Reconstruction Capital II Ltd

("RC2" or the "Fund")

Quarterly Report

30 June 2024

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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, 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)	2022A*	2023A**	2024B	6M 2023	6M 2024	6M 2024B
Group Consolidated Income statement						
Sales revenues	**85,593**	**71,205**	**77,710**	**37,566**	**36,651**	**38,484**
sales growth year-on-year	*7.8%*	*-16.8%*	*-9.2%*	*-15.9%*	*-2.4%*	*2.4%*
Other operating revenues	-	145	-	88	73	-
Total operating revenues	**85,593**	**71,350**	**77,710**	**37,654**	**36,723**	**38,484**
Gross margin	**20,531**	**21,660**	**25,695**	**11,056**	**11,598**	**12,918**
Gross margin %	*24.0%*	*30.4%*	*33.1%*	*29.4%*	*31.6%*	*33.6%*
Other operating expenses	(20,483)	(19,794)	(22,518)	(10,762)	(10,843)	(11,370)
Operating profit	**48**	**1,866**	**3,177**	**294**	**755**	**1,548**
Operating margin	*0.1%*	*2.6%*	*4.1%*	*0.8%*	*2.1%*	*4.0%*
EBITDA	**2,810**	**3,792**	**6,350**	**1,689**	**2,131**	**2,961**
EBITDA margin	*3.3%*	*5.3%*	*8.2%*	*4.5%*	*5.8%*	*7.7%*
Nonrecurring items / Extraordinary Items	-	-	-	-	397	-
Financial Profit/(Loss)	(383)	(1,384)	(1,484)	(618)	(452)	(722)
Profit before tax	**(335)**	**482**	**1,693**	**(371)**	**700**	**826**
Income tax	(183)	-	-	-	169	-
Profit after tax	**(518)**	**482**	**1,693**	**(371)**	**869**	**826**
avg exchange rate (RON/EUR)	*4.91*	*4.97*	*4.97*	*4.97*	*4.97*	*4.97*

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

During the first half of 2024, the Policolor Group recorded sales of € 36.7m, 2.4% below the previous year and 4.8% below budget.

The Coatings division achieved sales of € 24.5m, 4.5% below the € 25.6m registered in 2023 but 5.8% above budget, generating a gross margin of € 9.8m, which was an 8.6% improvement on the prior year's € 9.0m but 2.8% below the budgeted € 10.0m. In percentage terms, the gross margin reached 40.0% over the first half of the year, which is 4.8 percentage points above the same period of 2023, and 1.3 percentage points above budget.

Including inter-company sales, the Resins division generated sales of € 11.6m, compared to a budget of € 12.5m and the prior year's result of € 13.6m. The division achieved a gross margin of 19.7%, 0.7 percentage points higher than the 19.0% achieved in 2023, but below the budget target of 24.1% due to weaker demand across Europe and higher than expected input costs, exacerbated by shipping issues in the Red Sea area which affected shipments of raw materials from Asia.

Over the first quarter of 2024 the anhydrides division generated sales of € 3.5m (almost double the same period of the prior year), of which € 2.4m to third parties. However, production stopped again in April due to a shortage of raw materials, and is unlikely to resume before the autumn, which will make it impossible for the anhydrides division to meet its budget targets for the year.

The total Group consolidated gross margin was 31.6% over the first half of 2024, 2.2 percentage points higher than the first half of 2023, but still below the budget target of 33.6%. The underperformance versus budget was entirely generated by the resins and anhydrides divisions.

The consolidated EBITDA of € 2.1m generated over the first semester represents a 26% improvement over the prior year result, but was 28% below budget, mainly due to weaker-than-expected demand for resins at a European level, and raw materials shortages at the anhydrides division.

The net profit was significantly higher year-on-year, reaching a positive € 0.9m versus the € -0.4m loss generated in the first half of 2023, also helped by a € 0.4m non-recurring profit generated by the sale of a non-core asset and the increase of a deferred tax asset which generated a further positive effect of € 0.17m.

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)	2022*	2023A**	2024B	6M 2023	6M 2024	6M 2024B
Income Statement						
Interest revenues from SMEs lending, of which:	**1,625**	**1,973**	**2,513**	**832**	**1,486**	**1,009**
Factoring and Discounting	1,606	1,889	2,266	800	1,434	933
Microloans	19	84	247	32	51	76
Total operating expenses:	**(999)**	**(1,078)**	**(1,357)**	**(581)**	**(532)**	**(534)**
Provisions, of which:	27	(37)	(196)	(97)	(16)	(43)
Pay day lending	32	62	-	27	6	-
SMEs lending	(5)	(99)	(196)	(124)	(22)	(43)
Other Operating expenses	(1,027)	(1,042)	(1,160)	(484)	(516)	(491)
Operating profit before depreciation and interest expenses	**626**	**895**	**1,156**	**251**	**954**	**476**
Depreciation	(97)	(109)	(108)	(53)	(55)	(54)
Operating profit before interest expenses (EBIT)	**529**	**786**	**1,049**	**197**	**899**	**422**
EBIT margin, %	*32.6%*	*39.8%*	*41.7%*	*23.7%*	*60.5%*	*41.8%*
Profit after tax	**174**	**356**	**549**	**36**	**549**	**238**
net margin %	*10.7%*	*18.0%*	*21.8%*	*4.3%*	*37.0%*	*23.6%*
Avg exchange rate (RON/EUR)	*4.92*	*4.97*	*4.97*	*4.93*	*4.97*	*4.97*

*Note: * RAS audited, ** IFRS audited*

Telecredit achieved total interest revenues of € 1.5m over the first half of 2024, a 78.6% increase compared to the same period in 2023 and 47.2% above budget. Revenue growth was driven by a steady increase in the value of the financing book, which reached € 8.2m at the end of June 2024 (net of provisions), 15.5% above the end of the previous quarter, and 28% higher than at the end of 2023.

The non-performing loan (NPL) rate (defined as the balance of receivables accelerated or over 90 days overdue or accelerated, divided by the gross book value of the portfolio) was 4.2% at the end of June, down significantly from 5.1% at the end of March, helped by the recovery of some outstanding NPLs.

Due to the growth in the loan book and the low provisioning rate, the net profit increased over 15 times, reaching € 0.55m over the first semester, compared to € 0.03m over the same period last year.

At the end of the first semester, net debt amounted to € 6.0m, up from € 5.3m at the end of March as a result of the increase in the book value of the portfolio, whilst shareholder funds increased by 20% to € 1.9m.

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)	2022A*	2023A*	2024B	6M 2023	6M 2024	6M 2024B
Total Operating Revenues, of which:	**3,932**	**2,916**	**3,341**	**866**	**1,159**	**833**
Accommodation revenues	2,433	1,545	1,806	407	482	449
Food & beverage revenues	1,347	1,282	1,423	419	643	333
Other operating revenues	152	89	113	40	34	51
Total Operating Expenses	(3,394)	(3,379)	(2,949)	(1,426)	(1,447)	(1,203)
Operating Profit	**538**	**(463)**	**392**	**(561)**	**(288)**	**(371)**
Operating margin, %	*13.7%*	*-15.9%*	*11.7%*	*-64.8%*	*-24.8%*	*-44.5%*
EBITDA	**657**	**(358)**	**392**	**(524)**	**(269)**	**(225)**
EBITDA margin, %	*16.7%*	*-10.1%*	*11.7%*	*-60.5%*	*-23.2%*	*-27.1%*
Profit after Tax	**370**	**(678)**	**76**	**(686)**	**(436)**	**(383)**
Net margin, %	*9.4%*	*-23.2%*	*2.3%*	*-79.3%*	*-37.6%*	*-46.0%*
Operational KPIs						
Occupancy rates	49%	27%	36%	18%	25%	21%
Average net tariff per room	51.2	58.4	59.0	43.1	40.5	47.3
avg exchange rate (RON/EUR)	4.92	4.97	4.97	4.92	4.97	4.97

*Note: * RAS, audited*

The Hotel generated total operating revenues of € 1.2m over the first half of 2024, 39.2% above budget and a 33.9% better than the same period last year. The occupancy rate was 25%, 7 percentage points above the same period last year and 4 percentage points above budget.

Operating revenues were boosted by a strong performance from the Food and Beverage department whose revenues grew by 53.4% compared to the same period in the prior year and were 93% above budget. This in turn was supported by an increase in the number of group events hosted by the hotel during the period. Accommodation revenues were also significantly higher, growing by 18.6% year-on-year and exceeding the budget by 7.5%.

Total operating expenses were 1.4% above the prior year and 20% above budget, mainly due to personnel costs.

The EBITDA loss for the first-half 2024 period was € -0.27m, a significant improvement over the € -0.52m generated during the same period of 2023, but still came in slightly below budget, mainly due to higher-than-budgeted salary expenses.

The Hotel's net debt fell slightly from € 2.1m at the end of December to € 1.9m at the end of June.

Macroeconomic Overview

Overview

	RO	as of:	BG	as of:
GDP Growth (y-o-y)	0.4%	May-24	1.7%	May-24
Inflation (y-o-y)	4.9%	Jun-24	2.3%	May-24
Ind. prod. growth (y-o-y)	-6.9%	May-24	-6.3%	May-24
Trade balance (EUR bn)	-9.2	May-24	-0.8	May-24
y-o-y change	*-17%*		*-60%*	
FDI (EUR bn)	3.3	May-24	0.6	May-24
y-o-y change	*-13%*		*-66%*	
Budget balance/GDP	-3.4%	May-24	0.1%	May-24
Total external debt/GDP	49.2%	May-24	42.6%	Apr-24
Public sector debt/GDP	50.5%	Apr-24	20.9%	May-24
Loans-to-deposits	66.4%	May-24	76.1%	Mar-24

Commentary

Romania

Over the first five months of 2024, Romania's annual GDP growth reached 0.4%, an improvement over the 0.1% registered at the end of March. Despite the improvement, it is unlikely that the Romanian economy will be able to reach the 3.4% annual growth target established by the Romanian government for 2024, whilst the European Bank for Reconstruction and Development's estimate of 3.2% and the European Commission's 2.9% also appear to be optimistic. Romania was particularly affected by a 6.9% year-on-year decline in industrial production during the first five months of the year, the highest in the EU.

An encouraging sign for the Romanian economy was inflation rate falling below the 5%, having reached 4.9% at the end of June. By June, the increase in consumer energy prices had also slowed down, with Eurostat reporting only a 0.5% increase in prices in year-on-year terms, down from a 3.3% increase at the end of March. Due to the fall in inflation, the National Bank of Romania was able to reduce its benchmark rate from 7.00% to 6.75% in June.

However, by the end of May, the Romanian budget deficit already amounted to approximately € 12.1bn according to the Ministry of Finance, or 3.4% of GDP, a 61% increase compared to the € 7.5bn deficit registered during the first half of 2023. Budgetary receipts reached € 45.3bn, up 14% compared to January-May 2023, while total budgetary expenses reached € 57.4bn, representing a 21% increase. Government interest expenses reached € 3.2bn during the first five months, 10% above the same period of the prior year.

Within this context, the National Bank of Romania is unlikely to aggressively taper interest rates until at least 2025 when more aggressive fiscal tightening measures are expected. Furthermore, average salaries have also increased, by 7.4% compared to the end of 2023, and by 12.7% compared to May 2023, helped by the Romanian government raising the minimum wage with the goal of reaching the European Union minimum wage as soon as possible. By the end of May, the unemployment rate in Romania was 5.4%, up 0.1 percentage points compared to April but down 0.1 percentage points compared to May 2023.

During the first five months of 2024, Romania's trade deficit reached € -9.2bn, which is 17% lower than over the first five months of 2023. Foreign direct investment was € 3.3bn during the period, 13% below the € 3.9bn recorded over the first five months of 2023, and comprised 87% of equity investments, and 13% of intragroup loans. The Romanian Leu remained stable against the Euro throughout the second quarter.

Romania's total external debt amounted to € 176bn at the end of May 2024, equal to approximately 49.2% of GDP, up only 0.1% as a percentage of GDP compared to May 2023. Public debt has fallen slightly year-on year, having reached € 171.3bn, or 50.5% of GDP, at the end of April, 2% lower than the € 174.9bn recorded at the end of April 2023. The average yield on RON-denominated 10-year Romanian Government bonds fell from 7.06% at the end of May 2023 to 6.71% at the end of May 2024.

Bulgaria

According to the Bulgarian Ministry of Finance, year-on-year GDP growth reached 1.7% over the first five months of 2024, significantly higher than Bulgaria 0.3% growth rate over the first quarter. The five-month growth rate was driven by strong growth in retail spending, but was counter-balanced by a decline in industrial production affecting the mining sector, as well as machinery and electrical equipment production.

During the first quarter, Bulgaria's average salary increased by 2.9% year-on-year in real terms, driven mainly by the government's policy of increasing the minimum wage, with both the private and public sectors contributing equally to the increase in wages. Bulgaria's unemployment rate was 5.1% at the end of May, up 0.6 percentage points year-on-year. In spite of the average salary increase, the annual inflation rate dropped from 3.0% in March to 2.3% in May.

During the first five months of 2024, Bulgaria registered a budget surplus of 0.1% of GDP. Bulgaria's trade deficit fell from € 1.3bn over the first quarter of 2024 to € 0.8bn over the first five months. FDI inflows amounted to only € 0.6bn during January-May (composed of 62% equity and 38% debt instruments), which was 66% lower than the € 1.7bn registered over the same period of 2023.

Public sector debt increased slightly by 0.3 percentage points since the end of March 2024, reaching 20.9% of GDP at the end of May, whilst total external debt amounted to 42.6% of GDP, down 0.3 percentage points.

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