Reconstruction Capital II Ltd

("RC2" or the "Fund")

Quarterly Report

30 September 2022

neweuropecapital

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Statistics

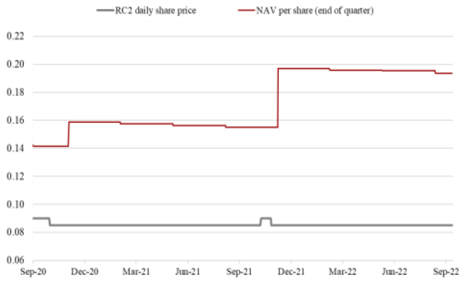
NAV per share (€)	0.1937
Total NAV (€ m)	26.3
Share price (€)	0.0850
Mk Cap (€ m)	11.5
# of shares (m)	135.7
NAV/share since inception†	-56.10%
12-month NAV/share perfomance	24.94%

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

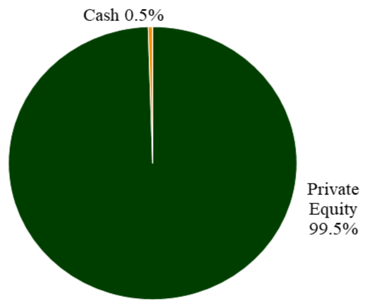
RC2 Quarterly NAV returns

	2019	2020	2021	2022
1Q	0.12%	-0.77%	-0.75%	-0.76%
2Q	-0.76%	-0.75%	-0.78%	-0.07%
3Q	-0.75%	-0.86%	-0.74%	-0.93%
4Q	-34.31%	12.04%	27.16%	
YTD	-35.22%	9.40%	24.30%	-1.75%

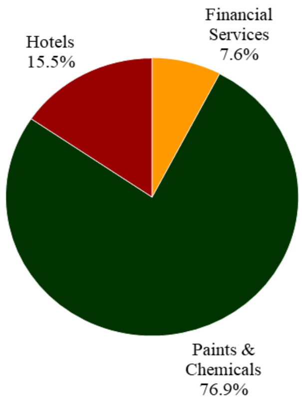
Share price / NAV per share (€)



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 € 0.27m, with its NAV per share decreasing by 0.93% from € 0.1955 to € 0.1937, mainly due to the operating expenses incurred over the quarter. On 5 September, RC2 bought back 125,000 of its own shares at a total cost of € 10,000, resulting in a total of 135,578,413 shares issued at present.

The Romanian and Bulgarian economies continued to grow during the second quarter of 2022, but the shocks induced by the COVID-19 pandemic and the outcome of the war in Ukraine, including high energy and food prices, rising interest rates and supply chain disruptions, have gradually deteriorated the macroeconomic outlook in both countries. Only partial figures on the economic performance of both countries over the third quarter are available.

The Policolor Group achieved operating revenues of € 70.7m over the first nine months of the year, slightly below budget but 10.4% above the € 64.0m achieved during the same period last year, mainly helped by the good performance of the resins division, while the coatings division was affected by weaker market demand and higher raw material prices. The Group posted recurring EBITDA of € 3.2m, significantly below both last year's result and the budget target of € 6.2m, mainly driven by a lower gross margin at the coatings division, due to higher raw material and other input costs.

Mamaia Resort Hotels continued the positive evolution posted during the first semester as the management benefited from a combination of long-term group occupancy contracts which started in the off-season months, and seasonal clients during the summer months. During the first nine months, the Hotel achieved revenues of € 3.7m, 25.6% above budget, and EBITDA of € 1.2m compared to an EBITDA budget of € 0.7m for the period.

Telecredit also posted excellent results over the first nine months, during which the company deployed € 20.4m in financing products to small and medium-sized enterprises, which was 23.9% above budget and 68.7% higher year-on-year. Primarily due to the higher volumes, the company generated an Operating Profit before Depreciation and Interest Expense of €0.6m over the period, 44.4% above budget and almost double the result achieved during the same period of 2021.

At the end of September, RC2 and RC2 (Cyprus) Ltd had cash and cash equivalents of € 0.09m, receivables of € 0.04m, and short-term liabilities of € 0.22m.

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.

Group Financial results and operations

(EUR '000)	2020*	2021A*	2022B	9M 2021**	9M 2022**	9M 2022B
Group Consolidated Income statement						
Sales revenues	**64,133**	**79,382**	**90,008**	**63,920**	**70,149**	**72,005**
sales growth year-on-year	*5.6%*	*23.8%*	*13.5%*	*24.2%*	*9.7%*	*12.6%*
Other operating revenues	182	210	4	92	525	2
Total operating revenues	**64,315**	**79,592**	**90,012**	**64,012**	**70,674**	**72,007**
Gross margin	20,503	22,460	25,123	18,949	16,653	20,452
Gross margin %	*32.0%*	*28.2%*	*27.9%*	*29.6%*	*23.6%*	*28.4%*
Other operating expenses	(20,934)	(14,616)	(21,409)	(15,393)	(15,117)	(15,947)
Operating profit	**(431)**	**1,604**	**3,714**	**3,556**	**1,536**	**4,505**
Operating margin	*-0.7%*	*2.0%*	*4.1%*	*5.6%*	*2.2%*	*6.3%*
EBITDA	**2,076**	**4,190**	**5,971**	**5,208**	**3,210**	**6,213**
EBITDA margin	*3.2%*	*5.3%*	*6.6%*	*8.1%*	*4.5%*	*8.6%*
Nonrecurring items / Extraordinary Items	(190)	-	-	(186)	(66)	-
Financial Profit/(Loss)	(719)	(590)	(397)	(110)	119	(301)
Profit before tax	**(1,339)**	**1,014**	**3,317**	**3,261**	**1,588**	**4,203**
Income tax	(179)	(299)	(464)	-	-	(350)
Profit after tax	**(1,518)**	**715**	**2,853**	**3,261**	**1,588**	**3,853**
avg exchange rate (RON/EUR)	*4.84*	*4.95*	*4.95*	*4.95*	*4.95*	*4.95*

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

Coatings sales of € 41.1m were 4.9% above the same period last year, but 10.3% below budget, due to difficult market conditions with demand weakened by inflationary pressures and general uncertainty due to the war in neighbouring Ukraine, as well as supply chain issues which impacted on the price and availability of certain raw materials.

On the other hand, the resins division posted excellent results, generating sales of € 25.3m (of which € 3.4m to Group companies), 25.7% above last year and 24.1% above budget, as it managed to pass on an important part of its input price increases without losing significant volumes. Sales of anhydrides (including sales to Group companies of € 2.1m) reached € 9.0m, 3.7% above last year but 14.7% below the budget target of € 10.6m, due to difficulties in sourcing raw materials, exacerbated by the war in neighbouring Ukraine.

The Group nine-month EBITDA of € 3.2m was significantly below both last year's result of € 5.2m, and the budget target of € 6.2m, manly driven by the coatings business' lower gross margin which in turn was the result of difficulties in pushing through price increases to compensate for the increase in input costs.

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)	2020*	2021A*	2022B	9M 2021**	9M 2022**	9M 2022B
Total Operating Revenues, of which:	**1,776**	**2,996**	**3,114**	**2,857**	**3,679**	**2,929**
Accommodation revenues	1,135	1,734	1,654	1,710	2,300	1,580
Food & beverage revenues	570	1,084	1,321	1,067	1,184	1,266
Other operating revenues	71	177	140	81	195	82
Total Operating Expenses	(3,248)	(2,769)	(2,749)	(2,191)	(2,564)	(2,330)
Operating Profit	**(1,472)**	**421**	**365**	**666**	**1,115**	**598**
Operating margin	*-82.9%*	*14.0%*	*11.7%*	*23.3%*	*30.3%*	*20.4%*
EBITDA	**(325)**	**395**	**455**	**719**	**1,175**	**700**
EBITDA margin	*-18.3%*	*13.2%*	*14.6%*	*25.2%*	*31.9%*	*23.9%*
Profit after Tax	**(1,620)**	**260**	**223**	**526**	**1,031**	**567**
Net margin	*neg.*	*8.7%*	*7.1%*	*18.4%*	*28.0%*	*19.4%*
avg exchange rate (RON/EUR)	*4.84*	*4.95*	*4.95*	*4.95*	*4.95*	*4.95*

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

During the third quarter, the Hotel continued the positive evolution posted during the first semester, resulting in excellent results for the first nine months of 2022, which overperformed both the budget and the prior year result, despite a difficult year for the Romanian seaside.

Operating revenues came in at € 3.7m, 25.6% above budget and 28.8% higher year-on-year, driven by a better occupancy rate (61% compared to a budgeted 32%, and last year's 44%), as the Hotel managed to secure a number of long-term group occupancy contracts which started in the off-season, in addition to the seasonal leisure tourists visiting during the summer months. The Hotel generated accommodation revenues of € 2.3m over the first nine-months, 45.6% above budget, whilst Food & Beverage revenues were 11% above the same period last year but 6.5% below budget, as clients reduced their expenditures whilst on holiday due to cost-of-living pressures.

The nine-month EBITDA of € 1.2m was 67.9% above the budget target of € 0.7m, mainly due to the higher revenues, while the operating expenses were 10% above budget, as a result of general price inflation and the higher occupancy rate which generated higher variable costs, including raw material and utilities costs.

Driven by the Hotel's very good performance, the Hotel's net debt almost halved from € 2.1m at the end of 2021 to € 1.1m as at 30 September 2022.

The Hotel is currently in the process of installing solar panels on its roof at a cost of € 0.13m, which is 66%-funded by a non-refundable government grant. The panels are expected to cover 30% of the Hotel's annual electricity consumption.

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)	2020*	2021A*	2022B	9M 2021**	9M 2022**	9M 2022B
Income Statement						
Interest revenues from pay day lending	**29**	**-**	**-**	**8**	**-**	**-**
Interest revenues from SMEs lending, of which:	**839**	**1,093**	**1,389**	**827**	**1,217**	**971**
Factoring and Discounting	712	1,029	1,339	770	1,201	931
Microloans	127	64	50	57	16	40
Total operating expenses:	**(864)**	**(697)**	**(878)**	**(534)**	**(603)**	**(546)**
Provisions, of which:	(126)	21	(40)	8	6	30
Pay day lending	139	58	24	46	26	18
SMEs lending	(265)	(37)	(64)	(38)	(20)	12
Other Operating expenses	(738)	(718)	(838)	(542)	(609)	(576)
Operating profit before depreciation and interest expenses	**5**	**396**	**511**	**301**	**614**	**425**
Depreciation	(83)	(98)	(127)	(82)	(71)	(94)
Operating profit before interest expenses (EBIT)	**(78)**	**298**	**384**	**220**	**542**	**332**
EBIT margin, %	*neg.*	*27.3%*	*27.7%*	*26.5%*	*44.6%*	*34.2%*
Profit after tax	**(149)**	**82**	**60**	**51**	**266**	**97**
net margin %	*neg.*	*7.5%*	*4.3%*	*6.2%*	*21.8%*	*10.0%*
Avg exchange rate (RON/EUR)	*4.84*	*4.95*	*4.95*	*4.95*	*4.95*	*4.95*

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

Over the first nine months of the year, Telecredit generated interest revenues from SME financings of € 1.2m, 25.3% above budget and 47.1% above the € 0.8m achieved over the same period last year. During the same period, the Company generated an Operating profit before interest and depreciation of € 614,000, 44.4% above budget and almost double the result achieved during the same period of 2021.

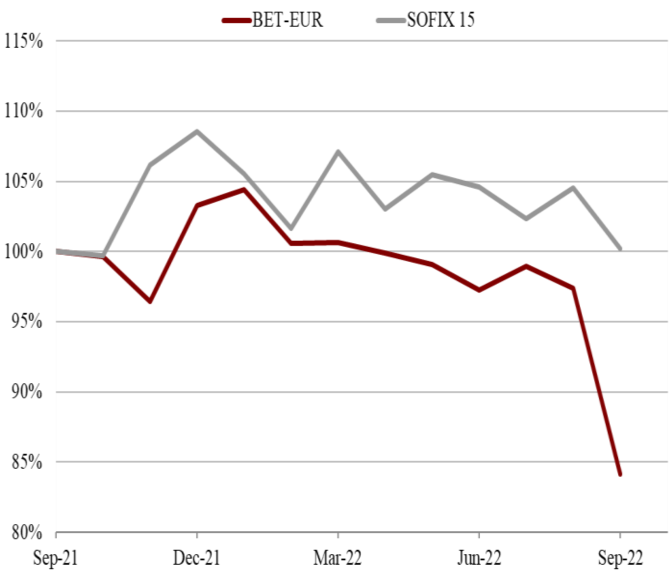
The outstanding financial performance was mainly due to higher financing volumes, as Telecredit deployed € 20.4m in financing products to SMEs over the first nine months, which was 23.9% above budget and 68.7% higher year-on-year. The net book value of the Company's SME portfolio increased by 10% over the period, from € 4m at the end of 2021 to € 4.4m at the end of September, divided between € 4.4m of factoring and discounting, and € 0.02m of microloans.

The non-performing loan (NPL) rate (defined as the balance of receivables over 90 days' overdue divided by the gross book value of the portfolio) grew slightly from 6.1% at the end of 2021 to 6.3% at the end of September. Of the September NPL rate, 2.3% was generated in 2022 and the balance of 4.0% in prior years.

Total debt at the end of September 2022 amounted to € 3.5m, stable compared to December 2021.

Capital Market Developments

BET-EUR and SOFIX-15: 1 year performance



Commentary

During the third quarter, worldwide capital markets reacted to the mounting macro-economic headwinds, higher interest rates, and concerns around geo-politics, posting significant corrections. The Romanian BET-EUR and the Bulgarian SOFIX 15 indices fell by 13.5% and 4.2%, respectively, both in euro terms, and the MSCI Emerging Market Eastern Europe, the MSCI Emerging Market, and the FTSE100 indices fell by 18.6%, 6.3% and 5.9%, respectively, whilst the S&P 500 posted a modest gain of 1.4%, all in euro terms.

Over the past twelve months, the Romanian BET-EUR has lost 15.8%, while the Bulgarian SOFIX 15 achieved a tiny increase of 0.2%, both in euro terms. By comparison, the MSCI Emerging Market Eastern Europe, and the MSCI Emerging Market fell 86.6% and 17.4%, respectively, whilst the FTSE100 and S&P 500 indices lost 4.9% and 1.6% respectively, all in euro terms.

Macroeconomic Overview

Overview

	RO	as of:	BG	as of:
GDP Growth (y-o-y)	5.7%	6M22	4.0%	6M22
Inflation (y-o-y)	15.9%	Sep-22	18.7%	Sep-22
Ind. prod. growth (y-o-y)	-0.3%	Aug-22	18.4%	Aug-22
Trade balance (EUR bn)	-22.0	8M22	-2.4	8M22
y-o-y	*50.5%*		*71.6%*	
FDI (EUR bn)	6.5	8M22	1.2	8M22
y-o-y change	*46.5%*		*-3.4%*	
Budget balance/GDP	-3.0%	9M22	0.6%	9M22
Total external debt/GDP	50.2%	Aug-22	52.5%	Aug-22
Public sector debt/GDP	54.7%	Aug-22	22.2%	Sep-22
Loans-to-deposits	74.2%	Sep-22	71.9%	Jun-22

Commentary

Romania

Since March, the effects of the war in Ukraine, including high inflation, rising interest rates and supply chain disruptions, have gradually deteriorated Romania's economic outlook, according to the latest country rating review by Fitch and the most recent economic outlook report by IMF.

Romania's first half GDP grew by 5.7% year-on-year, with the second quarter being the fifth straight quarter of expansion. The positive evolution was mainly driven by private and government consumption increasing by 7.5% and 13.7%, respectively, year-on-year. Investment (gross fixed capital formation) increased by 2.4%, while net imports grew by 43.8%.

The shocks induced by the COVID-19 pandemic, the war in Ukraine and the resulting energy crisis exacerbated inflationary pressures which at the end of September reached 15.9%, up from 15.1% in June. Due to European gas and electricity prices undergoing rapid increases, in order to protect the most vulnerable groups of consumers, the Romanian government has decided to cap the price of electricity and gas for low consumption households and SMEs, as well as for public institutions and social services providers (in the case of electricity) and for heating producers (in the case of gas), until August 2023.

In response to the inflationary pressures, the National Bank of Romania continued to tighten its monetary policy by progressively increasing its policy rate from 3.75% at the end of June to 6.75% from the 9th November.

Having gone through a period of high volatility during the third quarter, the Romanian leu was virtually unchanged against the euro by the end of the quarter, having depreciated by less than 10bps since 30 June.

During the first eight months of 2022, the trade gap increased by 50.4% year-on-year (from € -14.6bn to € -22.0bn), with exports growing by 25.1%, while imports increased by 31.0% from an already larger base. FDI inflows during the January – August 2022 period amounted to € 6.5bn, 46.5% higher than the € 4.4bn recorded during the same period of 2021, with total equity investment totalling € 4.2bn, whilst intra-group loans amounted to € 2.3bn.

Romania posted a budget deficit of € -6.7bn over the first eight months, the equivalent of 3.0% of GDP, compared to 3.8% over the same period in 2021. Budgetary receipts amounting to € 67bn were 22.4% higher year-on-year, mainly due to a 23.3% increase in taxes on income and salaries, and a 26.1% increase in VAT proceeds, as the generalized increase in prices had a positive impact on the taxable base. At the same time, total budgetary expenses increased by 18.4% in EUR terms, from € 63.7bn to € 75.4bn, with personnel and social expenditures, which accounted for 23.4% of total expenses, growing by 5.3%. During the first nine months, interest expenses increased by 63.4% to € 4.2bn, mainly due to the increase in interest rates. The average yield of a 10-year Romanian Government Bond increased from 5.06% at the end of December 2021 to 8.52% at the end of September. Of the budgetary expenses, € 2.3bn was allocated to subsidies for supporting agricultural producers as well as to compensate users for higher energy prices, whilst public investment amounted to € 3.9bn, or 5.2% of budgetary expenses.

Romania's total external debt amounted to € 142bn at the end of August, approximately 50.2% of GDP, which represents a 3.8% year-on-year increase. Public debt has also continued to grow, having reached € 155bn, or 54.7% of GDP, at the end of August, up 18.1% year-to-date in nominal EUR terms.

Lending activity continued to expand over the third quarter, with total domestic non-governmental credit (which excludes loans to financial institutions), amounting to € 73.7bn at the end of September, up 3.4% in RON terms from the end of the previous quarter. Household loans reached € 34.9bn at the end of August, having increased by 1.2% over the quarter, and accounted for 47.4% of total loans outstanding at the end of September. Consumer loans, which account for 38.6% of household loans, increased by 1.7% over the quarter. Housing loans increased by less than 1% over the quarter and accounted for 61.4% of household loans. At the same time, corporate loans reached € 35.8bn at the end of August, up 5.5% over the quarter. The NPL ratio was 2.9% at the end of August, down from 3.0% at the end of June. The overall deposit base has continued to expand, reaching € 99.4bn at the end of September, which is 2.2% higher than at the end of June.

Bulgaria

Bulgaria's first semester GDP grew by 4.0% year-on-year, with private and government consumption increasing by 5.2%, and investment (gross capital formation) growing by 19.4%, but net exports falling by 66%.

During the first nine months of the year, the Bulgarian economy faced soaring energy and food prices, supply chain difficulties for certain raw materials and growing uncertainties given the country's dependence on Russian gas, which suspended its gas supplies to Bulgaria at the end of April. Bulgaria had been approximately 90% dependent on Russia for its gas needs. However, the Bulgarian government has managed to find alternative gas suppliers, and in August 2022, Bulgaria received the first shipment of liquefied gas from the US, whilst on 1 October the Greece-Bulgaria gas interconnector started operations, allowing Bulgaria to receive around one billion cubic metres gas per year from Azerbaijan.

In order to protect low-income households from rising energy prices, the Bulgarian government decided to cap electricity prices at the level of July 2021 for households, and to compensate 80% of electricity prices exceeding € 150 per MWh for companies in the form of subsidies paid directly to them. Rising gas prices were also compensated through subsidies in May and June, but there is no visibility as to what actions, if any, will be taken by the government to support industrial consumers and SMEs through the cold season.

Bulgaria's inflation rate reached 18.7% at the end of September, compared with 16.9% at the end of the previous quarter.

Over the first nine months of 2022, Bulgaria posted a budget surplus of approximately € 870m, or 0.6% of GDP, compared to a 0.8% surplus over the same period last year. Total budgetary revenues as of September 2022 increased by 18.9%, of which tax and social security contributions increased by 14.9%. On the other hand, total budgetary expenses grew by 19.8%, mainly due to a 10.2% increase in salaries and social expenditures, and a 79% increase in expenses with subsidies, mainly to compensate the higher energy prices.

Bulgaria's public sector debt increased from € 16.1bn at the end of the June to € 18.3bn at the end of September, and is now approximately 22.2% of GDP. Gross external debt amounted to € 41.5bn, or 52.5% of GDP, at the end of August 2022, having increased by 1.5% year-to-date.

Bulgaria's January-August trade deficit of € -2.4bn was significantly worse than the € -1.4bn recorded over the same period last year. Exports increased by 41.6%, and imports by 45.3%. The trade deficit was counter-balanced by a € 3.8bn surplus from services, and primary and secondary incomes, resulting in a January - August current account surplus of € 1.4bn, similar to the result achieved during the same period last year. FDI inflows amounted to € 1.2bn during the first eight months, compared to € 1.8bn over the same period of 2021.

Total domestic non-governmental credit (which excludes loans to financial institutions) increased from € 37.7bn at the end of March to € 38.9bn at the end of June, with corporate loans growing by 1.8%, whilst household loans grew by 4.5%. The deposit base was € 54.1bn at the end of June, up by less than 1% from € 53.6bn at the end of the previous quarter. The NPL rate was 3.4% at the end of June, down from 3.7% at the end of March.

On 2 October, the Bulgarian centre right GERB party led by former Prime Minister Boyko Borissov emerged as the largest party following snap elections, this being the fourth parliamentary vote within two years. However, despite ongoing negotiations, there is no visibility as to whether a coalition government will emerge, or whether voters will be asked to go back to the polls.

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