Reconstruction Capital II Ltd

("RC2" or the "Fund")

Quarterly Report

31 March 2023

neweuropecapital

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Statistics

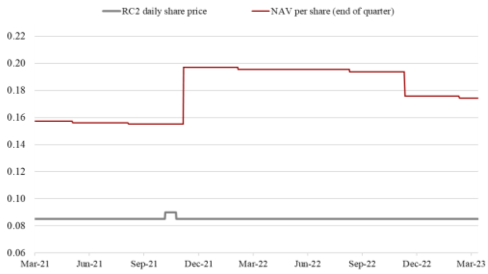
NAV per share (€)	0.1743
Total NAV (€ m)	23.6
Share price (€)	0.0850
Mk Cap (€ m)	11.5
# of shares (m)	135.7
NAV/share since inception†	-58.14%
12-month NAV/share perfomance	-10.91%

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

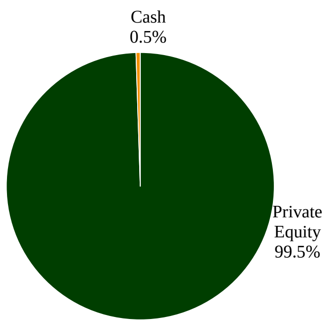
RC2 Quarterly NAV returns

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

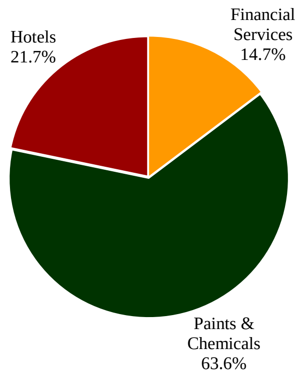
Share price / NAV per share (€)



Portfolio Structure by Asset Class



Equity Portfolio Structure by Sector



Message from the Adviser

Dear Shareholders

During the first quarter, RC2's total NAV fell by € 0.19m, with its NAV per share falling by 0.80% from € 0.1757 to € 0.1743, mainly due to the operating expenses incurred over the quarter.

The first quarter of the year is typically the weakest for Policolor and Mamaia Resort Hotels, due to the seasonality of their businesses.

The Policolor Group achieved revenues of € 15.8m during the quarter, 20.3% below budget and 17.9% lower year-on-year, mainly due to the chemicals division producing much lower volumes of anhydrides, as a result of raw material supply constraints due to the EU forbidding imports from Russia of orthoxylene, the main raw material in anhydrides production. The coatings division's sales of € 10.3m were 8.6% higher year-on-year despite a difficult macroeconomic environment, with high inflation eroding consumers' purchasing power. Although the Group's gross margin overperformed the budget in percentage terms, the EBITDA came in € 0.4m below budget, mainly due to the reduced activity at the chemicals division.

Despite the challenging macroeconomic context and cost of living crisis, as well as the ongoing conflict across the Black Sea in Ukraine, Mamaia Resort Hotels generated operating revenues of € 0.3m during the first quarter, which was 5.7% above budget, as demand for the Hotel's services exceeded expectations. During the quarter, the Hotel reported an EBITDA loss of € 0.3m, 25% lower than the budgeted loss of € 0.4m, in spite of higher input costs and a tight labour market which resulted in higher salary costs.

During the first quarter, in spite of the difficult business environment, Telecredit generated an operating profit before depreciation and interest expenses of € 0.19m, which was approximately twice the budget target, even though its interest revenues of € 0.38m were 8.4% below budget. The overperformance against budget in terms of profitability was mainly driven by the reversal of a number of provisions, a low default rate, and lower operating costs. During the quarter, Telecredit decided to resume its microlending activity which had been suspended during the Covid-pandemic, due to its positive experience in recovering previously defaulted loans.

At the end of March 2023, RC2 and RC2 (Cyprus) Ltd had cash and cash equivalents of € 0.1m, receivables of € 0.08m, and short-term liabilities of € 0.52m.

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	3M 2022	3M 2023	3M 2023B
Group Consolidated Income statement						
Sales revenues	**79,382**	**85,252**	**92,906**	**19,190**	**15,758**	**19,764**
sales growth year-on-year	*23.8%*	*7.4%*	*9.0%*	*-49.8%*	*-17.9%*	*3.0%*
Other operating revenues	210	559	-	21	32	-
Total operating revenues	**79,592**	**85,811**	**92,906**	**19,211**	**15,790**	**19,764**
Gross margin	22,954	20,991	24,570	4,568	4,165	4,696
Gross margin %	*28.8%*	*24.5%*	*26.4%*	*23.8%*	*26.4%*	*23.8%*
Other operating expenses	(21,350)	(20,614)	(22,888)	(5,096)	(5,204)	(5,425)
Operating profit	**1,604**	**377**	**1,683**	**(528)**	**(1,039)**	**(728)**
Operating margin	*2.0%*	*0.4%*	*1.8%*	*-2.7%*	*-6.6%*	*-3.7%*
EBITDA	**4,190**	**2,615**	**4,653**	**28**	**(468)**	**(70)**
EBITDA margin	*5.3%*	*3.0%*	*5.0%*	*0.1%*	*-3.0%*	*-0.4%*
Nonrecurring items / Extraordinary Items	-	(66)	-	(55)	-	-
Financial Profit/(Loss)	(590)	(447)	(924)	(38)	(333)	(191)
Profit before tax	**1,014**	**(136)**	**759**	**(621)**	**(1,372)**	**(919)**
Income tax	(299)	-	-	-	-	-
Profit after tax	**715**	**(136)**	**759**	**(621)**	**(1,372)**	**(919)**
avg exchange rate (RON/EUR)	*4.92*	*4.92*	*4.92*	*4.95*	*4.93*	*4.92*

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

During the first quarter, the Policolor Group recorded revenues of € 15.8m, 20.3% below budget and 17.9% lower year-on-year, mainly due to the chemicals division generating hardly any sales to third parties, as a result of raw materials supply constraints in the context of the trade restrictions on Russian imports generated by the war in Ukraine. The coatings division’s sales of € 10.3m were 8.6% higher year-on-year albeit 4.5% below budget, mainly due to a difficult macroeconomic environment with high inflation eroding consumers’ purchasing power in Romania and Bulgaria.

The Resins division generated sales of € 6.4m (of which € 0.8m to Group companies), 4.6% below budget and 17.8% lower year-on-year, mainly due to weaker demand for its products.

The challenges faced by the anhydrides division during the second half of 2022 continued in the first quarter, with operations constrained by difficulties in accessing orthoxylene, the main raw material in anhydrides production, after the EU banned imports from Russia in June 2022. Consequently, the division’s revenues amounted to € 0.9m in the first quarter (of which € 0.8m to Group companies), 73.5% lower year-on-year and 78% below budget.

Due to the lower sales, although the Group’s gross margin outperformed the budget in percentage terms, the Group EBITDA was € 0.4m below budget, mainly due to the lower revenues at the chemicals division.

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	3M 2022**	3M 2023**	3M 2023B
Total Operating Revenues, of which:	**2,996**	**3,967**	**3,986**	**453**	**285**	**270**
Accommodation revenues	1,732	2,433	2,146	265	124	106
Food & beverage revenues	1,084	1,347	1,710	138	105	146
Other operating revenues	179	187	129	51	55	17
Total Operating Expenses	(2,748)	(3,332)	(3,572)	(527)	(605)	(647)
Operating Profit	**248**	**636**	**413**	**(74)**	**(320)**	**(377)**
Operating margin	*8.3%*	*16.0%*	*10.4%*	*-16.3%*	*-112.3%*	*-139.8%*
EBITDA	**416**	**716**	**493**	**(54)**	**(299)**	**(357)**
EBITDA margin	*13.9%*	*18.1%*	*12.4%*	*-12.0%*	*-104.9%*	*-132.5%*
Profit after Tax	**90**	**435**	**271**	**(127)**	**(379)**	**(419)**
Net margin	*3.0%*	*11.0%*	*6.8%*	*-28.0%*	*-133.0%*	*-155.3%*
avg exchange rate (RON/EUR)	*4.92*	*4.92*	*4.92*	*4.95*	*4.93*	*4.92*

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

Despite the challenging macroeconomic context and cost of living crisis, as well as the ongoing war in Ukraine across the Black Sea, demand for the Hotel during the first quarter exceeded expectations, coming in at € 0.3m which is 5.7% above budget. This was driven by a 13% occupancy rate, which is higher than the budgeted 10% but below the 34% achieved the prior year when the Hotel secured several long-term accommodation contracts for large groups.

Accommodation revenues of € 0.12m were 16.8% above budget, while Food & Beverage revenues of € 0.11m were 28% below budget, as tourists tended to reduce their discretionary spending due to the cost-of-living crisis.

During the first quarter, the Hotel posted an EBITDA loss of € 0.3m, 25% lower than the budgeted loss of € 0.4m, in spite of higher input prices and a tight labour market which resulted in higher salaries. The net loss of € 0.38m is slightly below the budgeted net loss of € 0.42m.

The Hotel’s net debt increased slightly over the quarter, from € 1.8m at the end of 2022 to € 1.9m at the end of March.

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	3M 2022	3M 2023	3M 2023B
Interest revenues from SMEs lending, of which:	**1,093**	**1,625**	**2,141**	**377**	**375**	**407**
Factoring and Discounting	1,029	1,606	2,109	370	365	396
Microloans	64	19	32	7	10	11
Total operating expenses:	**697**	**(999)**	**(1,234)**	**(113)**	**(187)**	**(313)**
Provisions, of which:	21	27	(124)	76	44	(57)
Pay day lending	58	32	-	13	14	-
SMEs lending	(37)	(5)	(124)	63	30	(57)
Other Operating expenses	(718)	(1,027)	(1,110)	(189)	(232)	(255)
Operating profit before depreciation and interest expenses	**396**	**626**	**907**	**263**	**188**	**94**
Depreciation	(98)	(97)	(173)	(24)	(27)	(43)
Operating profit before interest expenses (EBIT)	**298**	**529**	**734**	**239**	**160**	**51**
EBIT margin, %	*27.3%*	*32.6%*	*34.3%*	*63.6%*	*42.8%*	*12.6%*
Profit after tax	**82**	**174**	**269**	**146**	**86**	**(42)**
net margin %	*7.5%*	*10.7%*	*12.6%*	*38.9%*	*23.0%*	*-10.4%*
Avg exchange rate (RON/EUR)	*4.95*	*4.92*	*4.92*	*4.95*	*4.93*	*4.92*

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

During the first quarter, in spite of the difficult business environment with high inflation and high-interest rates, Telecredit generated an operating profit before depreciation and interest expenses of € 0.19m, which was approximately twice the budget target, even though its interest revenues of € 0.38m over the quarter were 8.4% below budget. The overperformance against budget in terms of profitability was mainly driven by a low default rate, the reversal of a number of provisions, and lower operating costs.

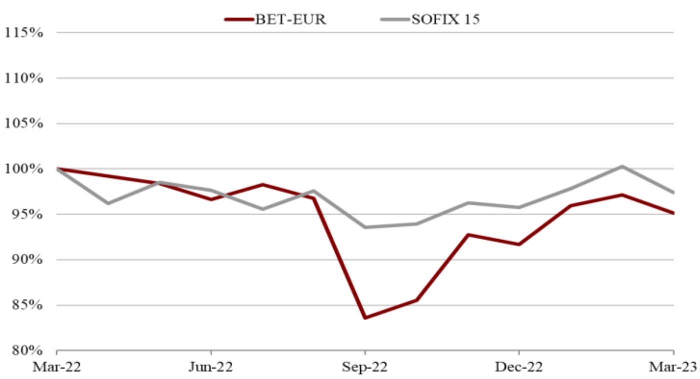
The value of the financing book was € 3.8m at the end of the first quarter, almost entirely comprised of factoring and discounting operations, even though the net book value of microloans increased from € 0.02m at the end of 2022 to € 0.2m at the end of March, as a result of the company's decision to re-start microlending due to its positive experience on the recovery of prior loans which had defaulted during the period of Covid-related lockdowns.

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 6.2% at the end of March, slightly down compared to 6.4% at the end of 2022, due to the good rate of recoveries during the quarter, and the reversal of a number of provisions. Out of the 6.2% NPL rate, 0.2% was generated during the first three months of the year, and the balance of 6.0% was generated in prior periods.

At the end of March, total debt amounted to € 3.0m, which was lower than the € 3.4m at the end of 2022.

Capital Market Developments

BET Index and SOFIX Index 1 year performance



Commentary

During the first quarter, the Romanian BET and the Bulgarian SOFIX 15 indices gained 3.8% and 1.7%, respectively, both in euro terms. Over the same quarter, the MSCI Emerging Market, the S&P, the MSCI Emerging Market Eastern Europe, and the FTSE100 indices were up by 2.0%, 5.5%, 2.7%, and 3.0%, respectively. Over the year to 31 March 2023, the BET-EUR and SOFIX 15 indices fell by 4.8% and 2.6%, respectively, both in euro terms. By comparison, the MSCI Emerging Market, the MSCI Emerging Market Eastern Europe, the FTSE100, and the S&P indices fell by 11.6%, 15.7%, 2.7%, and 7.5%, respectively, over the same period.

Macroeconomic Overview

Overview

	RO	as of:	BG	as of:
GDP Growth (y-o-y)	4.8%	FY22	3.4%	FY22
Inflation (y-o-y)	14.5%	Mar-23	14.0%	Mar-23
Ind. prod. growth (y-o-y)	-4.7%	Feb-23	-1.8%	Feb-23
Trade balance (EUR bn)	-4.4	Feb-23	-0.9	Feb-23
y-o-y change	*-5%*		*-21%*	
FDI (EUR bn)	2.0	Feb-23	0.4	Feb-23
y-o-y change	*4%*		*-58%*	
Budget balance/GDP	-1.4%	Mar-23	-0.4%	Mar-23
Total external debt/GDP	48.0%	Feb-23	50.0%	Feb-23
Public sector debt/GDP	50.9%	Jan-23	20.5%	Mar-23
Loans-to-deposits	70.6%	Mar-23	69.1%	Mar-23

Commentary

Romania

In 2022, despite the severe macroeconomic headwinds generated by the overlapping COVID-19 health crisis and the war in Ukraine, Romania's economy turned out to be relatively resilient, with the country achieving full-year GDP growth of 4.8%, according to its National Institute of Statistics, being one of the top performing economies of the European Union. The positive evolution of the Romanian economy was underpinned by the expansion of consumption (+6.6% year-on-year), construction activity (+8.8% year-on-year), and services (+13.2 year-on-year). Romania's 2023 first-quarter GDP figures are due to be released by its National Institute of Statistics in mid-May.

The annual inflation rate remained high during the first quarter, even though it fell from 16.4% in December 2022 to 14.5% at the end of March. However, food prices and the cost of services increased by 5.3% and 3.6%, respectively, over the quarter. On the other hand, the prices of natural gas, electricity, and central heating fell by 6.6% from December 2022, helped by the decisions taken by the Romanian government to protect the most vulnerable consumers.

In an attempt to control inflation, the National Bank of Romania continued to employ a tight monetary policy, increasing its benchmark interest rate from 6.75% at the end of 2022 to 7% at the end of January 2023. After that, the NBR Board of Directors met two more times over the first quarter but decided to keep the rate unchanged. Over the quarter, the Romanian leu was almost flat against the euro.

At the end of February, the trade gap fell by 5% (from € -4.6bn to € -4.4bn), with exports growing by 11.8%, while imports grew by a lower 4.2% but from a larger base. Foreign Direct Investment inflows over the first two months amounted to € 2bn, 4% higher than the € 1.9bn recorded during the same period of 2022, with total equity investment amounting to € 1.6bn, and intra-group loans amounting to € 0.4bn.

Romania posted a budget deficit of € -4.6bn over the first quarter, or 1.4% of GDP, compared to 1.2% of GDP during the same quarter of 2022. At € 23bn, budgetary receipts were 9.7% higher, mainly due to a 22.1% increase in revenues from taxes on income and salaries, an 9.4% increase in VAT proceeds, and a 4.9% increase in revenues from property taxes. Total budgetary expenses increased by 14.3% to € 24bn, with personnel and social expenditures, which accounted for 59.2% of total expenses, growing by 8.8%. As a result of the more restrictive monetary policy and a higher outstanding balance of government debt, interest expenses increased by 58.3% to € 1.8bn. The average yield of a 10-year Romanian Government bond fell from 8.2% at the end of December to 7.4% at the end of March. Agricultural subsidies and compensations for higher energy prices amounted to € 1bn, 68% higher compared with the same quarter of 2022.

In 2022, Romania received approval for the disbursement of € 6.3bn under its EU-approved € 29bn Recovery and Resilience Plan, out of which € 2.6bn was paid, with the balance being due over the first half of 2023. As the Romanian Government has not managed to implement on time certain commitments it made under the plan, especially those related to pension reform, a new "whistle-blower" law, and a law for reducing its carbon footprint, the payment of the second instalment of € 3.2bn has been postponed and is at risk of being cancelled.

Romania's total external debt amounted to € 154.4bn at the end of February, equal to approximately 48% of GDP, which represents a 14.3% year-on-year increase. Public debt has also continued to grow, having reached € 165bn, or 50.9% of GDP, at the end of January, up 16.1%, year-on-year in nominal EUR terms.

During the first quarter, lending activity picked up slightly, with total domestic non-governmental credit (which excludes loans to financial institutions), amounting to € 74.9bn at the end of the quarter, up 1.9% in RON terms. Household loans reached € 34.4bn, having fallen by 0.6% over the quarter, and accounted for 46% of total loans outstanding at the end of March. Consumer loans, which account for 38.3% of household loans, fell by 0.2%. Housing loans fell by 0.9% and accounted for 61.7% of household loans at the end of the quarter. At the same time, corporate loans reached € 37.1bn at the end of March, up 3.9%. The NPL ratio was 2.7% at the end of February, unchanged compared to December. On the other hand, the overall deposit base continued to expand, reaching € 105.9bn at the end of March, which is 2.2% higher over the quarter.

Bulgaria

According to the Bulgarian National Institute of Statistics, Bulgaria's 2023 first-quarter GDP figures will be released in mid-May.

In order to mitigate the shortage since Russia suspended its gas supplies to Bulgaria in April 2022, a new pipeline connection with Greece, allowing greater imports from Azerbaijan, became operational in October, and in January 2023 Bulgaria signed a long-term deal with Turkey that should give it access to Turkey's liquefied natural gas terminals and its gas supply grid, thereby helping it cover its needs.

In March 2023, Bulgaria's inflation rate fell to 14%, compared to 16.9% at the end of 2022.

At the end of the first quarter, Bulgaria posted a budget deficit of approximately € 0.3bn, or 0.4% of GDP, compared to a 0.2% budget surplus over the same quarter last year. Total budgetary revenues increased by 18.6% year over year, with tax and social security contributions growing by 19.7%. However, total budgetary expenses grew by 27.5%, mainly due to a 20.9% increase in salaries and social expenditures, and a 22.4% increase in public investments. As a result of the effort to protect households and businesses against the sharp increase in energy prices, subsidies increased by 60.3% compared to the first quarter of 2022.

Bulgaria's public sector debt increased from € 18.9bn at the end of December to € 19.3bn, or 20.5% of GDP, at the end of March. At the end of February, gross external debt amounted to € 45bn, or 50% of GDP, an increase of 1.4% compared to December.

During the first two months of 2023, Bulgaria posted a trade deficit of € -0.9bn, significantly better than the € -1.2bn recorded over the same period last year. Exports increased by 13.9%, and imports by 7.2%. On the other hand, the current account posted a surplus of € 0.7bn during the first two months of 2023 (compared to € 0.5bn deficit over the same period of 2022), being mainly helped by a € 1.1bn surplus from services, and primary and secondary incomes. FDI inflows amounted to € 0.4bn during the quarter, 58% lower than over the same quarter of 2022.

Total domestic non-governmental credit (which excludes loans to financial institutions) increased from € 41.2bn at the end of December to € 41.9bn at the end of March, with corporate loans growing by 10.7%, whilst household loans grew by 14.6%. The deposit base was € 60.6bn at the end of March, up 13.1% from € 59.4bn at the end of December. The NPL rate was 3.2% at the end of December, down from 3.4% at the end of September.

Bulgaria continues to suffer from political instability, having held its fifth parliamentary vote in two years on 2 April 2023. The results were again inconclusive and, while negotiations are ongoing, the odds of forming a stable government remain low.

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