Reconstruction Capital II Ltd

("RC2" or the "Fund")

Quarterly Report

30 June 2021

New Europe Capital SRL
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Statistics

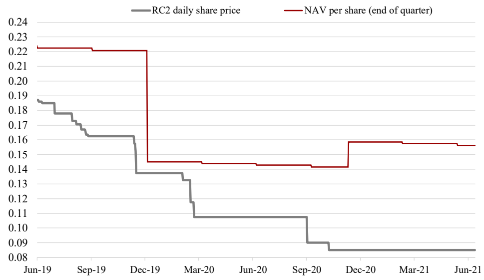
NAV per share (€)	0.1562
Total NAV (€ m)	21.2
Share price (€)	0.0850
Mk Cap (€ m)	11.5
# of shares (m)	135.9
NAV/share since inception†	-60.04%
12-month NAV/share perfomance	9.38%

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

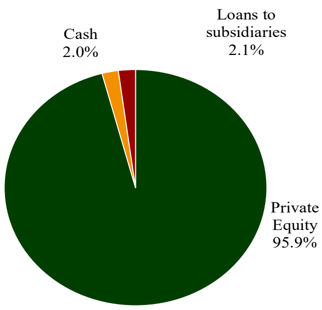
RC2 Quarterly NAV returns

	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%	
4Q	-4.17%	-34.31%	12.04%	
YTD	-10.61%	-35.22%	9.40%	-1.53%

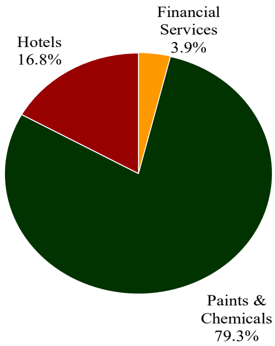
Share price / NAV per share (€)



Portfolio Structure by Asset Class



Equity Portfolio Structure by Sector



Message from the Adviser

Dear Shareholders

During the second quarter, RC2's total NAV fell by € 0.17m, mainly due to the operating expenses incurred over the quarter, with its NAV per share decreasing by 0.78% from € 0.1574 to € 0.1562.

Both the Romanian and Bulgarian economies have proven to be relatively resilient to the ongoing Covid-19 pandemic, with their first quarter GDPs growing by 2.8% and 2.5%, respectively, over the quarter, compared to an average EU of 0.1%.

The pandemic itself seems to have subsided in Romania and Bulgaria, with the number of daily new cases falling from 1,400 and 600, respectively, at the beginning of May, to 150 and 100, at the end of July. Due to the fall in cases, most Covid-19 related restrictions were lifted in both countries. However, the number of daily new cases has started to creep up again, reaching 240 and 400 in Romania and Bulgaria, respectively, at the beginning of August. Romania and Bulgaria are particularly vulnerable to a resurgence of the pandemic, due to them having the lowest vaccination rates in the EU, with only 31.5% and 19.2% of their eligible populations, respectively, having received at least one dose, compared to an EU average of 71%.

The Policolor Group had a good performance over the second quarter, mainly helped by better-than-expected sales results from the resins and chemicals divisions, whose combined sales were 48% above the budget, whilst the coatings division posted second quarter sales 5% below budget, mainly due to weaker demand as consumers re-oriented their spending away from home improvement due to the easing of covid related restrictions. Helped by higher resins and chemicals sales and improved cost controls, the Group posted recurring EBITDA of € 2.6m, higher than the budgeted € 2.1m.

Mamaia Resort Hotels achieved first semester revenues of € 1m, or 14% above budget, which resulted in a six-month 2021 EBITDA loss of € -0.1m, compared to a budgeted loss of € -0.2m. The bulk of the Hotel's revenues are typically generated during the high season months of July and August, and the Hotel's management expects revenues of € 1.4m during these two months, in line with the budget.

Telecredit deployed € 6.5m in financing products to small and medium sized enterprises over the first semester, which was 4% below budget. However, the company turned profitable at operating level in the second quarter, having generated an Operating Profit before Depreciation of € 143,000 over the period, compared to a first quarter loss of € -8,000.

At the end of June, RC2 and RC2 (Cyprus) Ltd had cash and cash equivalents of € 0.37m, loan receivables from Telecredit and Mamaia Resort Hotels of € 0.45m, and short-term liabilities of € 0.07m. Telecredit reimbursed a net amount of € 1.2m to RC2 over the quarter, leaving an outstanding balance of € 0.15m. The € 0.5m shareholder loan to RC2 from Portadrix Investments Limited was fully repaid over the quarter, resulting in RC2 being debt-free at present.

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	6M 2020**	6M 2021**	6M 2021B
Group Consolidated Income statement						
Sales revenues	**60,726**	**64,084**	**70,411**	**31,158**	**41,189**	**36,367**
sales growth year-on-year	*-5.2%*	*5.5%*	*9.9%*	*3.4%*	*32.2%*	*16.7%*
Other operating revenues	129	141	81	9		
Total operating revenues	**60,855**	**64,226**	**70,492**	**31,168**	**41,189**	**36,367**
Gross margin	20,857	21,133	24,667	10,313	12,852	12,698
Gross margin %	*34.3%*	*32.9%*	*35.0%*	*33.1%*	*31.2%*	*34.9%*
Other operating expenses	(23,064)	(21,296)	(22,484)	(9,361)	(10,973)	(11,518)
Operating profit	**(2,208)**	**(163)**	**2,183**	**953**	**1,879**	**1,180**
Operating margin	*-3.6%*	*-0.3%*	*3.1%*	*3.1%*	*4.6%*	*3.2%*
Recurring EBITDA	**984**	**2,412**	**4,607**	**2,027**	**2,633**	**2,097**
EBITDA margin	*1.6%*	*3.8%*	*6.5%*	*6.5%*	*6.4%*	*5.8%*
Net extraordinary result - land sale	996	9		(13)		
Nonrecurring items	(484)	(503)		(1)	(117)	
Financial Profit/(Loss)	(772)	(699)	(684)	(329)	20	(314)
Profit after tax	**(3,152)**	**(859)**	**1,321**	**610**	**1,898**	**867**
avg exchange rate (RON/EUR)	*4.75*	*4.84*	*4.87*	*4.82*	*4.90*	*4.87*

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

The Policolor Group generated sales of € 41.2m over the first semester, 13.3% above budget and 32.2% above the € 31.2m achieved during the same period last year, mainly driven by higher resins and chemicals (anhydrides) sales.

Coatings sales of € 24.3m were 4.3% above the same period last year, but 6.7% below budget, mainly due to weak market demand in May and June in both Romania and Bulgaria, as well as political instability in Bulgaria which temporarily halted state-funded construction and infrastructure projects. On the other hand, resins sales of € 13.1m (of which € 1.4m to Group companies) were 60% above last year, and 45% above budget. Sales of anhydrides (including sales to Group companies of € 1.4m) reached € 6.6m, significantly above the budgeted € 3.9m.

Mainly helped by improved EBITDA at the resins and anhydrides divisions, as well as better cost controls, the Group's recurring six-month EBITDA stood at € 2.6m, significantly higher than the budgeted € 2.1m.

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	6M 2020**	6M 2021**	6M 2021B
Total Operating Revenues, of whicl	**2,964**	**1,778**	**2,746**	**199**	**1,010**	**888**
Accommodation revenues	1,627	1,135	1,579	117	552	481
Food & beverage revenues	1,127	570	1,028	66	429	369
Other operating revenues	210	73	139	16	28	38
Total Operating Expenses, of which	(2,921)	(3,249)	(2,526)	(871)	(1,204)	(1,133)
Impairment expense related to fixed assets revaluation	-	(1,017)	-	-	-	-
Operating Result	**43**	**(1,470)**	**220**	**(672)**	**(194)**	**(245)**
Operating margin	*1.5%*	*neg.*	*8.0%*	*neg.*	*neg.*	*neg.*
EBITDA	**195**	**(311)**	**364**	**(600)**	**(110)**	**(173)**
EBITDA margin	*6.6%*	*neg.*	*13.3%*	*neg.*	*neg.*	*neg.*
Profit after Tax	**(55)**	**(1,621)**	**(16)**	**(659)**	**(208)**	**(345)**
Net margin	*neg.*	*neg.*	*neg.*	*neg.*	*neg.*	*neg.*
avg exchange rate (RON/EUR)	*4.75*	*4.84*	*4.87*	*4.82*	*4.90*	*4.87*

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

Operating revenues over the first semester of 2021 were € 1.0m, 14% above budget, mainly driven by a higher occupancy rate (32% compared to a budgeted 28%), 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. In 2020, the Hotel underwent a renovation programme and only re-opened in the first week of June, therefore the year-on-year comparison is not relevant. Due to the higher occupancy rate, the Hotel generated accommodation revenues of € 0.6m over the first half of the year, 14.8% above budget, whilst Food & Beverage revenues were 16.4% higher than budget.

The six-month EBITDA loss of € -0.1m was better than the budgeted loss of € -0.2m, mainly due to the higher revenues, as the operating expenses came in € 0.1m over budget, mainly due to higher salary expenses, with the pandemic making it increasingly difficult to recruit and retain personnel in the HORECA sector.

The key July and August revenues are expected to be on budget at around € 1.4m.

The Hotel has applied for 20% of the difference between its 2019 and 2020 turnover, under a government programme to compensate HORECA operators impacted by the Covid-19 pandemic. Based on its calculations, it is due to receive € 0.2m, but there is no visibility on the timing of disbursements under the programme.

Following the finalisation of the 2020 audit, the above table now reflects the 2020 audited accounts. The major change compared to the 2020 preliminary accounts presented in the RC2 March 2021 Quarterly Report relates to the fixed assets valuation which, under Romanian Accounting Standards, has to be performed every three years. The valuation exercise has resulted in an impairment expense of € 1m which is reflected in the Operating Result. The 2020 EBITDA is unchanged at € -0.3m.

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	6M 2020**	6M 2021**	6M 2021B
Income Statement						
Interest revenues from pay day lending	**824**	**29**	**-**	**29**		
Interest revenues from SMEs lending, of which:	**340**	**839**	**1,078**	**448**	**468**	**509**
Factoring and Discounting	287	712	1,045	381	422	476
Microloans	53	127	33	67	45	33
Total operating expenses:	**(1,087)**	**(864)**	**(706)**	**(666)**	**(333)**	**(332)**
Provisions, of which:	(64)	(126)	11	(269)	(18)	10
Pay day lending	(61)	139	48	77	36	30
SMEs lending	(3)	(265)	(37)	(346)	(54)	(20)
Other Operating expenses	(1,024)	(738)	(717)	(397)	(315)	(341)
Operating profit before depreciation	**77**	**5**	**372**	**(190)**	**135**	**177**
Depreciation	(81)	(83)	(114)	(36)	(49)	(54)
Operating profit after depreciation	**(4)**	**(78)**	**259**	**(226)**	**87**	**124**
Operating profit after depreciation margin	*neg.*	*neg.*	*24.0%*	*neg.*	*18.5%*	*24.3%*
Profit after tax	**(54)**	**(149)**	**139**	**(265)**	**7**	**70**
net margin	*neg.*	*neg.*	*12.9%*	*neg.*	*1.5%*	*13.8%*
Avg exchange rate (RON/EUR)	*4.75*	*4.84*	*4.87*	*4.82*	*4.90*	*4.87*

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

Over the first semester, Telecredit generated interest revenues from SME financings of € 0.47m, which is 8% below budget but 4% above the € 0.45m achieved over the same period last year.

In the second quarter, the company managed to reverse the negative provisioning trend of the first three months and booked a net provision revenue of € 33,000, resulting in an overall provision expense of € -54,000 over the first half of the year. In April 2021, the Company started generating positive Operating profit before depreciation, which amounted to € 0.14m during the first half of the year, slightly lower that the € 0.18m targeted in the budget.

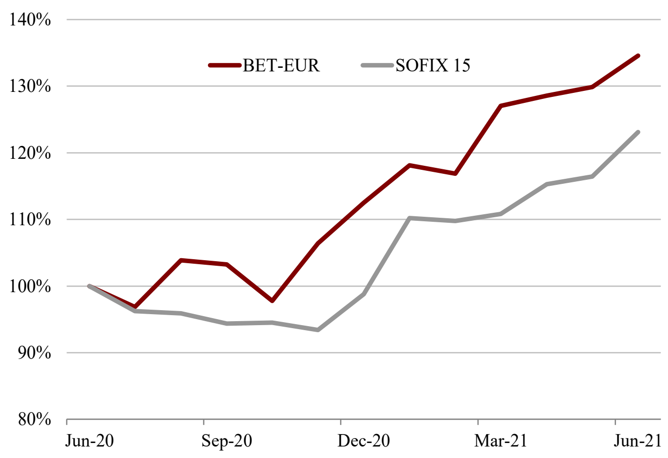
Telecredit deployed € 6.5m in financing products to SMEs in the first semester, which is lower than the budgeted € 6.8m, mainly due to weaker than expected demand in January and June.

The net book value of Telecredit's SME portfolio remained stable at approximately € 2.3m over the quarter, divided between € 2.2m 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) was 8.7% at the end of June, down from 9.8% at the end of March.

In order to finance its operations during the quarter, Telecredit borrowed a net € 0.5m from related and third parties. At the end of June, outstanding loans amounted to € 2.5m, of which the RC2 loan balance stood at € 0.15m.

Capital Market Developments

BET-EUR and SOFIX-15: 1 year performance



Commentary

During the second quarter, worldwide capital markets continued to rise, with the Romanian BET and the Bulgarian SOFIX 15 indices gaining 6% and 11.1%, 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 up by 12.3%, 3.5%, 3.9% and 7.3%, respectively, all in euro terms.

Over the past year, the BET-EUR and SOFIX 15 indices have increased by 34.6% and 23.1%, 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 24.3%, 31.1%, 20.7% and 31.5% respectively, all in euro terms.

Macroeconomic Overview

Overview

	RO	as of:	BG	as of:
GDP Growth (y-o-y)	-0.2%	3M21	-1.8%	3M21
Inflation (y-o-y)	3.9%	Jun-21	2.7%	Jun-21
Ind. prod. growth (y-o-y)	29.3%	May-21	16.5%	May-21
Trade balance (EUR bn)	-8.8	5M21	-0.9	5M21
y-o-y	*22.1%*		*104.9%*	
FDI (EUR bn)	2.4	5M21	0.3	5M21
y-o-y change	*220.8%*		*-54.0%*	
Budget balance/GDP	-3.0%	6M21	0.1%	6M21
Total external debt/GDP	54.8%	May-21	61.1%	May-21
Public sector debt/GDP	49.7%	May-21	24.2%	Jun-21
Loans-to-deposits	68.6%	Jun-21	67.5%	Jun-21

Commentary

Romania

Romania's first quarter GDP fell by 0.2% year-on-year, the net result of private consumption increasing by 0.5% year-on-year and investment (gross fixed capital formation) by 2%, and government consumption and net exports falling by 0.8% and 2.7%, respectively.

Romania posted a budget deficit of € -6.9bn over the first semester, the equivalent of -3.0% of GDP, compared to -4.3% over the same period in 2020. Budgetary receipts amounting to € 35.8bn were up 20.6% up year-on-year, mainly due to a lower base as Romania was mostly under lockdown over March-May 2020. At the same time, total budgetary expenses increased by 9.8% in RON terms, from € 38.8bn to € 42.6bn, with personnel and social expenditures, which accounted for 62% of total expenses, growing by 7% in RON terms. According to the Ministry of Finance, € 1.6bn were exceptional expenses related to the Covid-19 pandemic incurred over the first half of the year.

Public investment amounted to € 2bn, or 0.9% of GDP, compared to 0.4% over the same period last year.

During the first five months of the year, the trade gap increased by 22.1% year-on-year (from € -7.2bn to € -8.8bn), with exports growing by 28.4%, while imports increased by 26.9% from a larger base. The widening trade deficit was counter-balanced by a € 3.5bn surplus from services, and, with a € 0.8bn deficit from primary and secondary incomes, the current account deficit came in at € -6bn, compared to € -3.2bn over the same period last year. FDI inflows amounted to € 2.4bn, significantly higher than the € 0.8m recorded over the first five months of 2020, with total equity investment increasing by € 1.9bn, whilst intra-group loans fell by € 0.3bn.

Romania's total external debt amounted to € 127bn at the end of May, approximately 55% of GDP, which is a 0.8% increase since the beginning of the year. Public debt has also continued to increase, having reached € 107bn, or 49.7% of GDP, at the end of May, up 5.7% year-to-date in nominal RON terms.

Due to higher oil and gas prices and the deregulation of the retail electricity market in 2021, the inflation rate continued to increase, reaching 3.9% in June, up from 3.1% at the end of the first quarter. Meanwhile, the Romanian leu was virtually unchanged against the euro over the second quarter, having depreciated by 1.2% since the beginning of the year.

Lending activity continued to expand over the second quarter, with total domestic non-governmental credit (which excludes loans to financial institutions) amounting to € 60.9bn at the end of June, up 3.4% in RON terms from the end of the previous quarter. Household loans reached € 31.8bn at the end of June, having increased by 3% from € 30.9bn at the end of the previous quarter, and accounting for 52.3% of total loans outstanding at the end of the quarter. Consumer loans, which account for 39% of household loans, increased by 2.6% over the quarter. Housing loans increased by 2.9% year-to-date and accounted for 60% of household loans. At the same time, corporate loans reached € 27.3bn at the end of June, up 2.9% over the quarter. The NPL ratio was 3.9% at the end of May, up from 3.8% at the end of 2020. The overall deposit base has continued to expand, reaching € 88.9bn at the end of June, up 1.7% in RON terms since the end of March.

Bulgaria

Bulgaria's first quarter GDP fell by 1.8% year-on-year, with private and government consumption and investment (gross capital formation) having increased by 3.1% and 2.1%, respectively, whilst net exports fell by 4%.

Bulgaria posted a budget surplus of € 60m, or 0.1% of GDP, over the first semester, compared to a 1.4% GDP surplus over the same period last year. Tax proceeds increased by 15.5% 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 revenue, tax proceeds would have increased by 13% year-on-year. Total budgetary expenses grew by 24.6%, mainly due to the effects of the pandemic and a 10% average increase in public sector wages which became effective from January 2021.

Bulgaria's public sector debt increased from € 14.9bn at the end of the March to € 15.4bn at the end June, and is now approximately 24.2% of GDP. Gross external debt amounted to € 39.4bn, or 61.1% of GDP, at the end of May 2021, virtually unchanged year-to-date.

Bulgaria's January-May trade deficit of € -0.9bn was significantly worse than the € -0.5bn recorded over the same period last year. Exports increased by 20.9%, and imports by 24.2% The trade deficit was counter-balanced by a € 0.8bn surplus from services, and primary and secondary incomes, resulting in a January-May current account deficit of € -0.1bn, compared to a surplus of € 0.3bn over the same period last year. FDI inflows amounted to € 0.3bn over the period, compared to € 0.6bn over the first five months of 2020.

Bulgaria's inflation rate reached 2.7% at the end of June, significantly above the 0.6% recorded at the end of the first quarter, mainly triggered by higher energy prices.

Total domestic non-governmental credit (which excludes loans to financial institutions) increased from € 33.1bn at the end of March 2021 to € 33.6bn at the end of June, with corporate loans falling by 0.4%, whilst household loans grew by 3.9%. The deposit base was € 49.7bn at the end of June, only marginally up from € 49.6bn at the end of the previous quarter. The NPL rate was 6.7% at the end of June, down from 7.1% at the end of March.

Within the context of very low voter turnout of only 42%, the 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. At the end of July, the president of Bulgaria asked the largest party to form a new government, but it remains unclear whether they will manage to do so without going through a new round of elections.

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