Reconstruction Capital II Ltd

("RC2" or the "Fund")

Quarterly Report

31 December 2024

New Europe Capital SRL
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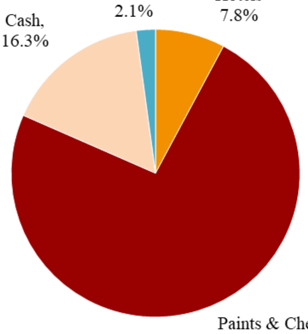
Statistics

NAV per share (€)	0.1681
Total NAV (€ m)	22.8
# of shares (m)	135.6
NAV/share since inception†	-58.79%
12-month NAV/share perfomance	-18.89%

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

Portfolio Structure



Message from the Adviser

Dear Shareholders

Over the course of 2024, RC2's NAV per share fell by 18.9%, from € 0.2072 to € 0.1681, due to a reduction in the value of its investments in Policolor and Mamaia, as shown in the table below:

	Prior valuations €	Revised valuations €
Policolor SA	17,560,000	15,040,000
Mamaia Resort Hotels	4,013,219	1,795,890
Total	**21,573,219**	**16,835,890**

2024 was characterised by weaker (0.9%) GDP growth in Romania in spite of an extremely high budget deficit equal to 8.65% of GDP (up from 5.6% in 2023). The Romanian government is targeting a budget deficit of 7% in 2025, but seems unwilling to increase taxes or cut costs in order to achieve it. Bulgaria, whose fiscal policy is much more prudent, had a 3.0% budget deficit, up from 2.0% in 2023, and is targeting the deficit to remain unchanged in 2025, while its GDP growth improved from 1.9% in 2023 to 2.8% in 2024. The European Commission is expecting 2025 GDP growth of 2.5% for Romania, and 2.9% for Bulgaria, both of which seem optimistic within the difficult international and domestic contexts.

Although Romania's inflation rate fell from 7.0% at the end of 2023 to 5.5% at the end of 2024, it remained the highest rate in the EU. Due to the easing of inflationary pressures, the National Bank of Romania has twice cut its policy interest rate, bringing it down from 7.0% at the beginning of 2024 to 6.5% from August 2024 onwards. Bulgaria's inflation rate has fallen from 5.0% at the end of 2023 to 2.1% at the end of 2024, while Bulgarian interest rates, which are driven by European Central Bank rates as the local currency is pegged to the euro, fell from 3.8% in January 2024 to 3.0% at the end of 2024.

An unstable political climate added to the economic challenges in Romania. The cancellation of the first round of Romania's presidential elections in November and their postponement to May 2025 due to alleged Russian interference, and the rejection of the front runner Calin Georgescu's candidacy, have raised concerns about the country's political stability within a stressed international context. On the other hand, Bulgaria's political outlook has improved, with the seventh parliamentary vote over the last four years finally resulting in a coalition government, albeit one with a razor-thin majority of only 121 out of 240 votes in parliament. However, due to the lack of clear political leadership over the last few years, there is still the real risk that a significant part of Bulgaria's EU-funded Recovery and Sustainability Plan budget will be lost.

Whilst the Policolor Group's turnover fell 4.6%, from € 71.0m in 2023 to € 67.7m, mostly as a result of weaker resins and coatings sales, the Group achieved an improvement in its gross margin, from 31.0% in 2023 to 32.6% in 2024, mainly driven by an improvement at its coatings division, whilst the Group's total EBITDA of € 4.8m was 12.6% higher year-on-year. For 2025, Policolor is budgeting a further increase in its EBITDA to reach € 6.0m, helped by a 10.7% increase in sales.

In 2024, Mamaia Resort Hotels faced higher than budgeted operating costs, especially personnel costs, which negatively impacted its profitability. In November, the company entered into a long-term rental agreement with a family-owned tour and hotel operator specialized in Romania's Black Sea coast, after which it stopped operating the Hotel. Following the change of operating model, the rental agreement is expected to generate positive EBITDA of € 0.25m in 2025.

As already announced, in December 2024 RC2 completed the disposal of its entire 85% shareholding in Telecredit IFN S.A., generating net proceeds (after transaction costs) of approximately € 5.1m.

During 2024, RC2 received a € 0.6m dividend from Policolor, and granted € 0.36m of loans to Mamaia Resort Hotels.

At the end of December, RC2 and its fully-owned subsidiary RC2 (Cyprus) Ltd had cash and cash equivalents of € 3.69m, loans to subsidiaries of € 0.51m, and short-term payables of € 0.08m.

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, 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)	2023*	2024B	2024**	2025B
Group Consolidated Income statement				
Sales revenues	**70,994**	**77,710**	**67,731**	**74,990**
sales growth year-on-year	*-16.8%*	*9.5%*	*-4.6%*	*10.7%*
Other operating revenues	145	-	99	-
Total operating revenues	**71,140**	**77,710**	**67,829**	**74,990**
Gross margin	**22,069**	**25,248**	**22,142**	**24,449**
Gross margin %	*31.0%*	*32.5%*	*32.6%*	*32.6%*
Other operating expenses	(20,621)	(22,071)	(19,872)	(21,822)
Operating profit	**1,448**	**3,177**	**2,270**	**2,627**
Operating margin	*2.0%*	*4.1%*	*3.3%*	*3.5%*
EBITDA	**4,280**	**6,568**	**4,818**	**5,996**
EBITDA margin	*6.0%*	*8.5%*	*7.1%*	*8.1%*
Nonrecurring items / Extraordinary Items	526	-	395	-
Net extraordinary result - land sale	-	-	-	-
Nonrecurring items	-	-	-	-
Financial Profit/(Loss)	(1,241)	(1,487)	(908)	(1,046)
Profit before tax	**780**	**1,701**	**1,757**	**1,581**
Income tax	(195)	(135)	(243)	(423)
Profit after tax	**585**	**1,566**	**1,514**	**1,158**
avg exchange rate (RON/EUR)	*4.95*		*4.97*	-

*Note: * IFRS audited, IFRS ** preliminary management accounts*

Based on preliminary unaudited results, the Policolor Group achieved consolidated sales of € 67.7m in 2024, 4.6% below 2023 and 12.8% below budget.

Operating in difficult market conditions, the Coatings division achieved sales of € 48.3m, 4.7% below the € 50.7m registered in 2023 and 11.2% below budget. On the other hand, the division outperformed both the budget and the prior year in terms of profitability, with the gross margin reaching 38.8% in 2024, which was 2.8 percentage points above 2023 and 0.9 percentage points above budget.

The Resins division generated sales of € 20.2m (including inter-company sales), 12.2% below budget and 12.9% below 2023, due to weak demand across Europe.

The Anhydrides division generated sales of € 4.1m (28.4% above the previous year), of which € 2.5m to third parties, as the plant worked for only three months in 2024 due to ongoing difficulties in sourcing higher quantities of orthoxylene (OX) within the context of the EU ban on orthoxylene imports from Russia since the outbreak of war in Ukraine, and a neighbouring power plant deciding to interrupt the supply of steam (which is necessary for the production process) from May to September. The division plans to install an in-house steam generator in 2025 to end its reliance on the neighbouring power plant.

The total Group consolidated gross margin was 32.6% in 2024, 1.6 percentage points higher than the previous year and slightly above the budget target of 32.5%, while the consolidated EBITDA of € 4.8m was 12.6% higher year-on-year, but 26.6% below budget, mainly due to the underperformance of the resins and anhydrides divisions.

The net profit of € 1.5m, which was helped by a € 0.4m non-recurring profit generated by the sale of a non-core real estate asset, was over 2.5 times higher than the 2023 result, albeit still 3.3% below budget.

Prospects

The Policolor Group's 2025 budget targets 10.7% year-on-year growth in consolidated sales reaching € 74.9m, mainly driven by improved sales at the Coatings and Anhydrides divisions. Driven by the sales growth, and the expectation of an improved gross margin at the Resins and Anhydrides divisions, the Group is targeting a significant increase in EBITDA, which is budgeted to reach € 6.0m, compared to € 4.8m in 2024.

The Group is budgeting a large CAPEX program of € 5.4m in 2025, of which € 1.6m is for the modernisation and automatization of the Bulgarian coatings' solvent-based production facility, € 1.7m is focused on Health, Safety and Environmental upgrades, and the rest is for other improvements to the business.

Mamaia Resort Hotels

Background

Mamaia Resort Hotels SRL (the "Company") is the owner 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)	2023A*	2024B	2024**	2025B
Total Operating Revenues, of which:	**2,916**	**3,314**	**3,230**	**429**
Rental revenues				**417**
Accommodation revenues	1,545	1,778	1,633	
Food & beverage revenues	1,282	1,423	1,516	
Other operating revenues	89	113	81	12
Total Operating Expenses	(3,379)	(3,076)	(3,472)	(182)
Operating Profit	**(463)**	**254**	**(242)**	**104**
Operating margin, %	*-15.9%*	*7.7%*	*-7.5%*	*24.4%*
EBITDA	**(358)**	**392**	**(105)**	**247**
EBITDA margin, %	*-10.1%*	*11.8%*	*-3.3%*	*57.7%*
Profit after Tax	**(678)**	**76**	**(441)**	**(171)**
Net margin, %	*-23.2%*	*2.3%*	*-13.7%*	*-39.9%*
Operational KPIs				
Occupancy rates	*31%*	*40%*	*39%*	
Average net tariff per room (EUR)	*59.26*	*60.93*	*59.5*	
avg exchange rate (RON/EUR)	*4.97*	*4.97*	*4.97*	*4.98*

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

In 2024, the Hotel generated negative EBITDA of € -0.1m, which, although an improvement on the prior year's € -0.4m, was well below the positive € 0.4m EBITDA budget target. The under-performance was almost entirely due to higher than budgeted costs, as the € 3.2m of revenues generated by the Hotel were only slightly below budget.

As already announced, on 11 November 2024 the Company entered into a long-term rental agreement with a family-owned tour and hotel operator specialized in Romania's Black Sea coast. As a result, the Company stopped operating the Hotel on 29 November 2024, when it was handed over to the tenant.

The lease agreement provides for a ten-year term, with a committed period of five years and a three-month rent-free period starting in December 2024. Thereafter, the annual rent is € 0.56m, to be indexed to euro inflation from 2027. The Company has committed to invest € 185,000 in improvements to the Hotel over 2025-2026, while the tenant is obliged to continue making whatever investments are needed to keep the Hotel's 4-star classification. Capital repairs on the building and its main operating equipment are to be borne by the Company, whilst the tenant is responsible for ordinary maintenance expenses, plus the cost of replacing furniture, fixtures and equipment.

Over the year, the Hotel's net debt increased from € 1.9m to € 2.1m, of which € 1.6m was bank debt (down from € 1.8m at the end of 2023), € 0.7m was shareholder loans (up from € 0.2m at the end of 2023), and € 0.2m was cash holdings. In 2024, RC2 provided € 0.36m of loans to the Hotel.

Prospects

Based on the terms of the lease agreement, the 2025 budget provides for total revenues of € 0.43m generating EBITDA of € 0.25m.

Given the change in the business model, in 2025 the Company will have to be pay down a number of historical liabilities from when it was still operating the Hotel, as well as to start making the investments in the Hotel stipulated in the rental agreement, whilst it will be receiving less rent than in future years due to the initial three-month rent-free period. For this reason, it is expected that the shareholders will need to continue covering a cashflow deficit at the Hotel, estimated at € 0.7m in 2025.

Important Information