

Reconstruction Capital II Ltd

("RC2" or the "Fund")

Quarterly Report



31 December 2021



New Europe Capital SRL
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Statistics

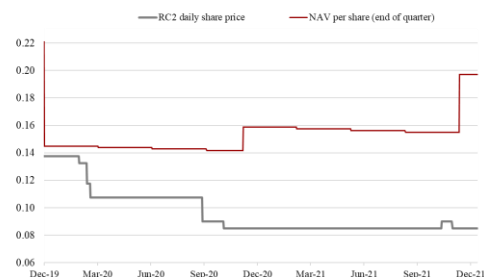
NAV per share (€)	0.1971
Total NAV (€ m)	26.8
Share price (€)	0.0850
Mk Cap (€ m)	11.5
# of shares (m)	135.9
NAV/share since inception†	-55.77%
12-month NAV/share performance	24.24%

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

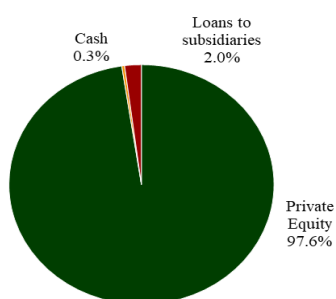
RC2 Quarterly NAV returns

	2018	2019	2020	2021
1Q	-0.51%	0.12%	-0.77%	-0.75%
2Q	-1.11%	-0.76%	-0.75%	-0.78%
3Q	-5.20%	-0.75%	-0.86%	-0.74%
4Q	-4.17%	-34.31%	12.04%	27.11%
YTD	-10.61%	-35.22%	9.40%	24.24%

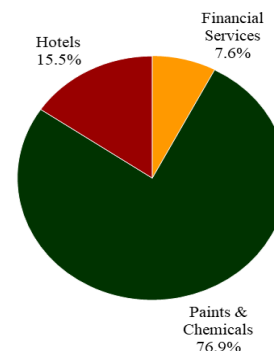
Share price / NAV per share (€)



Portfolio Structure by Asset Class



Equity Portfolio Structure by Sector



Message from the Adviser

Dear Shareholders

During the fourth quarter, RC2's total NAV grew by € 5.7m, with its NAV per share increasing by 27.11% from € 0.1550 to € 0.1971, reflecting substantially higher valuations of RC2's investments pursuant to the annual independent valuation exercises, which resulted in the following changes to the valuations of RC2's private equity positions:

	Prior valuations €	Revised valuations €
Policolor SA	13,960,000	17,000,000
Mamaia Resort Hotels SRL	3,440,548	4,076,986
Telecredit IFN SA	624,545	1,895,500
Total	18,025,093	22,972,486

The higher valuations reflect the resilience of RC2's investee companies in spite of the difficulties generated by the ongoing COVID-19 pandemic, compounded by political instability in Bulgaria, which remained without a functioning government from April to December.

In spite of the ongoing pandemic-related social distancing measures, including restrictions on unvaccinated people entering large DIY stores, the Policolor Group managed to generate a 23.7% year-on-year increase in sales from € 64.1m to € 79.3m, helped by a strong performance of its resins and chemicals businesses, whilst coatings sales were just 1% above 2020. The Group's recurring EBITDA more than doubled from € 2.1m to € 4.3m, although this was still 6.2% below budget, mainly due to the coatings business not achieving the expected turnaround in its profitability. For 2022, the Policolor Group budget targets recurring EBITDA further increasing to € 5.9m.

The Mamaia Resort Hotel'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, the relaxation of pandemic restrictions during 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, compared to a slightly higher budgeted € 0.36m, and an EBITDA loss of € -0.33m in 2020. The Hotel's 2022 budget targets operating revenues of € 3.1m, and substantially higher EBITDA of € 0.46m.

Telecredit deployed € 19m in financing products to small and medium sized enterprises in 2021, generating Operating profit before depreciation of € 0.39m, 5.6% above the annual budget and significantly above the breakeven achieved in 2020. Telecredit's 2022 budget targets a 26% increase in interest revenues, and an Operating profit before depreciation of € 0.5m.

The 2022 budgets of Policolor, Mamaia Resort Hotels and Telecredit were all prepared prior to Russian troops entering Ukraine. The macroeconomic effects of the invasion, including higher inflation and lower consumer confidence, are likely to be significant, with countries close to the conflict being more likely to be affected. Furthermore, whilst Romania is able to cover 70% of its gas needs through its internal production, Bulgaria is 100% dependent on Russian gas, and therefore highly vulnerable to possible interruptions of supplies. In the light of the above, and in particular if there is not a relatively quick solution to the conflict, the invasion is likely to result in significant headwinds as RC2's investee companies' strive to meet their budgets.

At the end of December 2021, RC2 and RC2 (Cyprus) Ltd had cash and cash equivalents of € 0.04m, loan receivables from Telecredit and Mamaia Resort Hotels of € 0.55m, short-term liabilities of € 0.20m. The loans from Telecredit and Mamaia Resort Hotels were repaid in February 2022 and January 2022, respectively.

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*	2021B	2021A**	2022B
Group Consolidated Income statement				
Sales revenues	64,133	70,490	79,332	90,008
sales growth year-on-year	5.6%	9.9%	23.7%	13.5%
Other operating revenues	182	2	89	4
Total operating revenues	64,315	70,492	79,421	90,012
Gross margin	20,503	24,287	22,841	25,123
Gross margin %	32.0%	34.5%	28.8%	27.9%
Other operating expenses	(20,934)	(22,146)	(20,716)	(21,409)
Operating profit	(431)	2,141	2,124	3,714
Operating margin	-0.7%	3.0%	2.7%	4.1%
Recurring EBITDA	2,076	4,564	4,282	5,971
EBITDA margin	3.2%	6.5%	5.4%	6.6%
Net extraordinary result - land sale	65	-	-	-
Nonrecurring items	(255)	-	(256)	-
Financial Profit/(Loss)	(719)	(621)	(169)	(397)
Profit before tax	(1,339)	1,520	1,699	3,317
Income tax	(179)	-	-	(464)
Profit after tax	(1,518)	1,520	1,699	2,853
avg exchange rate (RON/EUR)	4.84	4.87	4.92	4.92

Note: * IFRS audited, ** IFRS unaudited

In spite of the ongoing pandemic and inflationary headwinds, the Policolor Group managed to generate a 23.7% year-over-year increase in sales, from € 64.1m in 2020 to € 79.3m in 2021, overperforming its budget by 12.5%. Overall, coatings sales were almost flat, increasing by just 1% in 2021. On the other hand, as a result of a successful strategy for expanding its international client base and shifting its focus to higher value-added specialty products, the Resins division’s sales increased by 61% year-on-year to € 24.8m (of which € 2.5m to Group companies), being 52% above budget. Ruse Chemicals also had

a very good year, having managed to source larger than expected supplies of raw materials, and having taken advantage of high demand and increased anhydrides prices, resulting in total sales increasing by 120% year-on-year, from € 5.3m in 2020 to € 11.6m in 2021.

Helped by the strong performance from its resins and chemicals businesses, the Group more than doubled its recurring EBITDA, from € 2.1m in 2020 to € 4.3m in 2021, although this was still 6.2% below budget, mainly due to the coatings business not achieving the turnaround in its profitability anticipated in the budget.

Prospects

The 2022 budget targets 13.5% growth in sales to € 90m, and a 39% increase in recurring EBITDA to reach € 6m, mainly driven by an expected turnaround in the coatings business.

The Group is continuing 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 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†	2021B	2021A*	2022B
Income Statement				
Total Operating Revenues, of which:	1,776	2,749	2,922	3,114
Accommodation revenues	1,135	1,579	1,734	1,654
Food & beverage revenues	570	1,031	1,084	1,321
Other operating revenues	71	139	104	140
Total Operating Expenses	(3,248)	(2,528)	(2,699)	(2,749)
Operating Profit	(1,472)	220	223	365
Operating margin	-82.9%	8.0%	7.6%	11.7%
EBITDA	(325)	364	352	455
EBITDA margin	-18.3%	13.2%	12.0%	14.6%
Profit after Tax	(1,620)	(16)	151	223
Net margin	neg.	neg.	5.2%	7.1%
avg exchange rate (RON/EUR)	4.84	4.87	4.92	4.92

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

The 2021 revenues of € 2.9m were 6.3% above budget and 65% above 2020, due to the positive effect of higher low season sales,

the relaxation of pandemic restrictions during the summer and a rebound in demand from Romanian tourists, who preferred to avoid travelling abroad during the pandemic. Accommodation revenues increased by 53% to € 1.7m, while Food & Beverage almost doubled to reach € 1.1m. The annual occupancy rate was 33%, up from 18% in 2020, due to the higher low season sales.

The Hotel remained open until the end of October, when new restrictions due to the fourth wave of the pandemic forbade indoor group events, which constitute the bulk of revenues in the autumn. In 2021, the Hotel took advantage of COVID-related subsidies and government support programs (such as state-sponsored technical unemployment), which helped its financial performance.

In 2021 the Hotel recorded EBITDA of € 0.35m, compared to budgeted EBITDA of € 0.36m, and an EBITDA loss of € -0.33m in 2020. The net income of € 0.15m, compared to a budgeted loss € -16,000, was the result of the improved operating result, but also Covid-related state aid of € 0.12m received during the year.

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

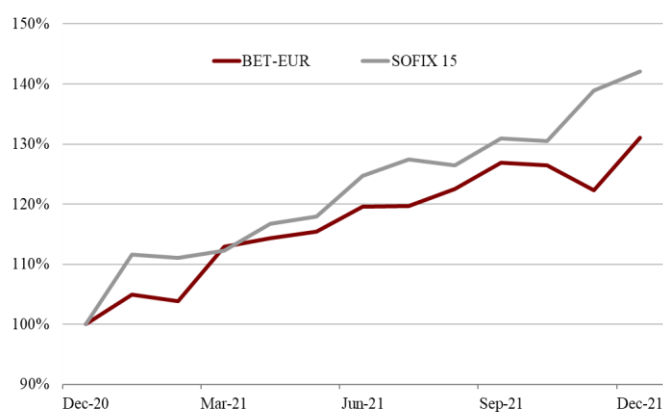
(EUR '000)	2020†	2021B	2021A*	2022B
Income Statement				
Interest revenues from pay day lending	29	-	-	-
Interest revenues from SMEs lending, of which:				
Factoring and Discounting	839	1,078	1,106	1,389
Microloans	712	1,045	1,037	1,339
Other Operating expenses:				
Provisions, of which:	(126)	11	18	(40)
Pay day lending	139	48	58	24
SMEs lending	(265)	(37)	(40)	(64)
Other Operating expenses	(738)	(717)	(731)	(838)
Operating profit before depreciation	4.7	372	393	511
Depreciation	(83)	(114)	(99)	(127)
Operating profit after depreciation	(78)	259	294	384
Operating profit after depreciation margin	neg.	24.0%	26.6%	27.7%
Profit after tax	(149)	144	79	60
net margin	neg.	13.4%	7.1%	4.3%
Avg exchange rate (RON/EUR)	4.84	4.87	4.92	4.92

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

Operating within an economic climate still affected by the pandemic, with commercial banks showing a lower risk appetite especially for SME financings but with business activity rebounding due to a relaxation of pandemic restrictions compared to the prior year, Telecredit generated interest revenues from SMEs of € 1.1m in 2021, slightly above the budget and 27.3% over the € 0.8m recorded in 2020. SME-related provisions were € 0.04m, slightly above the level anticipated in the budget. The non-performing loan (NPL) rate (defined as over 90 days’ overdue) was 6.1% at year-end, of

Capital Market Developments

BET Index and SOFIX Index 1 year performance



Prospects

The 2022 budget targets revenues of € 3.1m, 7% higher than in 2021, and a 29% year-on-year increase in EBITDA which is forecast to reach € 0.45m in 2022

which 2.7% was generated in 2021 and the balance of 3.4% originated in prior years.

Telecredit deployed € 19m in financing products to SMEs in 2020, up from € 11m in 2020, with 99% of the amount being factoring and discounting facilities. The year-end net book value of Telecredit’s SME portfolio doubled over 2021, reaching € 3.85m.

Telecredit’s operating profit before depreciation amounted to € 0.4m in 2021, compared to breakeven in 2020. The Company also turned profitable at net income level, achieving a net profit of € 0.08m, compared to a loss of € 0.15m in 2020.

Prospects

The Company’s 2022 budget provides for a 25.6% year-on-year increase in interest revenues from SMEs (from € 1.1m to € 1.4m), based on € 23.3m of funds deployed. Telecredit expects demand for working capital financing to increase in 2022 due to the EU Commission’s € 30 billion Resilience Facility for Romania, which aims to boost economic recovery and accelerate the development of certain key sectors.

Overall, the Company is targeting an operating profit before depreciation of € 0.51m in 2022, compared to € 0.39m in 2021.

Commentary

During the fourth quarter, the Romanian BET and the Bulgarian SOFIX 15 indices gained 3.3% and 8.5%, respectively, both in euro terms. Over the same quarter, the MSCI Emerging Market Eastern Europe and the MSCI Emerging Market were down by 7.1% and 0.1%, whilst the FTSE100 and S&P indices were up by 6.5% and 12.4%, respectively. Over 2021, the BET-EUR and SOFIX 15 indices increased by 31.0% and 42.1%, respectively, both in euro terms. By comparison, the MSCI Emerging Market, the FTSE100 and the S&P indices increased by 21.2%, 21.7% and 36.2%, respectively, whilst the MSCI Emerging Market Eastern Europe gained only 2.4%, 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)	8.2%	Dec-21	7.8%	Dec-21
Ind. prod. growth (y-o-y)	-0.3%	Dec-21	14.8%	Dec-21
Trade balance (EUR bn)	-23.7	FY21	-4.4	FY21
<i>y-o-y change</i>	29.0%		59.5%	
FDI (EUR bn)	7.3	FY21	1.3	FY21
<i>y-o-y change</i>	141.0%		-57.8%	
Budget balance/GDP	-6.7%	FY21	-3.0%	FY21
Total external debt/GDP	56.2%	Dec-21	61.8%	Dec-21
Public sector debt/GDP	48.9%	Dec-21	24.9%	Dec-21
Loans-to-deposits	68.8%	Dec-21	71.4%	Dec-21

Commentary

Romania

According to the National Institute of Statistics, Romania's economic output underwent a V-shaped recovery as it transitioned out of Covid-related restrictions, closing 2021 with GDP growth of 5.9%, compared to an annual fall of 3.9% the prior year. In the fourth quarter, Romania's GDP grew by 2.4% year-on-year, following revised year-on-year growth of 6.9% over the third quarter. Towards the end of 2021, the growth momentum eased due to a new wave of limited restrictions implemented to curb a new COVID-19 wave, and a strong pickup in inflation. Among the aggregates that contributed to Romania's positive GDP evolution in 2021, are household consumption which expanded by 5.6%, and industrial output which rose by 5%, while the agriculture and construction sectors fell by 13.5% and 1.8%, respectively. For 2022, the EU Commission expects Romania's GDP growth rate to remain robust at 4.2%, prior to the outbreak of war in Ukraine.

Although still undergoing the health crisis generated by the pandemic, Romania's fiscal outlook improved in 2021, with the country posting a budget deficit of € -16.2bn, or -6.7% of GDP, compared to -9.8% in 2020. The reduction in the deficit was due to a better collection of the main fiscal revenue sources (social and health contributions, and VAT) combined with a better control over expenses. Budgetary revenues increased by 18% to € 77bn while total budgetary expenses increased by 8%, from € 88bn to € 93bn, with personnel and social expenditures, which together accounted for 56% of total expenses, growing by 6% and 2%, respectively, in RON terms. Romania's 2022 state budget projects a 5.8% fiscal deficit.

The trade gap widened by 29% from € -18.3bn in 2020 to € -23.7bn in 2021, with both imports and exports increasing by 22.1% and 20.1%, respectively. The trade gap is expected to remain high as domestic demand is boosted by the already

approved EU Resilience Facility. FDI flows amounted to € 7.3bn in 2021, more than double the € 3.0bn recorded over the previous year.

Romania's total external debt amounted to € 134bn at the end of December, approximately 56.2% of GDP, and a 5.9% increase over the year. Within the context of the pandemic and higher social expenses, the public debt reached € 116bn, or 48.9% of GDP, at the end of 2021, up 12.6% year-to-date in nominal RON terms.

Inflationary pressures accelerated during the fourth quarter, driven by higher fuel and gas prices which in turn triggered an increase in raw material and food prices, with the annual inflation rate reaching 8.2% at the end of December 2021. For 2022, the National Bank of Romania is forecasting annual inflation of 9.6%. The Romanian leu depreciated by 1.7% against the euro in 2021, losing 0.02% in the fourth quarter, but has remained stable during the first quarter of 2022.

Total domestic non-governmental credit (which excludes loans to financial institutions) was € 65.5bn at the end of December, up 14.8% over the year in RON terms. Household loans reached € 33.0bn at the end of December, up from € 30.8bn at the beginning of the year. The NPL ratio was 3.35% at the end of 2021, down from 3.83% at the end of the previous year, while the overall deposit base was € 96.8bn at the end of December, up 14% over the year in RON terms.

Following a walk-out by the reformist USR-PLUS party, the three-party coalition government which was led by the National Liberal Party and also included the ethnic Hungarian UDMR was replaced in November by a new grand coalition cabinet that brought together the National Liberal Party, the Social Democratic Party and the UDMR.

Bulgaria

After an economic decline of -4.4% in 2020, the Bulgarian economy rebounded in 2021, with the Bulgarian Institute of Statistics announcing annual GDP growth of 4.2%. The recovery in economic activity was influenced by private consumption on the back of improving consumer confidence, as the country emerged from pandemic induced restrictions. For 2022, before the outbreak of war in Ukraine the European Commission was projecting Bulgarian GDP growth of 3.7%, which was below the forecast EU average of 4.3%.

In 2021, Bulgaria posted a budget deficit of € 2.0bn, or 3% of GDP, similar to 2020. During 2021, Bulgaria readjusted the 2021 state budget, raising planned revenues and increasing planned expenditures, mainly to finance measures related designed to mitigate the effects of the pandemic. Bulgaria is

expecting a 4.1% deficit in 2022, as the government coalition plans to double its capital investments from 2.9% of GDP in 2021 to 5.8%, to underpin economic growth and boost living standards. The government is planning to keep income and corporate taxes unchanged at a flat 10%, and to raise the minimum wage by 9% by 1 April 2022.

Bulgaria's public sector debt increased from € 14.8bn (or 24.1% of GDP) at the end of 2020 to € 16.5bn (or 24.9% of GDP) at the end of 2021. Since the beginning of 2021, Bulgaria has held eleven auctions through which it sold government bonds worth € 1.9bn. Gross external debt amounted to € 41.9bn, or 61.8% of GDP, at the end of 2021, a 13.8% year-on-year increase.

Bulgaria's trade deficit increased from € 2.7bn in 2020 to € 4.4bn. In 2021, exports rose by 24.0%, while imports increased by 27.5%. In December 2021 alone, Bulgaria's trade gap doubled compared to the prior year, with exports rising by 32.5% while imports increased by 41.1%. FDI inflows amounted to € 1.3bn, significantly lower than the € 3.0bn recorded in 2020.

As in Romania, inflationary pressures accelerated during the last quarter of 2021, due to higher energy prices and supply chain issues, with annual inflation rate reaching 7.8%.

Total domestic non-governmental credit (which excludes loans to financial institutions) increased from € 31.3bn at the end of 2020 to € 35.6bn at the end of 2021, with corporate loans increasing by 5.8% year-on-year, whilst household loans grew by 13.8%. The deposit base was € 52.4bn at the end of December, up 13% over the year, while the NPL rate was 6.0% at year end, down from 7.5% at the end of the previous quarter.

In Bulgaria, the negative effects of the pandemic were amplified by political instability, as the country lacked a functioning government from April to December. The third Bulgarian election of 2021, which took place in November, finally secured a coalition able to form a government. The winners of the election, the anti-corruption "We Continue the Change" Party ("PP") formed a government coalition with the Bulgarian Socialist Party, the populist "There is Such a People" Party and the centre-right Democratic Bulgaria Party. Under the coalition agreement, the parties have agreed to revamp anti-corruption reforms.

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