

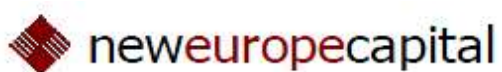
Reconstruction Capital II Ltd

("RC2" or the "Fund")

Quarterly Report



31 March 2021



New Europe Capital SRL
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Statistics

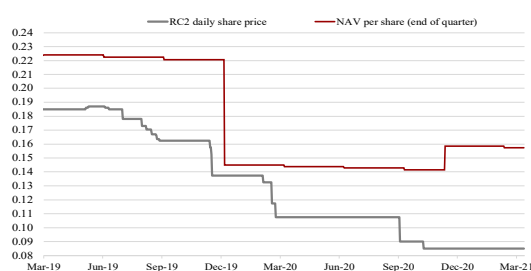
| | |
|--------------------------------|---------|
| NAV per share (€) | 0.1574 |
| Total NAV (€ m) | 21.4 |
| Share price (€) | 0.0850 |
| Mk Cap (€ m) | 11.5 |
| # of shares (m) | 135.9 |
| NAV/share since inception† | -59.91% |
| 12-month NAV/share performance | 9.42% |

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

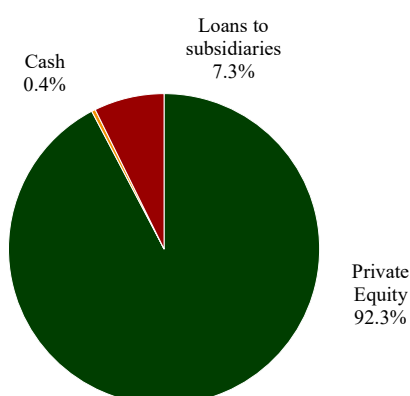
RC2 Quarterly NAV returns

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

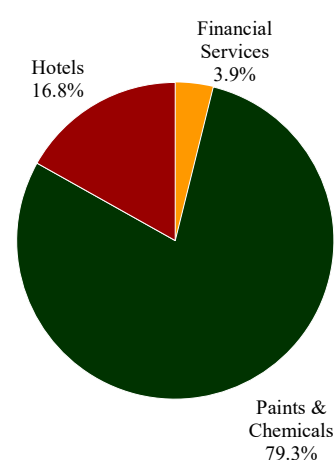
Share price / NAV per share (€)



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 € 0.16m, with its NAV per share decreasing by 0.75% from € 0.1586 to € 0.1574, mainly due to the operating expenses incurred over the quarter.

In both Romania and Bulgaria, during the first quarter the daily number of new Covid-19 cases peaked at around 6,500 and 5,200 cases, respectively, in the second half of March, when new restrictions were implemented in both countries, including longer night-time curfews in Romania, and the closure of retail outlets larger than 300 square metres in Bulgaria for a number of days. Because the situation in both countries improved by early May, with the number of daily cases falling to 1,400 and 600 in Romania and Bulgaria, respectively, the only restrictions currently in place are an ongoing, albeit shorter, night-time curfew in Romania, and limitations on the indoor capacities of entertainment venues and restaurants in both countries.

After a very good start, the vaccination roll-out programme slowed down in Romania compared to other EU countries. By early May, only 20% of the eligible population had been vaccinated with at least one dose, compared to 30% at EU level. However, there has recently been an improvement in the number of vaccinations administered, from a daily average of 64,000 at the end of March to a daily average of over 100,000 at present. Meanwhile, Bulgaria remains the worst performing EU country, with only 11% receiving at least one jab.

The Policolor Group had a very good start to the year, with operating revenues of € 17.6m in the first quarter significantly above the budgeted figure of € 14.6m. Helped by higher sales, the Group posted recurring EBITDA of € 0.3m, compared to a targeted breakeven.

Meanwhile, Mamaia Resort Hotel has had its best ever first quarter, managing to generate revenues of € 0.6m (14% above budget) due to a contract signed with an international organization in December 2020 for the hosting of a large number of guests over the first four months of the year. Its EBITDA for the quarter was € 94,000, compared to a budgeted loss of € -19,000. Given the positive evolution of the pandemic, the Romanian Government has announced that it intends to relax those measures affecting the HORECA sector in time for the summer season, although there is still no clarity about how and when this will happen.

Telecredit deployed € 2.7m in financing products to small and medium sized enterprises over the first quarter which was 10% below budget but 14% above the same period last year. The company generated a tiny € -8,000 Operating Loss before Depreciation, compared to a budgeted profit of € 71,000, mainly due to lower volumes in January and higher than expected provisions.

At the end of March, RC2 and RC2 (Cyprus) Ltd had cash and cash equivalents of € 0.05m, loan receivables from Telecredit and Mamaia Resort Hotels of € 1.6m, short-term liabilities of € 0.23m, and had drawn € 0.5m on the shareholder loan from Portadrix.

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 | 3M 2020** | 3M 2021** | 3M 2021B |
|--|----------------|---------------|---------------|---------------|---------------|---------------|
| Group Consolidated Income statement | | | | | | |
| Sales revenues | 60,726 | 64,084 | 70,411 | 12,901 | 17,561 | 14,637 |
| sales growth year-on-year | -5.2% | 5.5% | 9.9% | 14.2% | 36.1% | 13.5% |
| Other operating revenues | 129 | 141 | 81 | 6 | 18 | - |
| Total operating revenues | 60,855 | 64,226 | 70,492 | 12,907 | 17,579 | 14,637 |
| Gross margin | 20,857 | 21,133 | 24,667 | 3,942 | 4,966 | 4,799 |
| Gross margin % | 34.3% | 32.9% | 35.0% | 30.5% | 28.2% | 32.8% |
| Other operating expenses | (23,064) | (21,296) | (22,484) | (4,541) | (5,239) | (5,394) |
| Operating profit | (2,208) | (163) | 2,183 | (599) | (273) | (595) |
| Operating margin | -3.6% | -0.3% | 3.1% | -4.6% | -1.6% | -4.1% |
| Recurring EBITDA | 984 | 2,412 | 4,607 | (134) | 282 | 28 |
| EBITDA margin | 1.6% | 3.8% | 6.5% | -1.0% | 1.6% | 0.2% |
| Net extraordinary result - land sale | 996 | 9 | (7) | (7) | (1) | (1) |
| Nonrecurring items | (484) | (503) | (684) | (172) | (128) | (157) |
| Financial Profit/(Loss) | (772) | (699) | (684) | (779) | (402) | (752) |
| Profit before tax | (2,980) | (859) | 1,499 | (779) | (402) | (752) |
| Income tax | (172) | (178) | (178) | (779) | (402) | (752) |
| Profit after tax | (3,152) | (859) | 1,321 | (779) | (402) | (752) |
| avg exchange rate (RON/EUR) | 4.75 | 4.84 | 4.87 | 4.80 | 4.88 | 4.87 |

Note: * IFRS audited, ** IFRS unaudited

The Policolor Group generated sales of € 17.6m over the first quarter, 20% above budget and 36.1% above the € 12.9m achieved during the same quarter 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 | 3M 2020** | 3M 2021** | 3M 2021B |
|--|----------------|----------------|----------------|--------------|--------------|--------------|
| Total Operating Revenues, of which: | | | | | | |
| Accommodation revenues | 1,627 | 1,135 | 1,579 | 0 | 321 | 266 |
| Food & beverage revenues | 1,127 | 570 | 1,028 | 0 | 237 | 221 |
| Other operating revenues | 210 | 73 | 139 | 6 | 8 | 10 |
| Total Operating Expenses | (2,921) | (2,232) | (2,526) | (409) | (506) | (551) |
| Operating Profit | 43 | (453) | 220 | (403) | 60 | (59) |
| Operating margin | 1.5% | neg. | 8.0% | neg. | 10.6% | neg. |
| EBITDA | 195 | (311) | 364 | (366) | 94 | (19) |
| EBITDA margin | 6.6% | neg. | 13.3% | neg. | 16.7% | neg. |
| Profit after Tax | (55) | (599) | (16) | (404) | 45 | (98) |
| Net margin | neg. | neg. | neg. | neg. | 8.0% | neg. |
| avg exchange rate (RON/EUR) | 4.75 | 4.84 | 4.87 | 4.80 | 4.88 | 4.87 |

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

Due to a contract signed with an international organization in December 2020 for hosting a large group of individuals over the first four months of 2021, the Hotel had its best ever first quarter, generating revenues of € 0.6m. This was 14% above the budget for the quarter, even though this had already anticipated the effects of this contract. The Hotel was closed for refurbishment during the same quarter of last year.

The Hotel generated positive EBITDA of € 0.1m over the quarter, significantly better than the targeted loss of € 0.02m, due to higher than expected revenues and a tight control over costs.

Coatings sales of € 9.2m were in line with the same period last, but 9% below budget, mainly due to weak automotive and industrial coatings sales in Romania, and pandemic-related restrictions in Bulgaria, including the closure of large retail outlets from 22nd March to 11th April. On the other hand, resins sales of € 4.6m (of which € 0.4m to Group companies) were 24% above last year, and 21% above budget. Sales of anhydrides (including sales to Group companies of € 0.5m) reached € 4.5m, significantly above the budgeted € 1.7m.

Helped by improved EBITDA at the resins and anhydrides divisions, but also due to the positive effect of price increases operated across the coatings portfolio at the beginning of the year, the Group’s recurring EBITDA stood at € 0.3m, significantly better than the budgeted breakeven.

The Summer season opened, as is usual in Romania, on 1st May, albeit with a number of COVID-related restrictions, such as hotels having to limit their sale of rooms to 70% of capacity, and the indoor restaurant not being allowed to serve outside clients. Due to the recent falls in the numbers of new cases and deaths due to the Covid-19 pandemic, and the recent acceleration of the vaccination roll-out programme, the Government is considering relaxing these restrictions from 1st June, including allowing hotels and restaurants which only host vaccinated tourists to operate at full capacity, although there is still no clarity on what exact measures will be adopted, and how these measures would work.

Whilst the Romanian government has announced that it intends to compensate HORECA operators for the effects of the pandemic by paying them 20% of the difference between their 2019 and 2020 turnovers, there is no clear information as to how and when the monies will be paid, as norms relating to the measure have not yet been published.

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 providing 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, Elisa Rusu.

Financial Results and operations

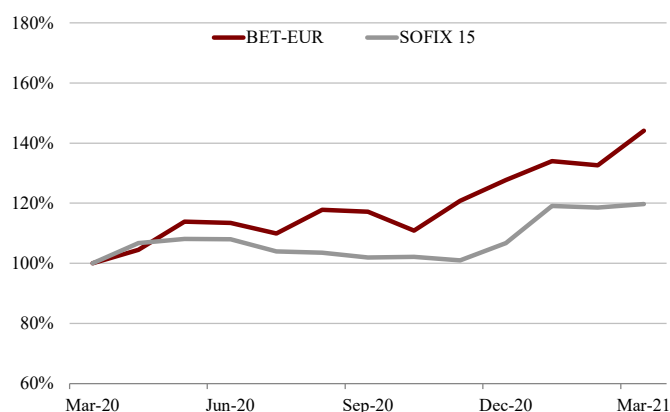
| (EUR '000) | 2019* | 2020A* | 2021B | 3M 2020** | 3M 2021** | 3M 2021B |
|--|---------|--------|-------|-----------|-----------|----------|
| Income Statement | | | | | | |
| Interest revenues from pay day lending | 824 | 29 | - | 19 | - | - |
| Interest revenues from SMEs lending, of which: | | | | | | |
| Factoring and Discounting | 340 | 839 | 1,078 | 146 | 210 | 242 |
| Microloans | 287 | 712 | 1,045 | 128 | 180 | 226 |
| Other Operating expenses | 53 | 127 | 33 | 19 | 29 | 17 |
| Total operating expenses: | (1,087) | (864) | (706) | (150) | (217) | (171) |
| Provisions, of which: | (64) | (126) | 11 | (20) | (70) | 1 |
| Pay day lending | (61) | 139 | 48 | 21 | 18 | 15 |
| SMEs lending | (3) | (265) | (37) | (41) | (88) | (14) |
| Other Operating expenses | (1,024) | (738) | (717) | (130) | (147) | (172) |
| Operating profit before depreciation | 77 | 5 | 372 | 16 | (8) | 71 |
| Depreciation | (81) | (83) | (114) | (9) | (24) | (26) |
| Operating profit after depreciation | (4) | (78) | 259 | 7 | (32) | 45 |
| Operating profit after depreciation margin | neg. | neg. | 24.0% | 4.0% | neg. | 18.5% |
| Profit after tax | (54) | (149) | 139 | (11) | (70) | 22 |
| net margin | neg. | neg. | 12.9% | neg. | neg. | 9.1% |
| Avg exchange rate (RON/EUR) | 4.75 | 4.84 | 4.87 | 4.80 | 4.88 | 4.87 |

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

Over the quarter, Telecredit generated interest revenues from SME financings of € 0.21m, which is 13% below budget but significantly above the € 0.15m revenues achieved over the same period last year. Mainly due to higher than budgeted provisions,

Capital Market Developments

BET-EUR and SOFIX-15: 1 year performance



the company generated a tiny Operating loss before depreciation of € -8,000, compared to a budgeted Operating profit before depreciation of € 71,000.

Telecredit deployed € 2.7m in financing products to SMEs in the first quarter, below the budgeted € 3m, mainly due to weaker than expected demand in January. Demand subsequently picked up in February and March, in line with the budget.

The book value of Telecredit’s SME portfolio increased from € 1.9m at the beginning of the year to € 2.4m at the end of March, divided between € 2.3m of factoring and discounting services, and € 0.1m of micro loans.

The non-performing loan (NPL) rate (defined as over 90 days’ overdue) was 3% at the end of March, unchanged year-to-date.

Over the quarter, Telecredit borrowed € 0.17m from third parties, and a net amount of € 0.1m from RC2, in order to finance its operations.

Commentary

During the first quarter, worldwide capital markets were on a growing trend, with the Romanian BET and the Bulgarian SOFIX 15 indices gaining 12.9% and 12.2%, respectively, both in euro terms. At the same time, the MSCI Emerging Market Eastern Europe, the MSCI Emerging Market, and the FTSE100 and S&P indices were all up by 6.7%, 6.1%, 9.3% and 10%, respectively, all in euro terms.

Over the past year, the BET-EUR and SOFIX 15 indices increased by 44.2% and 19.7%, 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 27.5%, 44.8%, 23% and 43.5% respectively, all in euro terms.

Macroeconomic Overview

Overview

| | RO | as of: | BG | as of: |
|---------------------------|--------|--------|--------|--------|
| GDP Growth (y-o-y) | -3.9% | FY20 | -4.2% | FY20 |
| Inflation (y-o-y) | 3.1% | Mar-21 | 0.6% | Mar-21 |
| Ind. prod. growth (y-o-y) | -4.6% | Feb-21 | -3.4% | Feb-21 |
| Trade balance (EUR bn) | -3.1 | 2M21 | -0.2 | 2M21 |
| <i>y-o-y</i> | 17.4% | | -12.3% | |
| FDI (EUR bn) | 0.6 | 2M21 | 0.1 | 2M21 |
| <i>y-o-y change</i> | -16.2% | | -56.9% | |
| Budget balance/GDP | -1.3% | 3M21 | -0.5% | 3M21 |
| Total external debt/GDP | 53.3% | Feb-21 | 58.5% | Feb-21 |
| Public sector debt/GDP | 48.0% | Feb-21 | 23.5% | Mar-21 |
| Loans-to-deposits | 67.4% | Mar-21 | 66.8% | Mar-21 |

Commentary

Romania

Romania's first quarter GDP figures will be released in early June.

Romania posted a budget deficit of € -3.0bn over the first quarter, the equivalent of -1.3% of GDP, compared to a -1.7% deficit over the same quarter in 2020. Budgetary receipts amounting to € 17.4bn were up 18.8% up year-on-year, mainly due to receipts during the first quarter of 2020 being affected by the government deferring the collection of certain taxes due to the onset of the pandemic. At the same time, total budgetary expenses increased by 11.2% in RON terms, from € 18.4bn to € 20.5bn, with personnel and social expenditures, which accounted for 66% of total expenses, growing by 12% in RON terms. According to the Ministry of Finance, € 0.8bn were exceptional expenses related to the Covid-19 pandemic incurred over the first quarter. Public investment amounted to € 0.9bn, or 0.4% of GDP, compared to 0.3% over the same quarter last year.

During the first two months of the year, the trade gap continued to widen, having increased by 17.4% year-on-year (from € -2.6bn to € -3.1bn), with imports growing by 0.2% while exports fell by 3.7%. The widening trade deficit was counter-balanced by a € 1.5bn surplus from services, and, with a € 0.05bn deficit from primary and secondary incomes, the current account deficit came in at € 1.6bn, compared to € 0.4bn over the same period last year. FDI inflows amounted to € 0.6bn, 16.2% lower than over the first two months of 2020.

Romania's total external debt amounted to € 123.6bn at the end of February, approximately 53% of GDP and a 1.8% fall since the beginning of the year. Public debt has continued to increase, having reached € 103.9bn, or 48% of GDP, at the end of February, up 1.5% year-to-date in nominal RON terms.

Due to higher oil prices and the deregulation of the retail electricity market from 1st January, the inflation rate reached 3.1% in March, up from 2.1% at the end of 2020.

The Romanian leu has been on a downward trend since the beginning of the year, having fallen by 1.1% against the euro over the first quarter.

Total domestic non-governmental credit (which excludes loans to financial institutions) was € 59bn at the end of March, up 2.9% year-to-date in RON terms. Household loans reached € 31bn at the end of March, slightly up from € 30.8bn at the beginning of the year, and accounted for 53% of total loans outstanding. Consumer loans, which account for 39% of household loans, were virtually unchanged over the quarter. Housing loans increased by 3% year-to-date and accounted for 60% of household loans. At the same time, corporate loans reached € 26.6bn at the end of the first quarter, up 3.5% since the beginning of the year. The NPL ratio was 4% at the end of February, up from 3.8% at the end of 2020. The overall deposit base has continued to expand, reaching € 87.5bn at the end of March, up 2.4% year-to-date in RON terms.

Bulgaria

Bulgaria's first quarter GDP figures are not yet available.

In the first quarter, Bulgaria posted a budget deficit of € 0.3bn, or -0.5% of GDP, compared to a 1.2% GDP surplus over the same period last year. Tax proceeds increased by 3.4% year-on-year, whilst total budgetary expenses grew by 25.2%, mainly due to the effects of the pandemic and the 10% average increase in public sector wages which became effective from January 2021.

Bulgaria's public sector debt increased from € 14.8bn at the end of the previous quarter to € 14.9bn at the end March, equal to 23.5% of GDP. Gross external debt amounted to € 37.7bn, or 58.5% of GDP, at the end of February 2021, down 1.9% year-to-date.

Bulgaria's January-February trade deficit of € -0.19bn was marginally better than the € -0.22bn deficit recorded over the same period last year. Exports fell by 0.7%, while imports shrank by 1.2%. The trade deficit was counter-balanced by a € 0.6bn surplus from services and secondary incomes, resulting in a positive current account balance of € 0.4bn, virtually unchanged compared to 2020. FDI inflows amounted to only € 0.1bn over the period, half the € 0.2bn recorded over the first two months of 2020.

Bulgaria's inflation rate reached 0.6% at the end of March, compared to 0.1% at the end of 2020, triggered by increased services prices.

Total domestic non-governmental credit (which excludes loans to financial institutions) increased from € 32.7bn at the end of 2020 to € 33.1bn at the end of March 2021, with corporate loans increasing by 0.7%, whilst household loans grew by 2.4%. The deposit base was € 49.6bn at the end of March, up from € 48.2bn at the end of the previous quarter. The NPL rate was 7.1% at the

end of March, down from 7.5% at the end of the previous quarter.

Following the inconclusive parliamentary elections which were held in early April, none of the three largest political parties (the GERB party of outgoing Prime Minister Boyko Borissov, the "There Is Such a People" party and the Socialist party) was able to form a working coalition. Consequently, snap elections are due to be held in early June.

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