Reconstruction Capital II Ltd

("RC2" or the "Fund")

Quarterly Report

30 June 2022

neweuropecapital

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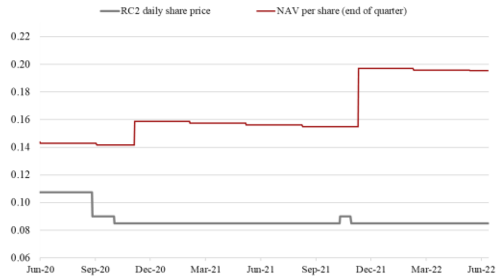
Statistics

NAV per share (€)	0.1955
Total NAV (€ m)	26.5
Share price (€)	0.0850
Mk Cap (€ m)	11.5
# of shares (m)	135.7
NAV/share since inception†	-55.92%
12-month NAV/share perfomance	25.18%

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

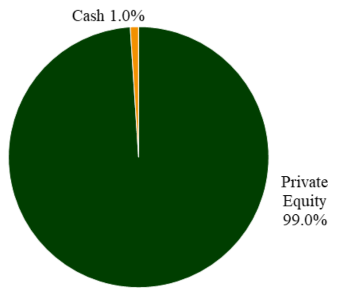
RC2 Quarterly NAV returns

	2019	2020	2021	2022
1Q	0.12%	-0.77%	-0.75%	-0.76%
2Q	-0.76%	-0.75%	-0.78%	-0.07%
3Q	-0.75%	-0.86%	-0.74%	
4Q	-34.31%	12.04%	27.16%	
YTD	-35.22%	9.40%	24.30%	-0.83%

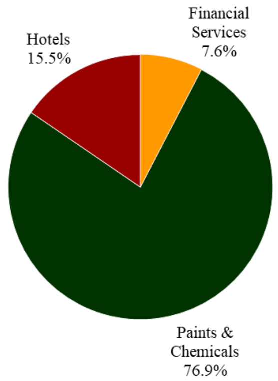


Share price / NAV per share (€)

Portfolio Structure by Asset Class



Equity Portfolio Structure by Sector



Message from the Adviser

Dear Shareholders

During the second quarter, RC2's total NAV fell by € 0.05m, with its NAV per share decreasing by 0.07% from € 0.1957 to € 0.1955. The slight fall in the NAV per share was due to the operating expenses incurred over the quarter, partly offset by a € 0.16m dividend received from Policolor.

Whilst Romania and Bulgaria continued to achieve strong GDP growth during the first quarter of 2022, the outbreak of war in neighbouring Ukraine at the end of February generated supply chain disruptions and exacerbated food and energy prices increases, leading to double digit inflation in both countries, eroding the purchasing power of consumers, and adding additional pressure on companies' profitability margins as the prices of raw materials and utilities experienced a sharp increase.

The Policolor Group achieved operating revenues of € 45.2m over the first semester, slightly above budget and 8.8% above the € 41.5m achieved during the same period last year, mainly helped by the good performance of the resins division, while the coatings division was affected by weaker market demand and higher raw material prices. The Group posted recurring EBITDA of € 1.8m, significantly below both last year's result and the budget target of € 3.1m, mainly driven by a lower gross margin at the coatings division.

Mamaia Resort Hotels managed to secure some important long term group occupancy contracts which started in the off-season months, helping it achieve first semester revenues of € 1.7m, more than twice the budget, and positive EBITDA of € 0.3m, compared to a budgeted EBITDA loss of € -0.3m.

Telecredit continued its strong growth during the second quarter, having deployed € 11.1m in financing products to small and medium-sized enterprises over the first semester, 16.1% above budget and 70.7% higher year-on-year. The company generated an Operating Profit before Depreciation and Interest Expense of € 383,000 over the period, 38.3% above budget and 176.0% above the result achieved during the same period of 2021.

At the end of June, RC2 and RC2 (Cyprus) Ltd had cash and cash equivalents of € 0.22m, receivables of € 0.05m, and short-term liabilities of € 0.09m.

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	6M 2021**	6M 2022**	6M 2022B
Group Consolidated Income statement						
Sales revenues	**64,133**	**79,382**	**90,008**	**41,489**	**44,743**	**45,144**
sales growth year-on-year	*5.6%*	*23.8%*	*13.5%*	*33.2%*	*7.8%*	*8.8%*
Other operating revenues	182	210	4	24	430	1
Total operating revenues	**64,315**	**79,592**	**90,012**	**41,513**	**45,173**	**45,145**
Gross margin	20,503	22,460	25,123	12,342	10,793	12,719
Gross margin %	*32.0%*	*28.2%*	*27.9%*	*29.7%*	*23.9%*	*28.2%*
Other operating expenses	(20,934)	(14,616)	(21,409)	(10,318)	(10,074)	(10,745)
Operating profit	**(431)**	**1,604**	**3,714**	**2,024**	**719**	**1,974**
Operating margin	*-0.7%*	*2.0%*	*4.1%*	*4.9%*	*1.6%*	*4.4%*
Recurring EBITDA	**2,076**	**4,190**	**5,971**	**3,081**	**1,814**	**3,122**
EBITDA margin	*3.2%*	*5.3%*	*6.6%*	*7.4%*	*4.0%*	*6.9%*
Net extraordinary result - land sale	65	-	-	-	(8)	-
Nonrecurring items	(255)	-	-	(117)	(66)	-
Financial Profit/(Loss)	(719)	(590)	(397)	(66)	53	(203)
Profit before tax	**(1,339)**	**1,014**	**3,317**	**1,841**	**697**	**1,771**
Income tax	(179)	(299)	(464)	-	-	(17)
Profit after tax	**(1,518)**	**715**	**2,853**	**1,841**	**697**	**1,755**
avg exchange rate (RON/EUR)	*4.84*	*4.95*	*4.95*	*4.88*	*4.94*	*4.95*

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

The Policolor Group generated operating revenues of € 45.2m over the first semester, slightly above budget and 8.8% above the € 41.5m achieved during the same period last year.

Coatings sales of € 25.3m were 4.2% above the same period last year, but 8.0% below budget, mainly due to weak market demand due to cost-of-living pressures on consumers, who directed a lower proportion of their income to home redecoration than during the pandemic. In addition, the conflict between Russia and Ukraine generated supply chain issues for industrial clients which resulted in a lower consumption of industrial paints. Sales of anhydrides (including sales to Group companies of € 1.5m) reached € 6.0m, below the budgeted € 6.7m due to difficulties in sourcing raw materials in the light of the conflict between Russia and Ukraine. On the other hand, resins sales of € 16.9m (of which € 2.2m to Group companies) were 29.2% above last year, and 20.0% above budget, driven by high market prices for resins and strong demand from customers.

Mainly driven by the coatings business' gross margin underperforming the budget due to difficulties in passing on raw material price increases to customers, the Group's recurring six-month EBITDA came in at € 1.8m, significantly below both last year's result and the budget target of € 3.1m (non-recurring expenses of €0.07m incurred during the period mainly include costs related to the ongoing HR transformation programme).

Following the finalisation of the 2021 audit, the above table now reflects the 2021 consolidated audited accounts. Based on the audited results, the consolidated 2021 recurring EBITDA was € 4.2m, slightly below the € 4.3m unaudited result presented in the March Quarterly Report.

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	6M 2021**	6M 2022**	6M 2022B
Total Operating Revenues, of which:	**1,776**	**2,996**	**3,114**	**1,029**	**1,699**	**799**
Accommodation revenues	1,135	1,734	1,654	552	1,023	342
Food & beverage revenues	570	1,084	1,321	429	554	430
Other operating revenues	71	177	140	48	122	27
Total Operating Expenses	(3,248)	(2,769)	(2,749)	(1,120)	(1,421)	(1,101)
Operating Profit	**(1,472)**	**421**	**365**	**(175)**	**238**	**(347)**
Operating margin	*-82.9%*	*14.0%*	*11.7%*	*-17.0%*	*14.0%*	*-43.5%*
EBITDA	**(325)**	**395**	**455**	**(91)**	**277**	**(302)**
EBITDA margin	*-18.3%*	*13.2%*	*14.6%*	*-8.8%*	*16.3%*	*neg.*
Profit after Tax	**(1,620)**	**260**	**223**	**(208)**	**137**	**(411)**
Net margin	*neg.*	*8.7%*	*7.1%*	*-20.2%*	*8.1%*	*neg.*
avg exchange rate (RON/EUR)	*4.84*	*4.95*	*4.95*	*4.88*	*4.94*	*4.95*

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

The Hotel reported excellent results for the first semester of 2022, significantly overperforming both its budget and last year's performance. Operating revenues came in at € 1.7m, 112.7% above budget and 55.3% higher year-on-year, driven by a better occupancy rate (52% compared to a budgeted 15%), due to the Hotel securing some long term group occupancy contracts which started in the off-season months.

The Hotel generated accommodation revenues of € 1.0m over the first half of the year, three times the budget, whilst Food & Beverage revenues were 28.8% above budget.

The six-month EBITDA of € 0.3m compares to a budgeted EBITDA loss of € -0.3m, mainly due to the higher revenues, while the operating expenses were 29% higher than budgeted, mainly due to the higher occupancy rate which generated higher variable costs, including raw material and utilities costs, as well as due to the generalized price inflation, in particular higher energy costs.

Following the finalisation of the 2021 audit, the above table now reflects the 2021 audited accounts. The main change compared to the preliminary result presented in the March Quarterly Report relates to the inclusion of €0.3m of revenues related to COVID-19 grants and subsidies, which were cashed in 2022 but have now been booked in 2021, the year to which they relate, as well as changes to the amortisation of fixed assets which were revalued for the audit. The 2021 audited EBITDA was € 0.40m, compared to € 0.35m presented in the unaudited accounts.

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 to provide 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.

Financial Results and operations

(EUR '000)	2020*	2021A*	2022B	6M 2021**	6M 2022**	6M 2022B
Income Statement						
Interest revenues from pay day lending	**29**	**-**	**-**	6	-	-
Interest revenues from SMEs lending, of which:	**839**	**1,093**	**1,389**	**468**	**772**	**636**
Factoring and Discounting	712	1,029	1,339	422	760	608
Microloans	127	64	50	45	12	28
Total operating expenses:	**(864)**	**(697)**	**(878)**	**(335)**	**(389)**	**(359)**
Provisions, of which:	(126)	21	(40)	(14)	5	12
Pay day lending	139	58	24	31	20	12
SMEs lending	(265)	(37)	(64)	(44)	(16)	0
Other Operating expenses	(738)	(718)	(838)	(321)	(393)	(371)
Operating profit before depreciation and interest expenses	**5**	**396**	**511**	**139**	**383**	**277**
Depreciation	(83)	(98)	(127)	(49)	(48)	(61)
Operating profit before interest expenses	**(78)**	**298**	**384**	**90**	**335**	**216**
Operating profit after depreciation margin	*neg.*	*27.2%*	*27.7%*	*19.3%*	*43.4%*	*33.9%*
Profit after tax	**(149)**	**82**	**60**	**11**	**154**	**53**
net margin	*neg.*	*7.5%*	*4.3%*	*2.2%*	*19.9%*	*8.3%*
Avg exchange rate (RON/EUR)	*4.84*	*4.95*	*4.95*	*4.88*	*4.94*	*4.95*

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

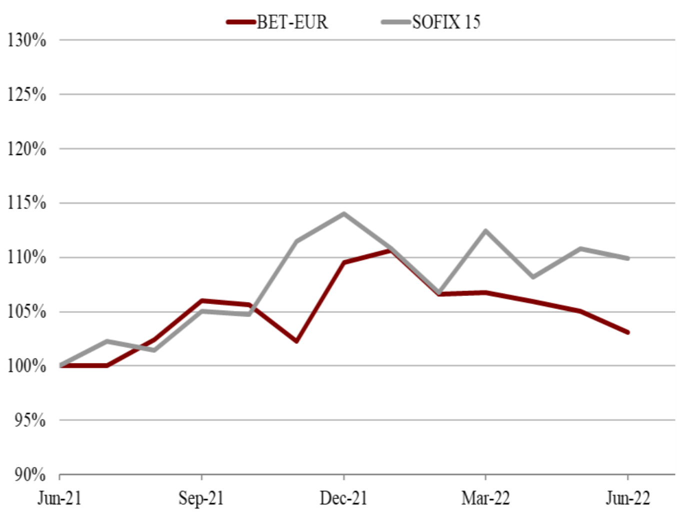
Over the first semester, Telecredit generated interest revenues from SME financings of € 0.77m, 21% above budget and 65% above the € 0.47m achieved over the same period last year. During the first six months, the Company generated an Operating Profit before Depreciation of € 383,000, 38.3% above budget and 176.0% above the result achieved during the same period of 2021.

Telecredit deployed € 11.1m in financing products to small and medium sized enterprises over the first semester, which was 16.1% above budget and up 70.7% year-on-year. The book value of the Company's SME portfolio increased by 9.9% over the second quarter, from € 4.1m at the end of March to € 4.5m at the end of June, divided between € 4.47 of factoring and discounting, and € 0.03m of microloans.

During the second quarter, Telecredit managed to secure a € 2.0m financing facility from a specialized institutional lender. The funds are being used to support the company's growth. At the end of June, outstanding loans amounted to € 3.8m.

Capital Market Developments

BET-EUR and SOFIX-15: 1 year performance



Commentary

During the second quarter of 2022, worldwide capital markets went through strong corrections due to mounting macro-economic pressures and concerns around geo-politics. The Romanian BET and the Bulgarian SOFIX 15 indices fell by a relatively modest 3.4% and 2.2%, respectively, both in euro terms, whilst the MSCI Emerging Market Eastern Europe, the MSCI Emerging Market, and the FTSE100 and S&P indices fell by 13.6%, 5.9%, 6.5% and 10.6%, respectively, all in euro terms.

Over the past twelve months, the BET-EUR and SOFIX 15 indices increased by 3.1% and 10.0%, respectively, both in euro terms. By comparison, the MSCI Emerging Market Eastern Europe, and the MSCI Emerging Market fell by 80.6% and 16.4%, whilst the FTSE100 and S&P indices gained 1.6% and 0.8% respectively, all in euro terms.

Macroeconomic Overview

Overview

	RO	as of:	BG	as of:
GDP Growth (y-o-y)	6.4%	3M22	4.0%	3M22
Inflation (y-o-y)	15.1%	Jun-22	16.9%	Jun-22
Ind. prod. growth (y-o-y)	2.4%	May-22	20.2%	May-22
Trade balance (EUR bn)	-15.4	6M22	-3.1	5M22
y-o-y	*43.8%*		*86.0%*	
FDI (EUR bn)	3.8	5M22	0.9	5M22
y-o-y change	*53.3%*		*177.7%*	
Budget balance/GDP	-1.7%	6M22	0.8%	6M22
Total external debt/GDP	51.1%	May-22	52.3%	May-22
Public sector debt/GDP	53.8%	May-22	20.9%	Jun-22
Loans-to-deposits	73.3%	Jun-22	71.9%	Jun-22

Commentary

Romania

Romania's first quarter GDP grew by 6.4% year-on-year, the result of both private and government consumption increasing by 15.4% and 2.8%, respectively, year-on-year. In addition, investment (gross fixed capital formation) increased by 18%, while net imports grew by 38.1%.

During the first three months of 2022, business confidence remained robust, helped by a pandemic which seemed to have run its course, resulting in the elimination of all remaining COVID-19-related restrictions on 8th March. However, the outbreak of war in neighbouring Ukraine at the end of February generated additional supply chain disruptions and has exacerbated food and energy price increases, leading to double digit inflation, even though Romania's direct trade and financial links with Russia and Ukraine are limited, and around 70% of Romania's energy needs is covered by domestic production. The inflation rate reached 15.1% at the end of June, up from 10.2% at the end of the first quarter. Meanwhile, the Romanian leu was virtually unchanged against the euro over the second quarter, having appreciated by less than 1% since the beginning of the year.

In response to inflationary pressures and tightening monetary policies in the region, the National Central Bank of Romania increased its policy rate from 1.75% at the end of 2021 to 3.75% at the end of June and has subsequently continued its tightening strategy.

Romania posted a budget deficit of € -4.8bn over the first semester, the equivalent of -1.7% of GDP, compared to -3.0% over the same period in 2021. Budgetary receipts amounting to € 43.9bn were 22.9% higher year-on-year, mainly due to an 18.4% increase in taxes on income and salaries, a 9.7% increase of revenues from social contributions and a 26.6% increase in VAT proceeds, as the generalized increase in prices had a positive impact on the taxable base. At the same time, total budgetary expenses increased by 14.3% in RON terms, from € 41.8bn to € 48.6bn, with personnel and social expenditures, which accounted for 24% of total expenses, growing by 4.7%. Of the budgetary expenses, € 1.1bn was allocated to subsidies for supporting agricultural producers as well as to compensate users for higher energy prices. Public investment amounted to € 4.3bn, or 8.7% of budgetary expenses.

During the first semester, the trade gap increased by 43.8% year-on-year (from € -10.7bn to € -15.4bn), with exports growing by 23.9%, while imports increased by 28.5% from an already larger base. FDI inflows during the first five months of 2022 amounted to € 3.8bn, significantly higher than the € 0.9m recorded during the same period of 2021, with total equity investment increasing by € 3.6bn, whilst intra-group loans fell by € 0.2bn.

Romania's total external debt amounted to € 137bn at the end of May, approximately 51.1% of GDP, which is a 2.0% year-on-year increase. Public debt has also continued to increase, having reached € 150bn, or 53.8% of GDP, at the end of May, up 19.4% year-to-date in nominal RON terms.

Lending activity continued to expand over the second quarter, with total domestic non-governmental credit (which excludes loans to financial institutions), amounting to € 71.3bn at the end of June, up 5.0% in RON terms from the end of the previous quarter. Household loans reached € 34.6bn at the end of June, having increased by 2.3% from € 33.8bn at the end of the previous quarter, and accounting for 48.4% of total loans outstanding at the end of June. Consumer loans, which account for 38.4% of household loans, increased by 2.7% over the quarter. Housing loans increased by 2.1% year-to-date and accounted for 61.6% of household loans. At the same time, corporate loans reached € 34.1bn at the end of June, up 7.4% over the quarter. The NPL ratio was 3.2% at the end of May, down from 3.4% at the end of 2021. The overall deposit base has continued to expand, reaching € 97.3bn at the end of June, up by less than 1% since the end of March.

Bulgaria

Bulgaria's first quarter GDP grew by 4.0% year-on-year, with private and government consumption increasing by 5.2%, and investment (gross capital formation) growing by 30.6%, but net exports falling by 7%.

Bulgaria's inflation rate reached 16.9% at the end of June, much higher than the 2.6% recorded at the end of the first quarter. The outbreak of war in Ukraine has exacerbated the rise in energy and food prices, and the labour market was already tight. The high inflation rate is expected to have a negative impact on households' income, and consequently on private consumption. On 27th April, Russia suspended its gas supplies to Bulgaria. Bulgaria had been approximately 90% dependent on Russia for its gas needs, but the Bulgarian government hopes that any shortage will be mitigated by supplies of liquefied natural gas from the United States and its EU partners, and by a new pipeline allowing greater gas imports from Azerbaijan via Greece.

Over the first half of 2022, Bulgaria posted a budget surplus of approximately € 600m, or 0.8% of GDP, compared to a 0.1% surplus over the same period last year. Total budgetary revenues as of June 2022 increased by 14.1%, out of which tax and social security contributions increased by 15.5%. Total budgetary expenses grew by 9.8%, mainly due to the higher prices of goods and services contracted by the government, the 10% increase in the statutory minimum wage from 1st April, and the cost of subsidies provided to companies to compensate them for higher energy prices.

Bulgaria's public sector debt increased from € 15.8bn at the end of the March to € 16.1bn at the end of June, and is now approximately 20.9% of GDP. Gross external debt amounted to € 41.3bn, or 52.3% of GDP, at the end of May 2022, having increased by 4.3% year-to-date.

Bulgaria's January-May trade deficit of € -3.1bn was significantly worse than the € -0.9bn recorded over the same period last year. Exports increased by 38.7%, and imports by 42.3%. The trade deficit was counter-balanced by a € 3.2bn surplus from services, and primary and secondary incomes, resulting in a January-May current account deficit of € 0.8bn, compared to a deficit of € 0.3bn over the same period last year. FDI inflows amounted to € 0.9bn during the first five months of 2022, compared to € 0.3bn over the same period of 2021.

Total domestic non-governmental credit (which excludes loans to financial institutions) increased from € 37.7bn at the end of March 2022 to € 38.9bn at the end of June, with corporate loans growing by 1.8%, whilst household loans grew by 4.5%. The deposit base was € 54.1bn at the end of June, up by less than 1% from € 53.6bn at the end of the previous quarter. The NPL rate was 3.4% at the end of June, down from 3.7% at the end of March.

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