounted to only € 1.4bn over the first eight months of 2020, considerably down on the € 4.4bn generated over the same period of last year.

Romania's total external debt amounted to € 116.1bn at the end of August, which represents a 5.8% year-to-date increase, and now amounts to approximately 53% of GDP. Within the context of the pandemic which has increased public sector spending, the public debt reached € 93bn, or approximately 43% of GDP, at the end of August, up 20.5% year-to-date in nominal RON terms.

Romania's inflation rate reached 2.5% in September, marginally down from 2.6% in June, mainly due to a steep increase in food prices (+5% year-on-year). Due to the negative impact of the pandemic, the National Bank of Romania ("NBR") has continued to lower its monetary policy rate from 2.5% at the beginning of the year to 1.5%, following three successive cuts this year, the latest having taken place in August.

The Romanian leu lost 0.6% against the euro over the third quarter, and has now depreciated by 1.9% against the euro since the beginning of the year.

Lending activity recovered in the third quarter, with total domestic non-governmental credit (which excludes loans to financial institutions) at € 57.2bn at the end of September, up 2.7% in RON terms from the end of June. Household loans reached € 30.7bn at the end of September, up from € 30.1bn at the end of June, and accounting for 53% of total loans outstanding. Consumer loans increased by 1.0% quarter-on-quarter and accounted for 40% of household loans. Housing loans increased by 2.3% and accounted for 58% of household loans. Corporate loans reached € 25.1bn at the end of September, a 3.1% increase since the end of the previous quarter. As expected, due to the pandemic, the banking sector's assets quality worsened, with the NPL ratio reaching 4.31% at the end of August, having increased from 4.08% at the end of December 2019. The overall deposit base was € 81.9bn at the end of September, up 3.9% from the end of the previous quarter, in RON terms.

Following the local elections which took place at the end of September, the ruling centre-right National Liberal Party won approximately 33% of the vote, with the Social Democratic Party and the Save Romania and Plus alliance gaining 27% and 7%, respectively. Parliamentary elections are scheduled for the beginning of December.

Bulgaria

Bulgaria's second quarter GDP fell by 8.5%, with private consumption and investment (gross capital formation) having decreased by 0.2% and 14.1%, respectively. Overall, GDP shrank by 3.8% year-on-year during the first six months of 2020.

In the first nine months, Bulgaria ran a budget surplus of € 0.4bn, or 0.7% of GDP, compared to a 1.1% GDP surplus over the same period last year. Tax proceeds fell by 1.2% year-on-year, whilst total budgetary expenses increased by 0.4%, mainly due to personnel and social expenditures increasing by 10.2%. Bulgaria's public sector debt increased from € 12.6bn at the end of June to € 14.9bn at the end of September, or 24.5% of GDP, due to Bulgaria placing two Eurobond issues worth a combined € 2.5bn in September, made up of a € 1.25bn 10-year eurobond with a yield of 0.39%, and a € 1.25bn 30-year eurobond yielding 1.48%. Gross external debt amounted to € 36bn, or 63.5% of GDP, at the end of August, a 2.4% year-to-date increase.

Bulgaria's January to August trade deficit of € -0.7bn was better than the € -1.8bn deficit recorded over the same period last year. Exports fell by 8.4%, while imports shrank by 12.7%. The trade deficit was counter-balanced by a € 1.9bn surplus from services, resulting in a positive current account balance of € 1.1bn, which is worse than the € 1.7bn surplus recorded over the same period last year. FDI inflows amounted to € 0.4bn, significantly lower than the € 1bn recorded over the first eight months of 2019.

Bulgaria's inflation rate fell to 0.9% at the end of September, compared to 1.6% in June, helped by lower energy prices.

Total domestic non-governmental credit (which excludes loans to financial institutions) increased from € 30.2bn at the end of June to € 30.7bn at the end of September, as corporate loans increased by 1%, whilst household loans grew by 2.4%. The deposit base was € 44.3bn at the end of September, down from € 40.8bn at the end of June. Due to a change in the calculation of the NPL ratio in accordance with EU guidelines, the National Bank of Bulgaria has revised its prior calculations of the NPL rate. Consequently, the end of June rate is now 8.1% (compared to a previously reported rate of 6.1%). The comparable NPL rate at the end of September is 7.8%.

From mid-July, Bulgaria has experienced large-scale protests demanding the resignation of the government led by longstanding prime minister, Boiko Borisov, and of the general prosecutor, accusing them of corruption. Parliamentary elections are scheduled for the end of March 2021.

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