

9 June 2023

Reconstruction Capital II Limited
Annual Report and Audited Financial Statements
for the year ended 31 December 2022

Reconstruction Capital II Limited (“RC2”, the “Company” or the “Group”), a closed-end investment company incorporated in the Cayman Islands admitted to trading on the AIM market of the London Stock Exchange, today announces its results for the year ended 31 December 2022.

Copies of the Company’s annual report will today be posted to shareholders. The annual report is also available to view on the Company’s website <http://www.reconstructioncapital2.com>.

Financial highlights

- The audited net asset value as at 31 December 2022 was €0.1757 per share (€0.1971 per share as at 31 December 2021), a 10.9% decrease over the year;
- The Directors do not recommend the payment of a dividend.

Operational highlights

Private Equity Programme

At the end of December 2022, the investments held under the Private Equity Programme had a total fair value of €23.97m, 8.6% below the 2021 valuation of €26.24m. The valuations of Policolor, Mamaia and Telecredit were all performed by independent valuers. The valuations of the Company’s investments in Reconstruction Capital Plc (“RC”) and The Romanian Investment Fund Limited (“RIF”) were also based on their audited net asset values, but these were in turn based on the same valuation of their main underlying asset, Policolor SA, as adopted by the Company.

In 2022, the outbreak of war across the border in Ukraine triggered a global energy and food crisis, adding fuel to inflationary pressures which were already building up as the world transitioned out of Covid-induced economic repression, resulting in rising interest rates, and disrupted supply chains, and the erosion of the purchasing power of households and businesses. Mainly due to these difficult circumstances, Policolor fell short of its budgeted targets, whilst Mamaia and Telecredit were able to shrug off the economic headwinds and beat their budgets. The changes in the valuations above reflect future expectations for these businesses, in the light of their trading performance in 2022.

Based on unaudited figures for 2022, the Policolor Group managed to generate a 7.4% year-on-year increase in sales, from € 79.4m in 2021 to € 85.3m in 2022, helped by the resins division whose sales were 24.1% above 2021. However, the Group’s gross margin shrank from 28.8% in 2021 to 24.5%, mainly due to the Coatings division not having the pricing power to enable it to implement price increases sufficiently quickly to compensate for the steep increase in raw material and energy prices. Mainly due to this, in spite of significant cost savings in administration and logistics costs, the Group’s recurring EBITDA of €2.6m was 37.6% lower year-on-year and 56.2% below budget.

Based on unaudited figures for 2022, Mamaia Resort Hotels achieved record results, with operating revenues of € 4.0m, 29.5% above budget and 32.4% above 2021, driven by a higher occupancy rate as the Hotel managed to secure more group occupancy contracts in the off-season. The Hotel’s EBITDA was € 0.7m, 77.3% above budget and 72.1% higher year-on-year.

Based on unaudited figures for 2022, Telecredit had another high-growth year. In 2022, the Company deployed € 28.5m in financing products to small and medium-sized enterprises, generating Operating profit before depreciation and interest expenses of € 0.7m, 78% higher than 2021 and 48% above budget.

Related parties' interests

As at 31 December 2022, 39,030,555 of the Company's shares were held by Ion Florescu, 42,726,319 shares were owned by Portadrix Investments Limited, which is wholly-owned by The Florescu Family Trust, and 105,985 shares were owned by New Europe Capital SRL, which is the adviser to the Company and is 84% owned by Ion Florescu. Mr Florescu and interests related to him own in aggregate 81,862,859 shares representing 60.26% of the current issued share capital of the Company.

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ADVISER'S REPORT
For the year ended 31 December 2022

On 31 December 2022, Reconstruction Capital II Limited ("RC2" or the "Company") had a total audited net asset value ("NAV") of €23.8m, or €0.1757 per share. The NAV per share fell by 10.9% over the course of the year.

Private Equity Programme

At the end of December 2022, the investments held under the Private Equity Programme had a total fair value of €23.97m, 8.6% below the 2021 valuation of €26.24m. The valuations of Policolor, Mamaia and Telecredit were all performed by independent valuers. The valuations of the Company's investments in Reconstruction Capital Plc ("RC") and The Romanian Investment Fund Limited ("RIF") were also based on their audited net asset values, but these were in turn based on the same valuation of their main underlying asset, Policolor SA, as adopted by the Company.

	2022	2021
	EUR	EUR
Policolor S.A	14,080,000	17,000,000
Mamaia Hotel Resorts SRL ("Mamaia")	4,814,247	4,076,986
Telecredit IFN S.A. ("Telecredit")	3,255,500	1,895,500
The Romanian Investment Fund Limited	1,180,103	1,719,419
Reconstruction Capital Plc	644,777	1,544,540
	23,974,627	26,236,445

The above valuations are based on assumptions that applied as of 31 December 2022.

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Apart from the shareholdings in RC and RIF, the other private equity investments are held through two Cyprus-based wholly-owned subsidiaries, RC2 (Cyprus) Limited and Glasro Holdings Limited, which are not consolidated in the present financial statements, in accordance with IFRS. The Assets at Fair Value shown in the present financial statements, which amount to €24.10m, reflects the valuations of the underlying private equity holdings outlined in the above table, plus cash and cash equivalents of €0.14m, and net sundry liabilities of €-0.01m, held by these intermediary holding companies.

Economic Overview

Both the Romanian and Bulgarian economies reported an increase in GDP in 2022 of 4.8% and 3.4%, respectively, despite the Russian invasion of Ukraine. The invasion added fuel to already rising prices, with inflation reaching 16.4% in Romania and 16.9% in Bulgaria at the end of 2022. In spite of the economic headwinds, the European Commission has forecast economic growth of 2.5% in Romania and 1.4% in Bulgaria in 2023.

INVESTMENT POLICY

Investment Objective and Policy of the Company

At a general shareholder meeting on 21 February 2018, the investment objective of the Company was changed so that it now aims to achieve capital appreciation and/or to generate investment income returns through the acquisition of real estate assets in Romania, including the development of such assets, and/or the acquisition of significant or controlling stakes in companies established in, or operating predominantly in Romania, primarily in the real estate sector. Any new private equity investment in companies operating in sectors other than real estate is limited to 25% of the Company's total assets at the time of effecting the investment. However, the Company may continue to make follow-on investments in existing portfolio companies (which include Policolor SA, Mamaia Resort Hotels SRL and Telecredit SA IFN) without any such limitation.

Gearing

The Company may borrow up to a maximum level of 30% of its gross assets (as defined in its articles).

Distribution Policy

The Company's investment objective is focused principally on the provision of capital growth. For further details of the Company's distribution policy, please refer to the Admission Document on the Company's website.

STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2022

	2022 EUR	2021 EUR
Investment income		
Fair value loss on financial assets at fair value through profit or loss	(2,615,823)	2,774,875
Interest income	518,085	3,197,478
Net investment income/(loss)	(2,097,738)	5,972,353
Expenses		
Operating expenses	(844,981)	(725,459)
Net financial (expense)/income	(871)	(11,595)
Total expenses	(845,852)	(737,054)
Profit/(loss) for the year	(2,943,590)	5,235,299
Other comprehensive income	-	-
Total comprehensive income/(loss) for the year attributable to owners	(2,943,590)	5,235,299
Gain/(loss) Per Share		
Basic and diluted gain/(loss) per share	(0.0217)	0.0385

STATEMENT OF FINANCIAL POSITION

As at 31 December 2022

	2022	2021
	EUR	EUR
ASSETS		
Non-current assets		
Financial assets at fair value through profit or loss	24,104,083	26,971,821
Total non-current assets	24,104,083	26,971,821
Current assets		
Trade and other receivables	15,492	6,027
Cash and cash equivalents	73,337	11,301
Total current assets	88,829	17,328
TOTAL ASSETS	24,192,912	26,989,149
LIABILITIES		
Current liabilities		
Trade and other payables	124,485	205,685
Total current liabilities	124,485	205,685
Non-current liabilities		
Borrowings	250,833	-
TOTAL LIABILITIES	375,318	205,685
NET ASSETS	23,817,594	26,783,464
EQUITY AND RESERVES		
Share capital	1,355,784	1,358,569
Share premium	109,187,284	109,206,779
Accumulated deficit	(86,725,474)	(83,781,884)
TOTAL EQUITY	23,817,594	26,783,464
Net Asset Value per share		
Basic and diluted net asset value per share	0.1757	0.1971

**STATEMENT OF CHANGES IN
EQUITY**

For the year ended 31 December 2022

	Share capital EUR	Share premium EUR	Accumulated deficit EUR	Total EUR
Balance at 1 January 2021	1,358,569	109,206,779	(89,235,299)	21,548,165
Profit for the year	-	-	5,235,299	5,235,299
Other comprehensive income	-	-		
Total comprehensive loss for the year	-	-	5,235,299	5,235,299
Balance at 31 December 2021	1,358,569	109,206,779	(83,781,884)	26,783,464
Loss for the year	-	-	(2,943,590)	(2,943,590)
Total comprehensive loss for the year	-	-	(2,943,590)	(2,943,590)
Repurchase and cancellation of own shares	(2,785)	(19,495)	-	(22,280)
Transactions with owners	(2,785)	(19,495)		(22,280)
Balance at 31 December 2022	1,355,784	109,187,284	(86,725,474)	23,817,594

STATEMENT OF CASH FLOWS

For the year ended 31 December 2022

	2022	2021
	EUR	EUR
Cash flows from operating activities		
Profit/(loss) for the year	(2,943,590)	5,235,299
<i>Adjustments for:</i>		
Fair value loss on financial assets at fair value through profit or loss	2,615,823	(2,774,875)
Interest income	(518,085)	(3,197,478)
Interest expense	833	11,035
Net (loss)/gain on foreign exchange	6	(44)
	(845,013)	(726,063)
Net cash outflow before changes in working capital		
(Increase)/decrease in trade and other receivables	(9,465)	7,573
(Decrease)/increase in trade and other payables	(81,200)	113,902
Purchase of financial assets	-	(210,000)
Repayments of financial assets	770,000	1,210,085
	(165,678)	395,497
Net cash generated from/(used in) operating activities		
Cash flows from financing activities		
Proceeds from borrowings	250,000	250,000
Repayments of loans	-	(650,000)
Interest paid	-	(17,313)
Payments to purchase own shares	(22,280)	-
	227,720	(417,313)
Net cash generated from/(used in) financing activities		
Net decrease in cash and cash equivalents before currency adjustment	62,042	(21,816)
Effects of exchange rate differences on cash and cash equivalents	(6)	44
	62,036	(21,772)
Net decrease in cash and cash equivalents after currency adjustment		
Cash and cash equivalents at the beginning of the year	11,301	33,073
	73,337	11,301
Cash and cash equivalents at the end of the year		