Reconstruction Capital II Ltd

("RC2" or the "Fund")

Quarterly Report

30 September 2023

neweuropecapital

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Statistics

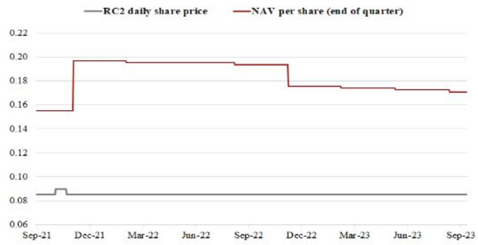
NAV per share (€)	0.1710
Total NAV (€ m)	23.2
Share price (€)	0.0850
Mk Cap (€ m)	11.5
# of shares (m)	135.6
NAV/share since inception†	-58.49%
12-month NAV/share perfomance	-11.72%

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

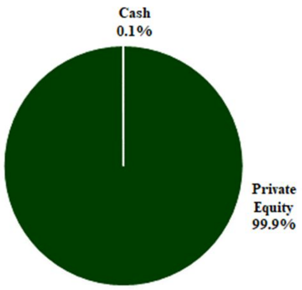
RC2 Quarterly NAV returns

	2020	2021	2022	2023
1Q	-0.77%	-0.75%	-0.76%	-0.80%
2Q	-0.75%	-0.78%	-0.07%	-0.80%
3Q	-0.86%	-0.74%	-0.93%	-1.10%
4Q	12.04%	27.16%	-9.29%	
YTD	9.40%	24.30%	-10.88%	-2.68%

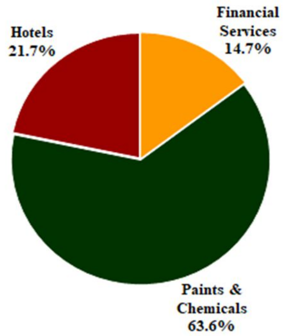
Share price / NAV per share (€)



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 by1.05%, with its NAV per share falling from € 0.1729 to € 0.1710, mainly due to the operating expenses incurred over the quarter.

During the first nine months of the year, within the context of slowing economic growth in both Romania and Bulgaria, a high interest rate environment, weaker private consumption, and lower aggregate demand from European countries, the Policolor Group achieved sales of € 58.8m, 21.4% below budget and 16.8% lower year-on-year. The lower sales were also the result of the Anhydrides division being affected by an ongoing EU ban on imports of orthoxylene, the main raw material in anhydrides production, from Russia, forcing the division to stop production. The Coatings division's sales of € 41.3m were 1% higher year-on-year but 9.4% below budget, largely due to weak construction and consumer markets across Romania and Bulgaria, whilst the Resins division's sales came in € 19.7m, 11.4% below budget. Despite the lower-than-expected sales, the Coatings and Resins divisions continued to increase their gross margins, helping generate nine-month EBITDA of € 3.9m, € 1.4m below budget but € 0.7m above the EBITDA achieved over the same period last year.

During the first nine months, Mamaia Resort Hotels generated total revenues of € 2.7m, 24.5% below budget, as the entire Mamaia resort had a weak summer season, with the cost-of-living crisis and the ongoing war in Ukraine across the Black Sea negatively impacting on the demand. The Hotel posted an EBITDA loss of € 0.01m, significantly below budget and last year's result, due to lower-than-expected accommodation revenues and higher fixed costs.

Over the first nine months of the year, Telecredit deployed financing volumes of € 27m, 38% higher year-on-year and 5.1% above budget, with the overall result affected by a weak first quarter but strong demand over the summer and a record third quarter. Interest revenues amounted to € 1.4m, 11.3% higher year-on-year but 10.6% below budget, mainly due to the slow start to the year. The nine-month operating profit before depreciation and interest expenses was € 0.6m, in line with last year's result but below the budgeted € 0.68m.

At the end of September, RC2 and RC2 (Cyprus) Ltd had cash and cash equivalents of € 0.02m, receivables of € 0.01m, and short-term liabilities of € 0.82m.

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)	2021*	2022A*	2023B	9M 2022	9M 2023**	9M 2023B
Group Consolidated Income statement						
Sales revenues	**79,382**	**85,593**	**92,906**	**70,149**	**58,681**	**74,808**
sales growth year-on-year	*23.8%*	*7.8%*	*8.5%*	*9.7%*	*-16.3%*	*6.6%*
Other operating revenues	210	1,382	-	525	100	-
Total operating revenues	**79,592**	**86,975**	**92,906**	**70,674**	**58,782**	**74,808**
Gross margin	22,954	20,531	24,570	16,657	18,108	19,891
Gross margin %	*28.8%*	*23.6%*	*26.4%*	*23.6%*	*30.8%*	*26.6%*
Other operating expenses	(21,350)	(20,483)	(22,888)	(15,122)	(16,002)	(16,843)
Operating profit	**1,604**	**48**	**1,683**	**1,536**	**2,106**	**3,048**
Operating margin	*2.0%*	*0.1%*	*1.8%*	*2.2%*	*3.6%*	*4.1%*
EBITDA	**4,190**	**2,810**	**4,653**	**3,210**	**3,868**	**5,251**
EBITDA margin	*5.3%*	*3.2%*	*5.0%*	*4.5%*	*6.6%*	*7.0%*
Nonrecurring items / Extraordinary Items	-	-	-	(66)	705	-
Financial Profit/(Loss)	(590)	(383)	(924)	119	(848)	(679)
Profit before tax	**1,014**	**(335)**	**759**	**1,588**	**1,963**	**2,369**
Income tax	(299)	(183)	-	-	-	-
Profit after tax	**715**	**(518)**	**759**	**1,588**	**1,963**	**2,369**
avg exchange rate (RON/EUR)	*4.92*	*4.92*	*4.92*	*4.91*	*4.97*	*4.92*

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

During the first nine months of 2023, the Policolor Group achieved sales of € 58.8m, 21.4% below budget and 16.8% lower year-on-year, mainly due to the underperformance of its Anhydrides division which operated for only one month during the period (resulting in sales of only € 2.6m, of which € 2.4m to Group companies), due to the EU having banned the import from Russia of the main raw material for the production of anhydrides.

The Coatings division's sales of € 41.3m were 1% higher year-on-year, but 9.4% below budget, reflecting lower demand from the construction and consumer markets in both Romania and Bulgaria, due to high inflation and high interest rates, and the resulting ongoing cost of living crisis.

The Resins division generated sales of € 19.7m (of which € 2.7m to Group companies), 11.4% below budget and 22.4% lower year-on-year, as the division faced weaker than expected demand from the coatings industry across Europe, due to the general slowdown in economic activity.

Whilst sales were below budget in all three divisions, the Coatings and Resins business units achieved much improved gross margins. The Coatings Division's nine-month gross margin was 35.6%, above the budgeted 35.1% and significantly above last year's 31.5%, whilst the Resins division posted a nine-month gross margin of 17.7%, higher than both the budgeted 15.7% and last year's 13.5%.

In spite of the Group's gross margin reaching 30.8% over the first nine months, higher than both the budget (26.6%) and the same period last year (23.6%), due to the sales underperformance, Policolor's nine months EBITDA came in at € 3.9m, or € 1.4m below budget.

As previously announced, the auditors of Policolor have issued an unqualified restated audit opinion on the consolidated financial statements for the year ended 31 December 2022, due to a material error found in the consolidation. The above table now reflects the corrected 2022 consolidated audited accounts.

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)	2021*	2022A*	2023B	9M 2022	9M 2023**	9M 2023B
Total Operating Revenues, of which:	**2,996**	**3,932**	**3,986**	**3,679**	**2,646**	**3,502**
Accommodation revenues	1,732	2,433	2,146	2,300	1,413	1,944
Food & beverage revenues	1,084	1,347	1,710	1,184	1,099	1,448
Other operating revenues	179	152	129	195	134	110
Total Operating Expenses	(2,748)	(3,394)	(3,572)	(2,564)	(2,750)	(2,834)
Operating Profit	**248**	**538**	**413**	**1,115**	**(105)**	**668**
Operating margin, %	*8.3%*	*13.7%*	*10.4%*	*30.3%*	*-4.0%*	*19.1%*
EBITDA	**416**	**657**	**493**	**1,175**	**(12)**	**727**
EBITDA margin, %	*13.9%*	*16.7%*	*12.4%*	*31.9%*	*-0.5%*	*20.8%*
Profit after Tax	**90**	**370**	**271**	**979**	**(252)**	**553**
Net margin, %	*3.0%*	*9.4%*	*6.8%*	*26.6%*	*-9.5%*	*15.8%*
Operational KPIs						
Occupancy rates	40%	49%	33%	61%	33%	38%
Average net tariff per room	54.9	51.2	67.9	52.1	59.6	70.6
avg exchange rate (RON/EUR)	*4.92*	*4.92*	*4.92*	*4.91*	*4.97*	*4.92*

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

During the first nine months of the year, the Hotel's occupancy rate was 33%, lower than the budgeted 38%, and well below the 61% achieved during the same period last year when it secured several long-term accommodation contracts for large groups, which generated 57% of its annual revenues. Due to the lower occupancy rate, but also due to lower discretionary spending by its customers due to the cost-of-living crisis in Romania, total revenues for the nine months came in at € 2.7m, 24.5% below budget.

Mainly due to the lower-than-expected accommodation revenues, higher fixed costs (mainly salaries), and higher food and beverage costs, the Hotel posted an EBITDA loss of € 0.01m, significantly below budget and last year's result.

As the high season has now ended, the Hotel has adapted its cost structure for the low season and is also currently implementing several cost efficiency measures that are expected to improve its profitability in the coming year.

The Hotel's net debt fell slightly over the first nine months, from € 1.77m at the end of 2022 to € 1.76m at the end of September.

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)	2021*	2022A*	2023B	9M 2022	9M 2023**	9M 2023B
Income Statement						
Interest revenues from SMEs lending, of which:	**1,093**	**1,625**	**2,141**	**1,217**	**1,354**	**1,515**
Factoring and Discounting	1,029	1,606	2,109	1,201	1,301	1,488
Microloans	64	19	32	16	54	28
Total operating expenses:	**697**	**(999)**	**(1,234)**	**(603)**	**(782)**	**(833)**
Provisions, of which:	21	27	(124)	6	(78)	(76)
Pay day lending	58	32	-	26	35	-
SMEs lending	(37)	(5)	(124)	(20)	(113)	(76)
Other Operating expenses	(718)	(1,027)	(1,110)	(609)	(705)	(757)
Operating profit before depreciation and interest expenses	**396**	**626**	**907**	**614**	**572**	**682**
Depreciation	(98)	(97)	(173)	(71)	(80)	(130)
Operating profit before interest expenses (EBIT)	**298**	**529**	**734**	**542**	**492**	**552**
EBIT margin, %	*27.3%*	*32.6%*	*34.3%*	*44.6%*	*36.3%*	*36.5%*
Profit after tax	**82**	**174**	**269**	**266**	**210**	**206**
Net margin %	*7.5%*	*10.7%*	*12.6%*	*21.8%*	*15.5%*	*13.6%*
Avg exchange rate (RON/EUR)	*4.95*	*4.92*	*4.92*	*4.91*	*4.97*	*4.92*

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

During the first nine months of the year, Telecredit's financing volumes amounted to € 27.5m, 38% higher year-on-year and 5.1% above budget. During the third quarter, the growth in financing volumes accelerated, reaching an all-time high of € 5.4m in September.

Over January – September, Telecredit generated interest revenues of € 1.4m, 11.3% higher year-on-year but 10.6% below budget, mainly due to a weak first quarter. The operating profit before depreciation and interest expenses was € 0.6m, in line with last year's result (which had been helped by a large number of reversals of prior year provisions), but below the budgeted € 0.7m, mainly as a result of lower-than-expected interest revenues reflecting shorter average financing maturities and a slightly lower average interest rate.

The value of the financing book reached € 6.2m at the end of September, up from € 4.1m as of 31 December 2022, almost entirely comprised of factoring and discounting operations, while the book value of microloans having increased from € 0.02m at the end of 2022 to € 0.2m at the end of September, but still relatively low.

The non-performing loan (NPL) rate (defined as the balance of receivables accelerated or over 90 days overdue divided by the gross book value of the portfolio) was 5.4% at the end of September, down from 5.8% at the end of June. Of the 5.4% NPL rate, 1.7% was generated during the first nine months of 2023, with the balance of 3.7% having been generated in prior periods.

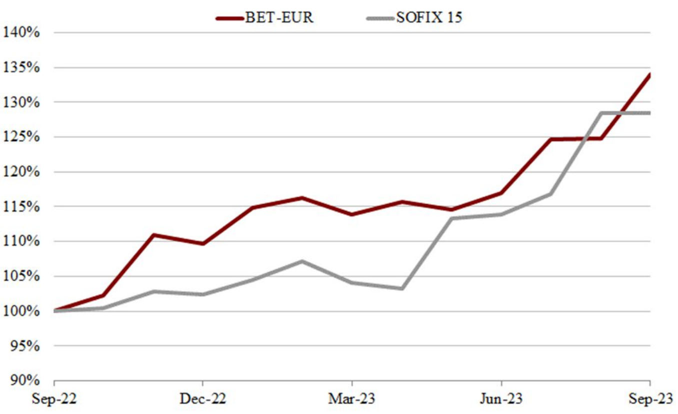
At the end of September, total debt amounted to € 4.8m, higher than € 4.4m at the end of June, driven by the growth in the financing book over the quarter.

During the first nine months, Telecredit posted net income of € 0.21m, lower than the € 0.27m achieved during the same period last year, but 2% above budget.

Under National Bank of Romania transitory regulations, the Company adopted full statutory IFRS accounting in 2023. Consequently, the 9m 2023 results included in the table above have been prepared in accordance with IFRS, while the comparable results for the same period of 2022 were prepared under Romanian accounting standards.

Capital Market Developments

BET Index and SOFIX Index 1 year performance



Commentary

Over the third quarter, the Romanian BET and the Bulgarian SOFIX 15 indices outperformed the benchmark global indices, gaining 14.6% and 12.8%, respectively, both in euro terms. Over the same quarter, the FTSE100 gained 0.1%, whilst the MSCI Emerging Market Eastern, the MSCI Emerging Market, and the S&P indices fell by 6.9%, 1.6% and 0.6%, respectively. Over the last 12 months, the BET-EUR and SOFIX 15 indices increased by 34.1% and 28.5%, respectively, both in euro terms. By comparison, the MSCI Emerging Market Eastern Europe, the FTSE100, the S&P, and the MSCI Emerging Market indices gained, 41%, 11.9%, 10.7%, and 0.7%, respectively.

Macroeconomic Overview

Overview

	RO	as of:	BG	as of:
GDP Growth (y-o-y)	1.9%	6M23	1.9%	6M23
Inflation (y-o-y)	8.8%	Sep-23	6.3%	Sep-23
Ind. prod. growth (y-o-y)	-5.7%	Aug-23	-9.7%	Aug-23
Trade balance (EUR bn)	-18.2	8M23	-3.6	8M23
y-o-y change	*-17%*		*-17%*	
FDI (EUR bn)	5.1	8M23	2.2	8M23
y-o-y change	*-32%*		*34%*	
Budget balance/GDP	-3.6%	9M23	-0.5%	9M23
Total external debt/GDP	49.5%	Aug-23	45.0%	Aug-23
Public sector debt/GDP	54.9%	Aug-23	20.1%	Sep-23
Loans-to-deposits	71.0%	Aug-23	73.6%	Sep-23

Commentary

Romania

Romania's GDP growth rate has decelerated sharply, from 2.9% at the end of the first quarter to 1.9% at the end of the second. The fall was mainly driven by lower public and private consumption growth (+2% year-on-year in June, compared to +6.9% at the end of the first quarter) and construction activity slowing down (from +8.8% at the end of the first quarter to +5.4 at the end of the second), while the industrial and agriculture sectors had a negative contribution of -4.0% and -1.6%, respectively. Romania's third-quarter GDP figures are due to be released in mid-November.

At the end of September, the inflation rate fell to single digits (8.8%), from 10.3% at the end of June. The main drivers of inflation were food prices (+10.4%), services (+12.1%), and commodities (+6.7%), whilst utility prices fell by 2.7%. At its September 2023 monetary policy meeting, the National Bank of Romania decided to keep its policy interest rate at 7%, unchanged since January.

Over the first 8 months of the year, Romania's trade deficit fell by 17% (from € -22.0bn to € -18.2bn), with exports growing by 3.1%, while imports fell by 2.3% but from a larger base. Foreign Direct Investment inflows over the first eight months amounted to € 5.1bn, 32% lower than the same period last year, with total equity investment amounting to € 5.5bn, and intra-group loans amounting to € 0.4bn.

Romania posted a budget deficit of € -11.4bn over the first nine months of the year, or 3.6% of GDP, compared to 3.0% of GDP during the same period of 2022. At € 74bn, budgetary receipts were 11% higher, mainly due to a 13.9% increase in revenues from taxes on income, salaries, and social contributions, and an 8.8% increase in VAT proceeds. Total budgetary expenses increased by 13.7% to € 85bn, with personnel and social expenditures, which accounted for 57% of total expenses, growing by 10.3%, whilst expenses on subsidies, related mainly to the agriculture and energy compensation schemes, increased by 26.3%.

As a result of a higher outstanding balance of government debt, interest expenses increased by 12.5% to € 4.7bn. The average yield on 10-year Romanian Government bonds increased slightly from 6.7% at the end of June to 6.9% at the end of September.

Romania has so far received € 9.1bn under its EU-approved € 29bn Recovery and Resilience Plan. Of this, Romania had spent only € 3.5bn up to the end of September, the equivalent of a 38.5% absorption rate. In September, Romania sent a third payment request to the EU, for € 3bn.

The slowdown in economic activity, coupled with a below EU-average fiscal revenues collection rate, resulted in lower budgetary revenues and a higher deficit, forcing the government to adopt a package of fiscal reforms aimed at containing the deficit. These comprise: combatting tax avoidance by larger corporations by imposing a minimum tax rate equal to 1% of sales if total revenues exceed € 50m; lowering the threshold for the 1% tax rate on SME's revenues from € 0.5m to €0.06 per year (if their revenues are higher than € 0.06m, SMEs will pay 3% of their revenues); VAT and excise duty increases for certain products and services; and the removal of certain tax incentives for IT and construction workers. The measures also include raising the minimum salary by 10% from 1 October 2023. The changes to indirect taxes are due to come into effect on 1 November, with the others coming into effect on 1 January 2024.

Romania's total external debt amounted to € 158.4bn at the end of August, equal to approximately 49.5% of GDP, which represents an 11.8% year-on-year increase. Public debt has also continued to grow, having reached € 177bn, or 54.9% of GDP, at the end of August, up 15.3%, year-on-year in nominal euro terms.

Lending activity has picked up slightly (+0.9% in RON terms) since the end of June, with total domestic non-governmental credits (which exclude loans to financial institutions), amounting to € 76.7bn at the end of August. Household loans reached € 34.9bn, 0.8% higher than at the end of June, and accounted for 45.5% of total loans outstanding at the end of August. Consumer loans, which accounted for 39.2% of household loans, grew by 2% over the quarter. Housing loans accounted for 60.8% of household loans at the end of August and their balance was almost unchanged since the end of June. Corporate loans outstanding reached € 38.3bn at the end of August, up 1.1% since the end of June. The overall deposit base continued to expand, reaching € 108bn at the end of August. The NPL ratio was 2.65% at the end of August, unchanged since June. The Romanian banking system's loan-to-deposit ratio was 71.0% at the end of August, compared to 68.8% at the end of June.

Bulgaria

The slowdown in the Bulgarian economy's growth rate, which had started during the first quarter, continued in the second. At the end of June, Bulgaria recorded annual GDP growth of 1.9% compared to 2.3% at the end of the first quarter. Consumption continued to be the main driver of economic growth, but at a slower pace, while net exports and investments achieved higher growth rates. Third-quarter GDP figures are due to be released in mid-November.

Prices continued to follow a disinflationary trend, with the inflation rate falling from 7.5% at the end of June to 6.3% at the end of September. The positive evolution was mainly driven by utility prices which fell by 3.4% year-on-year. Monetary conditions in Bulgaria follow those in the euro area through a currency board arrangement, hence the National Bank of Bulgaria has limited monetary policy tools. At the end of September, 3M Euribor was 3.95% compared to 3.58% at the end of June 2023.

By the end of September, Bulgaria recorded a budget deficit of approximately € 0.4bn, or 0.5% of GDP, compared to a 0.6% budget surplus over the same period of 2022. Total budgetary revenues increased by 5.9% year-on-year to € 24.3bn, with tax and social security contributions growing by 10%. However, total budgetary expenses grew by 10.4% to € 24.1bn, mainly due to a 19.7% increase in salaries and social expenditures, and a 40% increase in public investments. Subsidies, mainly to cushion the high cost of energy, fell by 42% compared to the same period in 2022, due to the prices of electricity and natural gas falling over the year.

Bulgaria's public sector debt fell slightly from € 19.2bn, or 20.4% of GDP, at the end of June, to € 19bn, or 20.1% of GDP, at the end of September. At the end of August, gross external debt amounted to € 43bn, or 45% of GDP, 2.3% lower than in June.

During the first eight months of 2023, Bulgaria posted a trade deficit of € -3.6bn, compared to € -2.4bn over the same period last year. Exports fell by 9.5%, and imports by 18.9%. Over the same period, Bulgaria achieved a current account surplus of € 1.3bn, compared to a € 0.2bn surplus over the same period of 2022, mainly due to a € 3.6bn surplus from services, and primary and secondary incomes. FDI inflows amounted to € 2.2bn during January-August, 34% higher than over the same period of 2022.

The Bulgarian banking system's loan-to-deposit ratio was 73.6% at the end of September, compared to 71.7% at the end of June. The NPL rate was 3.8% at the end of September, unchanged since June.

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