Reconstruction Capital II Ltd

("RC2" or the "Fund")

Quarterly Report

30 June 2023

neweuropecapital

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Statistics

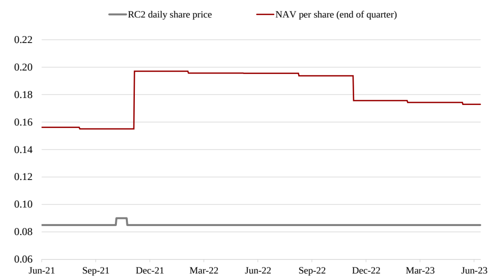
NAV per share (€)	0.1729
Total NAV (€ m)	23.4
Share price (€)	0.0850
Mk Cap (€ m)	11.5
# of shares (m)	135.7
NAV/share since inception†	-58.14%
12-month NAV/share perfomance	-11.57%

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

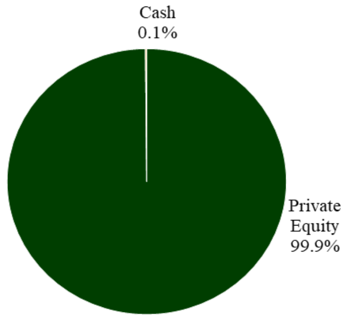
RC2 Quarterly NAV returns

	2020	2021	2022	2023
1Q	-0.77%	-0.75%	-0.76%	-0.80%
2Q	-0.75%	-0.78%	-0.07%	-0.80%
3Q	-0.86%	-0.74%	-0.93%	
4Q	12.04%	27.16%	-9.29%	
YTD	9.40%	24.30%	-10.88%	-1.59%

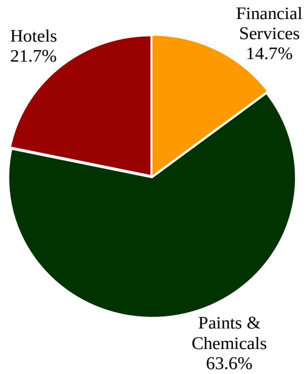
Share price / NAV per share (€)



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 € 0.19m, with its NAV per share falling by 0.80% from € 0.1743 to € 0.1729, mainly due to the operating expenses incurred over the quarter.

During the first half of 2023, the macroeconomic challenges which started in 2022 due to the outbreak of war in neighbouring Ukraine continued to erode consumers' purchasing power, affecting all the Fund's investee companies, although inflationary pressures which had been fuelled by the outbreak of war fell significantly in the second quarter.

The Policolor Group achieved revenues of € 37.6m during the quarter, 22.7% below budget and 15.9% lower year-on-year, as the anhydrides division struggled to source the necessary raw materials due to less available ortho-xylene pursuant to the EU banning imports from Russia. The coatings division's sales were slightly higher year-on-year but 9% below budget, as the cost-of-living crisis reduced consumers' discretionary spending, while the construction market weakened. Although the Group's gross margin overperformed the budget in percentage terms, the Group's six-month EBITDA of € 1.5m was € 1.3m below budget, mainly due to the reduced activity at the anhydrides division and the underperformance of the coatings division.

Despite an unexpectedly good performance in the first quarter, the Mamaia Hotel did not meet its budget over the first half of 2023, as the cost-of-living crisis and the ongoing war in Ukraine across the Black Sea significantly impacted demand for the Hotel in the second quarter. In addition, unseasonal bad weather, including lots of rainfall on weekends in May and June, led to the cancellation of a number of corporate events and significantly reduced the number of walk-in clients. As a result, the Hotel generated revenues of € 0.90m, 22% below budget. During the first semester, the Hotel posted an EBITDA loss of € 0.52m, € 0.14 higher than the budgeted loss of € 0.38m, mainly due to the lower accommodation revenues, higher food & beverage costs, and higher salaries due to a tight labour market.

During the first half, Telecredit generated interest revenues of € 0.83m, 7.8% higher year-on-year but 10% below budget, and an operating profit before depreciation and interest expenses of € 0.25m, below both the € 0.34m budget target and last year's result of € 0.38m. The underperformance was mainly driven by lower demand in the first quarter since Telecredit outperformed its budgeted financing volumes in the second quarter. In May, Telecredit extended the maturity of its € 2.0m loan from a specialized institutional lender by a year to 2024, and increased the facility amount to € 3.0m.

At the end of June, RC2 and RC2 (Cyprus) Ltd had cash and cash equivalents of € 0.04m, receivables of € 0.08m, and short-term liabilities of € 0.63m.

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.

Group Financial results and operations

(EUR '000)	2021*	2022A*	2023B	6M 2022	6M 2023	6M 2023B
Group Consolidated Income statement						
Sales revenues	**79,382**	**85,658**	**92,906**	**44,643**	**37,566**	**48,587**
sales growth year-on-year	*23.8%*	*7.9%*	*8.5%*	*7.6%*	*-15.9%*	*8.8%*
Other operating revenues	210	1,317	-	430	88	-
Total operating revenues	**79,592**	**86,975**	**92,906**	**45,072**	**37,654**	**48,587**
Gross margin	22,954	20,531	24,570	11,086	10,914	12,594
Gross margin %	*28.8%*	*23.6%*	*26.4%*	*24.6%*	*29.0%*	*25.9%*
Other operating expenses	(21,350)	(21,379)	(22,888)	(10,381)	(10,621)	(11,192)
Operating profit	**1,604**	**(848)**	**1,683**	**705**	**294**	**1,403**
Operating margin	*2.0%*	*-1.0%*	*1.8%*	*1.6%*	*0.8%*	*2.9%*
EBITDA	**4,190**	**1,914**	**4,653**	**1,800**	**1,458**	**2,749**
EBITDA margin	*5.3%*	*2.2%*	*5.0%*	*4.0%*	*3.9%*	*5.7%*
Nonrecurring items / Extraordinary Items	-	-	-	(66)	(47)	-
Financial Profit/(Loss)	(590)	(383)	(924)	59	(618)	(439)
Profit before tax	**1,014**	**(1,231)**	**759**	**697**	**(371)**	**963**
Income tax	(299)	(183)	-	-	-	-
Profit after tax	**715**	**(1,414)**	**759**	**697**	**(371)**	**963**
avg exchange rate (RON/EUR)	*4.92*	*4.92*	*4.92*	*4.94*	*4.96*	*4.92*

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

During the first half of 2023, the Policolor Group achieved sales of € 37.6m, 22.7% below budget and 15.9% lower year-on-year, mainly due to hardly any third-party sales of anhydrides. This was in turn due to a lack of availability of ortho-xylene, the main raw material in the production of anhydrides, aa consequence of the war in neighbouring Ukraine, since the EU has banned imports of Russian ortho-xylene. Consequently, the Group's anhydrides plant operated for only one month, with the division's total revenues amounting to € 1.9m, of which € 1.7m was to Group companies.

The Coatings division's sales of € 25.6m were 1.1% higher year-on-year albeit 9.0% below budget, mainly due to a weak construction and consumer market in both Romania and Bulgaria, with customers' purchasing power being eroded by inflation, and weak demand for discretionary goods and services.

The Resins division generated sales of € 13.7m (of which € 2m to Group companies), 8.8% below budget and 19.1% lower year-on-year, mainly due to weaker demand for its products, in particular weaker demand from the coatings industry throughout South East Europe.

On the other hand, the Romanian Coatings Division achieved a significant improvement in its gross margin, which had been eroded in 2022 due the sharp increase in raw material and energy prices after the outbreak of war in Ukraine. The division recorded a gross margin of 37.4% during the first half of the year, higher than both the budgeted 35.0% and last year's 32.3%. Overall (including resins and anhydrides sales), the Group achieved a gross margin of 29% during the first half of the year, higher than both the budget (25.9%) and the same period of last year (24.6%).

As a consequence of the below-budget sales, even though the Group's gross margin outperformed the budget in percentage terms, the Group's first semester EBITDA came in at € 1.5m, or € 1.3m below budget.

Following the finalisation of the 2022 audit, the above table now reflects the 2022 consolidated audited accounts.

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)	2021*	2022A*	2023B	6M 2022*	6M 2023**	6M 2023B
Total Operating Revenues, of which:	**2,996**	**3,932**	**3,986**	**1,725**	**903**	**1,157**
Accommodation revenues	1,732	2,433	2,146	1,023	397	516
Food & beverage revenues	1,084	1,347	1,710	554	419	581
Other operating revenues	179	152	129	149	87	59
Total Operating Expenses	(2,748)	(3,394)	(3,572)	(1,487)	(1,485)	(1,579)
Operating Profit	**248**	**538**	**413**	**238**	**(582)**	**(422)**
Operating margin	*8.3%*	*13.7%*	*10.4%*	*13.8%*	*-64.5%*	*-36.5%*
EBITDA	**416**	**657**	**493**	277	(524)	(383)
EBITDA margin	*13.9%*	*16.7%*	*12.4%*	*16.1%*	*-58.0%*	*-33.1%*
Profit after Tax	**90**	**370**	**271**	137	(686)	(505)
Net margin	*3.0%*	*9.4%*	*6.8%*	*7.9%*	*-76.0%*	*-43.6%*
avg exchange rate (RON/EUR)	*4.92*	*4.92*	*4.92*	*4.94*	*4.96*	*4.92*

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

Despite an unexpectedly good performance in the first quarter, the Hotel did not meet its budget for the first half of 2023, as the cost-of-living crisis and the ongoing war in Ukraine across the Black Sea significantly impacted demand in the second quarter. In addition, unseasonal bad weather, including lots of rainfall on weekends in May and June, led to the cancellation of a number of corporate events and significantly reduced the number of walk-in clients.

As a result, the Hotel generated revenues of € 0.90m, 22% below budget. This was driven by an 18% occupancy rate, which is lower than the budgeted 20% and below the 52% achieved during the same period the prior year when the Hotel secured several long-term accommodation contracts for large groups.

During the first semester, the Hotel posted an EBITDA loss of € 0.52m, € 0.14m higher than the budgeted loss of € 0.38m, due to lower accommodation revenues, higher food and beverage costs and a tight labour market which resulted in higher salaries. In the second quarter, the Hotel finalized the renovation of its pool and the installation of solar panels, the latter being expected to generate annual electricity cost savings of 25%.

The net debt was only slightly up over the semester, from € 1.77m at the end of 2022 to € 1.81m at the end of June.

Following the finalization of the 2022 audit, the above table now reflects the 2022 audited accounts.

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)	2021*	2022A*	2023B	6M 2022*	6M 2023**	6M 2023B
Income Statement						
Interest revenues from SMEs lending, of which:	**1,093**	**1,625**	**2,141**	**772**	**832**	**926**
Factoring and Discounting	1,029	1,606	2,109	760	800	905
Microloans	64	19	32	12	32	21
Total operating expenses:	**697**	**(999)**	**(1,234)**	**(389)**	**(581)**	**(586)**
Provisions, of which:	21	27	(124)	5	(96)	(83)
Pay day lending	58	32	-	20	28	-
SMEs lending	(37)	(5)	(124)	(16)	(124)	(83)
Other Operating expenses	(718)	(1,027)	(1,110)	(393)	(484)	(503)
Operating profit before depreciation and interest expenses	**396**	**626**	**907**	**383**	**251**	**340**
Depreciation	(98)	(97)	(173)	(48)	(53)	(87)
Operating profit before interest expenses (EBIT)	**298**	**529**	**734**	**335**	**198**	**254**
EBIT margin, %	*27.3%*	*32.6%*	*34.3%*	*43.4%*	*23.8%*	*27.4%*
Profit after tax	**82**	**174**	**269**	154	37	41
Net margin %	*7.5%*	*10.7%*	*12.6%*	*19.9%*	*4.4%*	*4.4%*
Avg exchange rate (RON/EUR)	*4.95*	*4.92*	*4.92*	*4.94*	*4.96*	*4.92*

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

The lower-than-expected demand experienced by Telecredit over the first quarter of 2023 was not repeated in the second quarter, when financing volumes rose sharply, reaching an all-time high in June. During the first semester, Telecredit achieved financing volumes of € 15m, 15% higher year-on-year but 23% below budget, mainly due to the slow start to the year.

Over the semester, Telecredit generated interest revenues of € 0.83m, 7.8% higher year-on-year but 10% below budget, mainly due to the underperformance of the first quarter. The operating profit before depreciation and interest expenses was € 0.25m, below the budgeted € 0.34m and last year's result of € 0.38m.

The value of the financing book reached € 5.4m at the end of June, up from € 4.1m as of 31 December 2022, almost entirely comprised of factoring and discounting operations, while the book value of microloans increased from € 0.02m at the end of 2022 to € 0.3m at the end of June, following the company's decision to re-start microlending due to its positive experience in recovering loans which had defaulted during the period of Covid-related lockdowns, showing the resilience of Telecredit's lending model.

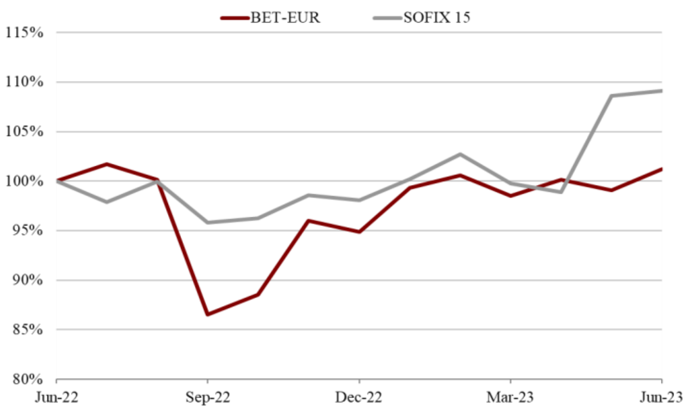
The non-performing loan (NPL) rate (defined as the balance of receivables over 90 days overdue divided by the gross book value of the portfolio) was 5.8% at the end of June, down from 6.2% at the end of March. Of the 5.8% NPL rate, 1.6% was generated during the first six months of 2023, and the balance of 4.2% was generated in prior periods.

At the end of June, total debt amounted to € 4.4m, higher than the € 3.1m recorded at the end of March, driven by the growth in the financing book over the quarter. In May, the Company extended the maturity of its loan from a specialized institutional lender by a year to April 2024, and increased the facility amount from € 2.0m to € 3.0m.

Under National Bank of Romania transitory regulations, the Company has been preparing audited IFRS accounts in addition to its statutory RAS accounts from 2020. From 2023, it has adopted full statutory IFRS. Consequently, the 6m 2023 results included in the table above have been prepared in accordance with IFRS. According to the company's audited IFRS financial statements, Telecredit generated a net profit of € 0.11m and € 0.18 in 2021 and 2022, respectively, which is higher than its audited RAS statutory net profit for those years of € 0.08m and € 0.17m, respectively.

Capital Market Developments

BET Index and SOFIX Index 1 year performance



Commentary

During the second quarter, the Romanian BET and the Bulgarian SOFIX 15 indices gained 2.8% and 9.4%, respectively, both in euro terms. Over the same quarter, the MSCI Emerging Market Eastern Europe, the S&P, the FTSE100, and the MSCI Emerging Market indices were up by 16.9%, 7.9%, 1.1%, and 0.5%, respectively. Over the year to 30 June, the BET-EUR and SOFIX 15 indices increased by 1.2% and 9.1%, respectively, both in euro terms. By comparison, the MSCI Emerging Market Eastern Europe, the S&P and the FTSE100 indices gained, 23.3%, 13% and 5.2%, respectively, while the MSCI Emerging Market index fell by 4.1% over the same period.

Macroeconomic Overview

Overview

	RO	as of:	BG	as of:
GDP Growth (y-o-y)	2.9%	3M23	2.3%	3M23
Inflation (y-o-y)	10.3%	Jun-23	8.7%	Jun-23
Ind. prod. growth (y-o-y)	-5.5%	May-23	-11.0%	May-23
Trade balance (EUR bn)	-11.1	May-23	-1.9	May-23
y-o-y change	*-13%*		*-18%*	
FDI (EUR bn)	3.9	5M23	1.7	5M23
y-o-y change	*-1%*		*89%*	
Budget balance/GDP	-2.3%	6M23	0.1%	6M23
Total external debt/GDP	49.1%	May-23	49.7%	May-23
Public sector debt/GDP	55.4%	May-23	20.4%	Jun-23
Loans-to-deposits	69.7%	May-23	69.1%	Mar-23

Commentary

Romania

Despite the inflationary pressures and disruptions due to the war in neighbouring Ukraine, Romania's economy has been relatively resilient to the external shocks of last year, having achieved full-year 2022 GDP growth of 4.8%. During the first quarter of 2023, economic growth slowed down to 2.9%, the evolution being underpinned by the expansion of consumption (+6.9% year-on-year) and construction activity (+8.8%), while industry had a negative contribution of -2.3%. Romania's 2023 second-quarter GDP figures are due to be released in mid-August.

At the end of June, the inflation rate was still in double-digits, having fallen from 14.5% to 10.3% over the quarter. The main drivers of inflation were food prices (+10.3%) and services (+11.5%) while commodity and utility prices grew by a lesser +4.8% and 7.1%, respectively. Although the sharp drop in inflation compared with the first quarter was mainly due to the statistical base effect, it increased the market's confidence in Romania's downward inflation trajectory.

With the aim of maximizing employment whilst bringing the inflation rate back within its target range of 2.5% ±1%, during the second quarter, the National Bank of Romania has kept its monetary policy rate unchanged at 7%. The rate has now remained unchanged since January 2023.

Over the first 5 months of 2023, Romania's trade deficit fell by 13% (from € -12.8bn to € -11.1bn), with exports growing by 7.5%, while imports grew by a lower 2.1% but from a larger base. Foreign Direct Investment inflows over the first five months amounted to € 3.9bn, 1% lower than the same period of 2022, with total equity investment amounting to € 4.2bn, and intra-group loans amounting to € 0.3bn.

Romania posted a budget deficit of € -7.5bn over the first semester, or 2.3% of GDP, compared to 1.7% of GDP during the same semester of 2022. At € 49bn, budgetary receipts were 11.6% higher, mainly due to an 8.9% increase in revenues from taxes on income and salaries, and a 7.0% increase in VAT proceeds. Total budgetary expenses increased by 16.1% to € 56bn, with personnel and social expenditures, which accounted for 57.5% of total expenses, growing by 10%. As a result of the more restrictive monetary policy and a higher outstanding balance of government debt, interest expenses increased by 21.6% to € 3.2bn. The average yield of 10-year Romanian Government bonds fell from 7.4% at the end of March to 6.8% at the end of June. Agricultural subsidies and compensations for higher energy prices amounted to € 1.8bn, 58.6% higher than the same quarter of 2022.

Romania has received approval for the disbursement of € 6.3bn under its EU-approved € 29bn Recovery and Resilience Plan, of which € 2.6bn was received in 2022 and the remaining balance of € 3.7bn during the first half of 2023. By the end of June, Romania had spent only € 1.6bn, the equivalent of a 25%

absorption rate. As the Romanian Government has not managed to implement on time certain commitments it made under the plan, especially those related to pensions reform, the third instalment amounting to € 2.6bn which Romania is due to receive in September is at risk of being cancelled.

Romania's total external debt amounted to € 157.1bn at the end of May, equal to approximately 49.1% of GDP, which represents a 14.7% year-on-year increase. Public debt has also continued to grow, having reached € 177bn, or 55.4% of GDP, at the end of May, up 18.9%, year-on-year in nominal EUR terms.

Lending activity has picked up slightly (+0.5% in RON terms) since the end of March, with total domestic non-governmental credits (which exclude loans to financial institutions), amounting to € 74.9bn at the end of May. Household loans reached € 34.3bn, unchanged since March, and accounted for 45.8% of total loans outstanding at the end of May. Consumer loans, which account for 38.5% of household loans, grew by 0.27%. Housing loans fell by 0.4% and accounted for 61.5% of household loans at the end of May. Corporate loans outstanding reached € 37.2bn at the end of May, up 0.8% since the end of March. The NPL ratio was 2.6% at the end of May, slightly down since March. On the other hand, the overall deposit base continued to expand, reaching € 107.4bn at the end of May, 1.8% higher compared to March.

Reflecting the rotation principle underpinning the governing coalition agreement of 2021. Marcel Ciolacu of the Social Democratic Party took over the premiership from Nicolae Ciuca of the National Liberal Party at the beginning of June. The incoming Prime Minister has announced a series of measures designed to reduce the budget deficit, including the reduction of expenditures and increases in taxes, although none of these have been finalized to date.

Bulgaria

A prolonged period of political uncertainty ended in May, when the two largest Bulgarian parties with a pro-European orientation, GERB and "We Continue the Change together", as well as the centre-right Democratic Party, agreed to form a government of experts with rotating prime ministers. The agreement is intended to put an end to a long period of political instability, with five inconclusive elections held over the past two years.

In spite of the ongoing war in Ukraine, Bulgaria's GDP grew by 2.3% in the first quarter, whilst its second-quarter GDP figures are due to be released in mid-August.

Bulgaria's inflation rate has proved to be less sticky than Romania's, having fallen to 8.7% at the end of June, compared to 14.0% at the end of March.

At the end of the first semester, Bulgaria posted a budget surplus of approximately € 0.1bn, or 0.1% of GDP, compared to a 0.8% budget surplus over the same quarter of 2022. Total budgetary revenues increased by 11.2% year-on-year to € 16bn, with tax and social security contributions growing by 10.5%. However, total budgetary expenses grew by 15.7% to € 15.5bn, mainly due to a 19% increase in salaries and social expenditures, and a 41% increase in public investments. As the volatility of the natural gas and electricity market has calmed down, the cost of subsidies to protect households and businesses from increases in energy prices fell by 8% over the semester compared to the same period of 2022.

Bulgaria's public sector debt fell slightly from € 19.3bn, or 20.5% of GDP, at the end of March to € 19.1bn, or 20.4% of GDP, at the end of June. At the end of May, gross external debt amounted to € 45bn, or 49.7% of GDP, a 0.8% fall compared to March.

During the first five months of 2023, Bulgaria posted a trade deficit of € -1.9bn, significantly better than the € -2.4bn recorded over the same period last year. Exports fell by 7.6%, and imports by 10.6%. At the same time, the current account posted a surplus of € 0.5bn compared to a € -0.01bn deficit over the same period of 2022, being mainly helped by a € 1.3bn surplus from services, and primary and secondary incomes. FDI inflows amounted to € 1.7bn during January-May, 89% higher than over the same period of 2022.

The loan-to-deposit ratio of the Bulgarian banking system was 69.1% at the end of March, slightly down on 69.3% at the end of December. The NPL rate was 4.7% at the end of March, down from 5.2% at the end of December.

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