

15 June 2022

Reconstruction Capital II Limited
Annual Report and Audited Financial Statements
for the year ended 31 December 2021

Reconstruction Capital II Limited (“RC2”, the “Company” or the “Group”), a closed-end investment company incorporated in the Cayman Islands admitted to trading on the AIM market of the London Stock Exchange, today announces its results for the year ended 31 December 2021.

Copies of the Company’s annual report will today be posted to shareholders. The annual report is also available to view on the Company’s website <http://www.reconstructioncapital2.com>.

Financial highlights

- The audited net asset value as at 31 December 2021 was €0.1971 per share (€0.1586 per share as at 31 December 2020), a 24.27% increase over the year;
- The Directors do not recommend the payment of a dividend.

Operational highlights

Private Equity Programme

At the end of December 2021, the investments held under the Private Equity Programme had a total fair value of €26.24m, 29.5% above the 2020 valuation of €20.25m. The valuations of Policolor, Mamaia and Telecredit were all performed by independent valuers in 2021 (in 2020, the valuation of Telecredit was based on its audited net asset value). The valuations of the Company’s investments in Reconstruction Capital Plc (“RC”) and The Romanian Investment Fund Limited (“RIF”) were also based on their audited net asset values, but these were in turn based on the same valuation of their main underlying asset, Policolor SA, as adopted by the Company.

In spite of the ongoing COVID pandemic and inflationary headwinds, Policolor managed to generate a 23.7% year-on-year increase in sales, from €64.1m in 2020 to €79.3m in 2021, overperforming its budget by 12.5%. Helped in particular by the strong performance from its resins and chemicals businesses, Policolor more than doubled its recurring EBITDA from €2.1m in 2020 to €4.3m in 2021. The Policolor Group continues to implement a turnaround plan which aims for an increased and more efficient production capacity, a leaner and more efficient organisation structure, improved internal planning and reporting systems, and lower logistics costs.

Mamaia’s 2021 revenues of €2.9m were 6.3% above budget, and 65% above the prior year, due to the positive effect of higher low season sales, and the relaxation of pandemic restrictions over the summer when the hotel benefited from a rebound in demand from Romanian tourists. The hotel also made use of pandemic related state aid, helping it achieve EBITDA of €0.35m, almost in line with the budgeted €0.36m, and compared to an EBITDA loss of €-0.33m in 2020.

Operating in an economy still affected by the COVID pandemic where commercial banks continued to show a lower risk appetite for financing small and medium sized enterprises, Telecredit deployed €19m in financing products in 2021. This generated an operating profit before depreciation and amortization of €0.39m, 5.6% above the annual budget and significantly above the breakeven achieved in 2020.

Related parties' interests

As at 31 December 2021, Mr Florescu held 39,030,555 shares, Portadrix Investments Limited (which is wholly-owned by The Florescu Family Trust) held 42,726,319 shares, and New Europe Capital SRL (which is the adviser to the Company and is 84% owned by Portadrix Investments Limited) held 105,985 shares. Mr Florescu and interests related to him own in aggregate 81,862,859 shares representing 60.26% of the current issued share capital of the Company.

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ADVISER'S REPORT
For the year ended 31 December 2021

On 31 December 2021, Reconstruction Capital II Limited ("RC2" or the "Company") had a total audited net asset value ("NAV") of €26.8m, or €0.1971 per share. The NAV per share increased by 24.27% over the course of the year.

Private Equity Programme

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	2021	2020
	EUR	EUR
Policolor S.A	17,000,000	13,960,000
Mamaia Hotel Resorts SRL ("Mamaia")	4,076,986	3,440,548
Telecredit IFN S.A. ("Telecredit")	1,895,500	624,545
The Romanian Investment Fund Limited	1,719,419	1,256,983
Reconstruction Capital Plc	1,544,540	972,485
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	26,236,445	20,254,561
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The above valuations are based on assumptions that applied as of 31 December 2021.

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Operating in an economy still affected by the COVID pandemic where commercial banks continued to show a lower risk appetite for financing small and medium sized enterprises, Telecredit deployed €19m in financing products in 2021. This generated an operating profit before depreciation and amortization of €0.39m, 5.6% above the annual budget and significantly above the breakeven achieved in 2020.

Apart from the shareholdings in RC and RIF, the other private equity investments are held through two Cyprus-based wholly-owned subsidiaries, RC2 (Cyprus) Limited and Glasro Holdings Limited, which are not consolidated in the present financial statements, in accordance with IFRS. The Assets at Fair Value shown in the present financial statements, which amount to €26.97m, reflects the valuations of the underlying private equity holdings outlined in the above table, plus loan receivables from investee companies of €0.59m, cash and cash equivalents of €0.06m, and a net €0.08m of sundry financial assets and liabilities, held by these intermediary holding companies.

Economic Overview

Both the Romanian and Bulgarian economies reported an increase in GDP in 2021 of 5.9% and 4.2%, respectively, as measures imposed due to the COVID pandemic were relaxed and economic activity resumed. Inflationary pressures have been building up, reaching 8.2% in Romania and 7.8% in Bulgaria at the end of 2021. The European Commission has nonetheless forecast that growth would continue in 2022 at 4.2% in Romania and 3.7% in Bulgaria. However, these forecasts were made prior to the Russian invasion of Ukraine which is already having a long-term, negative impact, in particular on consumer confidence and energy prices.

INVESTMENT POLICY

Investment Objective and Policy of the Company

At a general shareholder meeting on 21 February 2018, the investment objective of the Company was changed so that it now aims to achieve capital appreciation and/or to generate investment income returns through the acquisition of real estate assets in Romania, including the development of such assets, and/or the acquisition of significant or controlling stakes in companies established in, or operating predominantly in Romania, primarily in the real estate sector. Any new private equity investment in companies operating in sectors other than real estate is limited to 25% of the Company's total assets at the time of effecting the investment. However, the Company may continue to make follow-on investments in existing portfolio companies (which include Policolor SA, Mamaia Resort Hotels SRL and Telecredit SA IFN) without any such limitation.

Gearing

The Company may borrow up to a maximum level of 30% of its gross assets (as defined in its articles).

Distribution Policy

The Company's investment objective is focused principally on the provision of capital growth. For further details of the Company's distribution policy, please refer to the Admission Document on the Company's website.

STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2021

	2021	2020
	EUR	EUR
Investment income		
Fair value loss on financial assets at fair value through profit or loss	2,774,875	(1,752,486)
Interest income	3,197,478	4,280,442
Net investment income/(loss)	5,972,353	2,527,956
Expenses		
Operating expenses	(725,459)	(660,299)
Net financial (expense)/income	(11,595)	(16,286)
Total expenses	(737,054)	(676,585)
Profit/(loss) for the year	5,235,299	1,851,371
Other comprehensive income	-	-
Total comprehensive income/(loss) for the year attributable to owners	5,235,299	1,851,371
Gain/(loss) Per Share		
Basic and diluted gain/(loss) per share	0.0385	0.0136

STATEMENT OF FINANCIAL POSITION

As at 31 December 2021

	2021 EUR	2020 EUR
ASSETS		
Non-current assets		
Financial assets at fair value through profit or loss	26,971,821	21,999,552
Total non-current assets	26,971,821	21,999,552
Current assets		
Trade and other receivables	6,027	13,600
Cash and cash equivalents	11,301	33,073
Total current assets	17,328	46,673
TOTAL ASSETS	26,989,149	22,046,225
LIABILITIES		
Current liabilities		
Trade and other payables	205,685	91,782
Borrowings	-	406,278
Total current liabilities	205,685	498,060
TOTAL LIABILITIES	205,685	498,060
NET ASSETS	26,783,464	21,548,165
EQUITY AND RESERVES		
Share capital	1,358,569	1,358,569
Share premium	109,206,779	109,206,779
Accumulated deficit	(83,781,884)	(89,017,183)
TOTAL EQUITY	26,783,464	21,548,165
Net Asset Value per share		
Basic and diluted net asset value per share	0.1971	0.1586

**STATEMENT OF CHANGES IN
EQUITY**

For the year ended 31 December 2021

	Share capital EUR	Share premium EUR	Accumulated deficit EUR	Total EUR
Balance at 1 January 2020	1,358,569	109,206,779	(90,868,554)	19,696,794
Profit for the year	-	-	1,851,371	1,851,371
Other comprehensive income	-	-		
Total comprehensive loss for the year	-	-	1,851,371	1,851,371
Repurchase and cancellation of own shares	-	-	-	-
Transactions with owners	-	-	-	-
Balance at 31 December 2020	1,358,569	109,206,779	(89,017,183)	21,548,165
Profit for the year	-	-	5,235,299	5,235,299
Other comprehensive income	-	-		
Total comprehensive income for the year	-	-	5,235,299	5,235,299
Balance at 31 December 2021	1,358,569	109,206,779	(83,781,884)	26,783,464

STATEMENT OF CASH FLOWS

For the year ended 31 December 2021

	2021	2020
	EUR	EUR
Cash flows from operating activities		
Profit/(loss) for the year	5,235,299	1,851,371
<i>Adjustments for:</i>		
Fair value loss on financial assets at fair value through profit or loss	(2,774,875)	1,752,486
Interest income	(3,197,478)	(4,280,442)
Interest expense	11,035	6,278
Net (loss)/gain on foreign exchange	(44)	8
Net cash outflow before changes in working capital	(726,063)	(670,299)
Decrease in trade and other receivables	7,573	3,073
Increase/(decrease) in trade and other payables	113,902	54,420
Purchase of financial assets	(210,000)	-
Repayments of financial assets	1,210,085	180,000
Net cash generated from/(used in) operating activities	395,497	(432,806)
Cash flows from financing activities		
Proceeds from borrowings	250,000	400,000
Payments to purchase own shares	(650,000)	-
Redemptions of B shares	(17,313)	-
Net cash generated from/(used in) financing activities	(417,313)	400,000
Net decrease in cash and cash equivalents before currency adjustment	(21,816)	(32,806)
Effects of exchange rate differences on cash and cash equivalents	44	(8)
Net decrease in cash and cash equivalents after currency adjustment	(21,772)	(32,814)
Cash and cash equivalents at the beginning of the year	33,073	65,887
Cash and cash equivalents at the end of the year	11,301	33,073