Reconstruction Capital II Ltd

("RC2" or the "Fund")

Quarterly Report

31 March 2022

New Europe Capital SRL
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Statistics

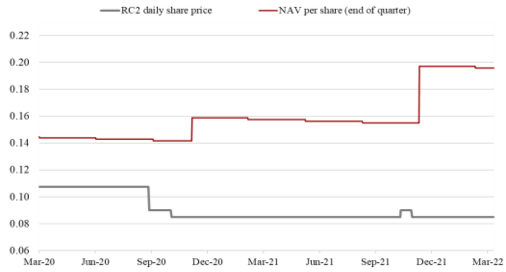
NAV per share (€)	0.1957
Total NAV (€ m)	26.6
Share price (€)	0.0850
Mk Cap (€ m)	11.5
# of shares (m)	135.9
NAV/share since inception†	-55.92%
12-month NAV/share perfomance	24.29%

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

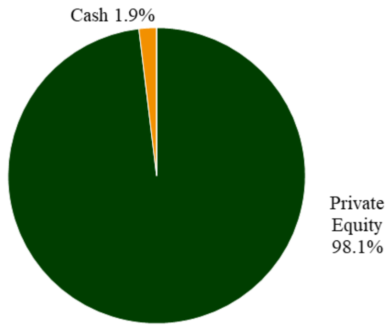
RC2 Quarterly NAV returns

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

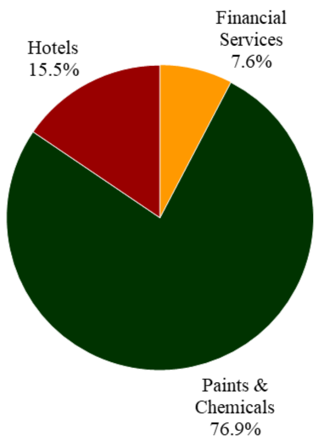
Share price / NAV per share (€)



Portfolio Structure by Asset Class



Equity Portfolio Structure by Sector



Message from the Adviser

During the first quarter, RC2's total NAV fell by € 0.13m, and its NAV per share fell by 0.76% from € 0.1971 at the end of December 2021 to € 0.1957, mainly due to the operating expenses incurred over the quarter.

COVID-19 related restrictions were totally removed on 8th March in Romania and on 1st April in Bulgaria. From the fourth quarter of 2021, the two countries have been facing inflationary pressures as a result of high energy prices and supply chain bottlenecks, with the Russian invasion of Ukraine exacerbating the situation. The macroeconomic implications of the conflict are already significant, including commodities shortages, higher inflation, and lower consumer confidence. Furthermore, whilst Romania is able to cover 70% of its gas needs through its internal production, Bulgaria has historically been 100% dependent on Russian gas imports. Russia stopped delivering gas to Bulgaria in April due to the country not agreeing to pay for it in roubles. To compensate, Bulgaria has negotiated to receive supplies of US liquefied natural gas from June, and is completing the infrastructure to be able to import gas from the Greek pipeline network.

In spite of the unfavourable economic context, the Policolor Group had a good start to the year, with operating revenues of € 19.2m in the first quarter, 5.2% above the budget. Helped by improved EBITDA at the resins division, while the coatings division's EBITDA performance was in line with the budget, the Group posted recurring EBITDA of € 0.02m, better than the budgeted loss of €-0.07m, albeit below the € 0.36m EBITDA profit achieved over the same quarter last year. In spite of the good start to the year, trading conditions have deteriorated since the invasion of the Ukraine, with margins coming under greater pressure, particularly in the resins division, and greater difficulties in securing supplies of raw materials for the anhydrides division.

During the first quarter, RC2's hotel in Mamaia managed to generate revenues of € 0.45m, significantly above the budgeted € 0.08m, as the Hotel managed to sign a contract with a large international organization for off-season accommodation, which started in late February. The Hotel's EBITDA loss for the quarter was € -0.05m, compared to a budgeted loss of € -0.26m.

The positive financial performance of Telecredit over the second half of 2021 has continued during the first quarter, with financing volumes reaching € 5.3m, 62% above the same period last year. The company generated interest revenues of € 0.38m, 27% above budget and 77% above the first quarter of 2021. The Operating profit before depreciation of € 0.26m was 96% above budget.

At the end of March, RC2 and RC2 (Cyprus) Ltd had cash and cash equivalents of € 0.44m and short-term liabilities of € 0.28m. The outstanding shareholder loans to Telecredit and Mamaia Resort Hotels, which amounted to € 0.55m at the beginning of the year, were fully repaid during the quarter.

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)	2020*	2021A**	2022B	3M 2021**	3M 2022**	3M 2022B
Group Consolidated Income statement						
Sales revenues	**64,133**	**79,332**	**90,008**	**17,561**	**19,210**	**18,177**
sales growth year-on-year	*5.6%*	*23.7%*	*13.5%*	*36.1%*	*9.4%*	*3.5%*
Other operating revenues	182	89	4	18	21	1
Total operating revenues	**64,315**	**79,421**	**90,012**	**17,579**	**19,231**	**18,178**
Gross margin	20,503	22,841	25,123	4,241	4,275	4,191
Gross margin %	*32.0%*	*28.8%*	*27.9%*	*24.1%*	*22.2%*	*23.1%*
Other operating expenses	(20,934)	(20,716)	(21,409)	(4,430)	(4,811)	(4,848)
Operating profit	**(431)**	**2,124**	**3,714**	**(189)**	**(536)**	**(657)**
Operating margin	*-0.7%*	*2.7%*	*4.1%*	*-1.1%*	*-2.8%*	*-3.6%*
Recurring EBITDA	**2,076**	**4,282**	**5,971**	**362**	**21**	**(71)**
EBITDA margin	*3.2%*	*5.4%*	*6.6%*	*2.1%*	*0.1%*	*-0.4%*
Net extraordinary result - land sale	65		-	-	(8)	
Nonrecurring items	(255)	(256)		(1)	(55)	
Financial Profit/(Loss)	(719)	(169)	(397)	125	(38)	(102)
Profit before tax	**(1,339)**	**1,699**	**3,317**	**(66)**	**(636)**	**(760)**
Income tax	(179)		(464)			
Profit after tax	**(1,518)**	**1,699**	**2,853**	**(66)**	**(636)**	**(760)**
avg exchange rate (RON/EUR)	*4.84*	*4.92*	*4.92*	*4.88*	*4.95*	*4.95*

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

During the first quarter, the Policolor Group generated revenues of € 19.2m, 5.7% above the budgeted €18.2m, and 9.4% above the € 17.6m achieved during the same period last year. The increase was mainly due to higher prices achieved within an inflationary context.

Coatings sales of € 9.5m were 3.5% higher year-on-year, and in line with the budget, despite a difficult market environment, with COVID-19 related restrictions still requiring customers to have EU green certificates to enter large DIY stores for most of the quarter, strong increases in raw material prices, low consumer confidence and supply chain difficulties, exacerbated by the conflict in Ukraine.

Resins sales of € 7.7m (of which € 0.8m to Group companies) were 67% above last year, and 17% above budget, although the division’s strong start to the year weakened towards the end of the quarter.

Sales of anhydrides (including sales to Group companies of € 0.7m) reached € 3.2m, 1% below the budget and 28% lower than the first quarter of 2021, due to difficulties in obtaining raw materials in the light of the conflict between Russia and the Ukraine.

Helped by better than expected results at the resins division, whilst the main coatings division’s EBITDA performance was in line with the budget, the Group slightly overperformed its overall budget in terms of operating profit, generating recurring EBITDA of € 0.02m, better than the budgeted loss of € -0.07m, but below the €0.3m achieved during the first quarter of 2021.

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	3M 2021**	3M 2022**	3M 2022B
Total Operating Revenues, of which:	**1,776**	**2,922**	**3,114**	**567**	**454**	**75**
Accommodation revenues	1,135	1,734	1,654	321	274	20
Food & beverage revenues	570	1,084	1,321	237	143	52
Other operating revenues	71	104	140	9	37	4
Total Operating Expenses	(3,248)	(2,699)	(2,749)	(526)	(528)	(259)
Operating Profit	**(1,472)**	**223**	**365**	**41**	**29**	**(184)**
Operating margin	*-82.9%*	*7.6%*	*11.7%*	*7.2%*	*6.3%*	*neg.*
EBITDA	**(325)**	**352**	**455**	**93**	**(54)**	**(264)**
EBITDA margin	*-18.3%*	*12.0%*	*14.6%*	*16.4%*	*-12.0%*	*neg.*
Profit after Tax	**(1,620)**	**151**	**223**	**28**	**(24)**	**(216)**
Net margin	*neg.*	*5.2%*	*7.1%*	*4.9%*	*-5.3%*	*neg.*
avg exchange rate (RON/EUR)	*4.84*	*4.92*	*4.95*	*4.88*	*4.95*	*4.95*

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

During the first quarter, the Hotel generated revenues of € 0.45m, above the budgeted € 0.08m but 19.8% below the result of the same period last year. The higher than budgeted revenues were the result of a contract with a large organization covering the off-season months, which had not been anticipated in the budget.

After closing in November, when new pandemic-related restrictions forbade indoor group events which constitute the bulk of revenues in the low season, the Hotel re-opened in the second half of February, one month earlier than provided in the budget.

Despite the negative impact of higher utility, food and staff costs, the better than budgeted occupancy rate resulted in a lower off-season EBITDA loss of only € -0.05m during the quarter, compared to a budgeted loss of € -0.2m.

In spite of the promise of a better summer season due to the elimination of COVID-related restrictions, there are signs that some Romanian holidaymakers may avoid the Black Sea coast due to the tensions created by the war in neighbouring Ukraine.

Following a refinancing of its bank loans, Mamaia Resort Hotels reimbursed all of RC2's € 0.3m shareholder loan in January.

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 providing 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, Elisa Rusu.

Financial results and operations

(EUR '000)	2020*	2021A*	2022B	3M 2021**	3M 2022**	3M 2022B
Income Statement						
Interest revenues from pay day lending	**29**		**-**		**-**	**-**
Interest revenues from SMEs lending, of which:	**839**	**1,106**	**1,389**	**213**	**377**	**298**
Factoring and Discounting	712	1,037	1,339	180	370	285
Microloans	127	69	50	29	7	12
Total operating expenses:	**(864)**	**(713)**	**(878)**	**(221)**	**(113)**	**(163)**
Provisions, of which:	(126)	18	(40)	(70)	76	18
Pay day lending	139	58	24	18	13	6
SMEs lending	(265)	(40)	(64)	(88)	63	12
Other Operating expenses	(738)	(731)	(838)	(150)	(189)	(181)
Operating profit before depreciation	**5**	**393**	**511**	**(8)**	**263**	**134**
Depreciation	(83)	(99)	(127)	(24)	(24)	(23)
Operating profit after depreciation	**(78)**	**294**	**384**	**(32)**	**239**	**111**
Operating profit after depreciation margin	*neg.*	*26.6%*	*27.7%*	*neg.*	*63.6%*	*37.4%*
Profit after tax	**(149)**	**79**	**60**	**(70)**	**146**	**18**
net margin	*neg.*	*7.1%*	*4.3%*	*neg.*	*38.9%*	*6.0%*
Avg exchange rate (RON/EUR)	*4.84*	*4.92*	*4.95*	*4.88*	*4.95*	*4.95*

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

Telecredit's strong performance in the second half of 2021 has continued into the new year, with the company generating interest revenues of € 0.38m over the first quarter, 27% above budget. Higher than budgeted interest revenues and the reversal of provisions were the main factors behind the Company's Operating profit before depreciation of € 0.26m, which is significantly above budget, and compares to a loss of € 0.08m over the first quarter of 2021. Management expects the second quarter to be tougher in terms of Telecredit's trading environment, with more companies' cashflows coming under stress due to the acceleration of input price increases caused by events across the border in Ukraine.

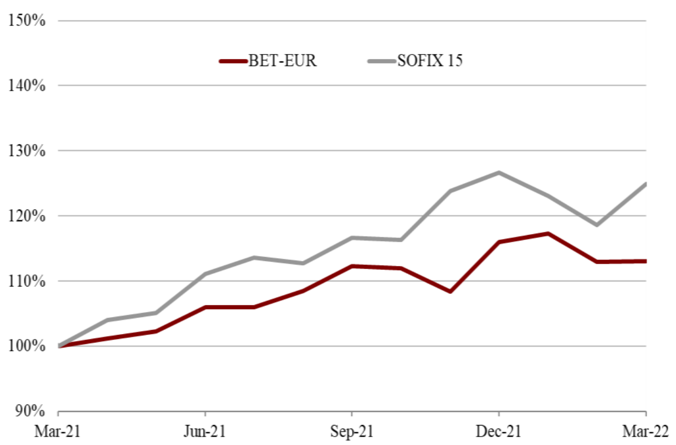
Telecredit deployed € 5.3m in financing products to SMEs in the first quarter, 10% above budget and 62% higher than the during the first quarter of 2021. The book value of Telecredit's SME portfolio increased slightly from € 4.03m at the end of 2021 to € 4.08m at the end of March, divided between € 4.03m of factoring and discounting, and €0.05m of microloans.

The non-performing loan (NPL) rate (defined as over 90 days overdue) was 5.2% at the end of March, compared to 6.1% at the end of December 2021.

Over the quarter, Telecredit reimbursed the remaining € 0.25 of a shareholder loan from RC2

Capital Market Developments

BET-EUR and SOFIX-15: 1 year performance



Commentary

During the first quarter, the Romanian BET and the Bulgarian SOFIX 15 indices fell by 2.5% and 1.3%, respectively, both in euro terms. At the same time, the MSCI Emerging Market Eastern Europe, the MSCI Emerging Market, and the S&P indices were down by 77.8%, 4.8%, and 2.3%, respectively, while the FTSE 100 index was up by 1.5%, all in euro terms.

Over the past year, the BET-EUR and SOFIX 15 indices increased by 13.1% and 24.9%, respectively, both in euro terms. By comparison, the MSCI Emerging Market Eastern Europe and the MSCI Emerging Market indices fell by 74.8% and 8.0%, respectively, whilst the FTSE 100 and S&P indices gained 13% and 20.9%, respectively, all in euro terms.

Macroeconomic Overview

Overview

	RO	as of:	BG	as of:
GDP Growth (y-o-y)	5.9%	FY21	4.2%	FY21
Inflation (y-o-y)	10.2%	Mar-22	12.4%	Mar-22
Ind. prod. growth (y-o-y)	0.6%	Feb-22	14.4%	Feb-22
Trade balance (EUR bn)	-4.6	2M22	-1.3	2M22
y-o-y	*48.9%*		*272.5%*	
FDI (EUR bn)	0.9	2M22	0.4	2M22
y-o-y change	*9.7%*		*101.6%*	
Budget balance/GDP	-1.2%	3M22	-0.5%	3M22
Total external debt/GDP	50.8%	Feb-22	55.8%	Feb-22
Public sector debt/GDP	45.4%	Feb-22	21.1%	Mar-22
Loans-to-deposits	68.8%	Dec-21	71.4%	Dec-21

Commentary

Romania

According to the National Institute of Statistics, Romania's first quarter GDP figures will be released in early June.

Over the first quarter, Romania posted a budget deficit of € -3.2bn, the equivalent of -1.2% of GDP, the same level as during the first quarter of 2021. Budgetary receipts amounting to € 21.0bn were up 21% year-on-year, mainly due to improved collection, as over the first quarter of 2021 the government had allowed the payment of certain taxes to be deferred in order to offset the economic impact of the pandemic. High inflation during the first quarter also helped boost budgetary receipts. Meanwhile, total budgetary expenses increased by 18% in EUR terms, from € 20.5bn to € 24.2bn, with personnel and social expenditures, which accounted for 62% of total expenses, growing by 13%.

During the first two months of the year, the trade gap continued to widen, by 48.4% year-on-year (from € -3.1bn to € -4.6bn), with imports growing by 28.9% and exports growing by a lesser 23.4%. The widening trade deficit was counter-balanced by a € 1.5bn surplus from services, and, with a € 0.44bn excess from primary and secondary incomes, the current account deficit came in at € 2.3bn, compared to € 1.4bn over the same period last year. FDI inflows amounted to € 0.9bn, 9.7% higher than over the first two months of 2021.

Romania's total external debt amounted to € 135.1bn at the end of February, approximately 51% of GDP. The public debt has continued to increase, having reached € 120.7bn, or 45.4% of GDP, at the end of February, up 16.2% year-to-date in nominal RON terms. Due to the economic disruption generated by the pandemic during the last two years, combined with the supply shock generated by the Russian invasion of Ukraine, the inflation rate reached 10.5% in March, up from 8.2% at the end of 2021.

The Romanian leu has been on a slightly upward trend since the beginning of the year, having risen against the euro from 4.9489 at the end of December 2021 to 4.9481 at the end of March 2022.

Total domestic non-governmental credit (which excludes loans to financial institutions) was € 68bn at the end of March, up 15.7% year-to-date in RON terms. Household loans reached € 34bn, up from € 33bn at the beginning of the year, and accounted for 50% of total loans outstanding. Consumer loans, which account for 20% of household loans, were virtually unchanged over the quarter. Housing loans increased by 1.9%, and accounted for 62% of household loans. At the same time, corporate loans reached € 31.7bn at the end of the first quarter, up 5.7% since the beginning of the year. The NPL ratio was 3.37% at the end of February, slightly up on 3.35% at the end of 2021. The overall deposit base has continued to expand, reaching € 96.8bn at the end of March, up 11.1% year-to-date in RON terms.

Bulgaria

Bulgaria's first quarter GDP figures are not yet available.

Bulgaria posted a budget deficit of € 0.3bn, or -0.5% of GDP, over the quarter, the same level as over the same period last year. Tax proceeds increased by 13.7% year-on-year, whilst total budgetary expenses fell by 5.6%, mainly due to a reduction in covid-related subsidies and capital expenditure.

Bulgaria's public sector debt fell from € 16.6bn at the end of 2021 to € 15.9bn at the end March, equal to 21.1% of GDP. Gross external debt amounted to € 41.9bn, or 55.8% of GDP, at the end of February 2022, down 1.7% year-to-date.

Bulgaria's January-February 2022 trade deficit of € -1.3bn was 273% higher year-on-year. Exports increased by 31%, while imports increased by 46%. The trade deficit was partially counterbalanced by a € 0.9bn surplus from services and secondary incomes, resulting in a negative current account balance of € -0.2bn, compared with a positive balance of € 0.3bn over the same period of 2021. FDI inflows amounted to € 0.4bn over the period, double the € 0.2bn achieved over the first two months of 2021.

Bulgaria's inflation rate reached 12.4% at the end of March, compared to 7.8% at the end of 2021, having been driven by the same fundamentals as across the border in Romania.

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