

18 June 2014

Reconstruction Capital II Limited (the "Company")

**Annual Report and Audited Consolidated Financial Statements
for the year ended 31 December 2013**

Reconstruction Capital II Ltd ("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 2013.

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 2013 was EUR 0.3287 per share (EUR 0.3933 per share as at 31 December 2012);
- The Directors do not recommend the payment of a dividend.

Operational highlights

Private Equity Programme

RC2 did not make any new investments under its Private Equity Programme, and continued to pursue a number of exits, both from its investee companies as well as from certain assets held by them. Discussions are ongoing with a number of potential buyers. The investments held under the Private Equity Programme had a fair value of EUR 38.0m at the end of 2013, down 9.6% year-on-year, reflecting the EUR 5.9m write down of the investments in Serbia, only partly compensated by the EUR 1.8m write up of the Romanian investments.

Trading Programme

RC2 marginally reduced its position in listed equities held under its Trading Programme. Efforts to sell down more shares were unsuccessful, due to the low liquidity of the listed equities owned by RC2. At the end of 2013, RC2's listed equities held under the Trading Programme had a total market value of EUR 0.4m. All the investments held under the Trading Programme were in Romanian equities.

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INVESTMENT MANAGER AND INVESTMENT ADVISORS' REPORT

On 31 December 2013, Reconstruction Capital II Limited ("RC2") had a total audited net asset value ("NAV") of EUR 32.9m or EUR 0.3287 per share, a 16.4% fall over the year. The fall in the NAV is almost entirely explained by the writing down to zero of RC2's investment in East Point Holdings Limited due to a severe deterioration in its financial condition over the year. Pursuant to the write down of this investment, the current NAV of RC2 is almost entirely composed of four investments in Romania which are generating positive EBITDA and, in the case of Top Factoring Srl (and its sister company Glasro Holdings Ltd) as well as Albalact S.A., generated free cash flow for RC2. The valuations of Policolor S.A., Top Factoring Group and Mamaia Resort Hotels Srl have increased by a combined EUR 1.0m as compared to the valuations included in the 2012 accounts, reflecting their improved performance and prospects.

RC2's audited NAV per share of EUR 0.3287 as at the end of 2013 compares to an unaudited published NAV per share of EUR 0.3282.

At the end of 2013, RC2 had cash and cash equivalents of EUR 0.4m. RC2's borrowings amounted to EUR 4.3m, whilst overdue liabilities to its suppliers amounted to EUR 4.7m.

In 2013, RC2 received EUR 1.4m in dividends from Glasro Holdings Ltd and a further EUR 0.4m from Albalact S.A. which helped cover its working capital needs. A further EUR 1.5m in dividends was received in the first five months of 2014 from Glasro Holdings Ltd.

Private Equity Programme

RC2 did not make any new investments under its Private Equity Programme, and continued to pursue a number of exits, both from its investee companies as well as from certain assets held by them. Discussions are ongoing with a number of potential buyers. The investments held under the Private Equity Programme had a fair value of EUR 38.0m at the end of 2013, down 9.6% year-on-year, reflecting the EUR 5.9m write down of the investments in Serbia, only partly compensated by the EUR 1.8m write up of the Romanian investments.

Trading Programme

RC2 marginally reduced its position in listed equities held under its Trading Programme. Efforts to sell down more shares were unsuccessful, due to the low liquidity of the listed equities owned by RC2. At the end of 2013, RC2's listed equities held under the Trading Programme had a total market value of EUR 0.4m. All the investments held under the Trading Programme were in Romanian equities.

Outlook

Both the Romanian and Bulgarian economies improved in 2013, in particular Romania which, with an annual GDP growth of 3.5%, posted the second highest GDP growth in the EU. The prospects for 2014 remain good for both countries as domestic demand is expected to recover and add to the positive effect of exports, which have been the main driver of growth so far.

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INVESTMENT POLICY

Private Equity Programme

Under the Private Equity Programme, the Company takes significant or controlling stakes in companies operating primarily in Romania, Serbia, Bulgaria and neighbouring countries (the “Target Region”). The Company invests in investee companies where it believes its Investment Advisers can add value by implementing operational and/or financial restructuring over a 3 to 5 year horizon. The Company only makes an investment under the Private Equity Programme if its Investment Advisers believe there is a clear exit strategy available, such as trade sale, break up and subsequent disposal of different divisions or assets, or a flotation on a stock exchange.

Trading Programme

Under the Trading Programme, the Company aims to generate short and medium term returns by investing such portion of its assets as determined by the Directors from time to time in listed equities and fixed income securities, including convertible and other mezzanine instruments, issued by entities in the Target Region. The Investment Manager is responsible for identifying and executing investments and divestments under the Trading Programme. The Trading Programme differs from the Private Equity Programme in the key respect that the Company will typically not take significant or controlling stakes in investee companies and will typically hold investments for shorter periods of time than investments made under the Private Equity Programme.

Value Creation

Under its Private Equity Programme, the Investment Advisers are involved at board level in the investee company to seek to implement operational and financial changes to enhance returns. As part of the Company’s pre-acquisition due diligence, the Investment Advisers seek to identify specific actions that they believe will create value in the target investee company post acquisition and, where appropriate, seek to work with third party professionals to develop, in combination with the proposed management team of the target, a value creation plan with clear and identifiable short and medium term targets. These plans are likely to address different parts of the business and are tailored to reflect the specific challenges of the relevant target company. Both the Investment Advisers and the Investment Manager believe that the investment strategies under the Private Equity and Trading Programme can achieve returns which are different than the returns of the relevant market indices.

Investing Restrictions and Cross-Holdings

The Directors, the Investment Advisers and the Investment Manager will seek to ensure that the portfolio of investments is sufficiently diversified to spread the risks of those investments. The Investment Strategy does not restrict the Company from investing in other closed-ended funds operating in the Target Region. In line with the Company’s investment policy, the Board does not normally authorise any investment in a single investee company that is greater than 20 per cent of the Company’s net asset value at the time of effecting the investment and in no circumstances will it approve an investment in a single investee company that is greater than 25 per cent of the Company’s net asset value at the time of effecting the investment.

Change of investment objective and policy of the Company

Following the annual general meeting of the Company on 14 December 2012, the investment objective and policy of the Company was amended such that no new investments will be made, further investments into existing portfolio companies will be permitted in certain circumstances pending their realisation and, following each realisation, all proceeds will be returned to Shareholders after paying outstanding liabilities and setting aside a sufficient amount for working capital purposes.

Gearing

The Company may borrow up to a maximum level of 30 per cent 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.

**CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 DECEMBER 2013**

	31-Dec-13	31-Dec-12
	EUR	EUR
Investment loss		
Loss on investments at fair value through profit or loss	(4,139,530)	(49,389,415)
Interest income	449,689	329,387
Dividend income	1,786,545	1,282
Other income	111,693	197,958
Total investment loss	(1,791,603)	(48,860,788)
Expenses		
Impairment on loan receivables	(1,915,317)	(943,143)
Operating expenses	(1,724,249)	(2,764,984)
Total operating expenses	(3,639,566)	(3,708,127)
Operating loss	(5,431,169)	(52,568,915)
Financial expenses	(994,901)	(612,149)
Loss before taxation	(6,426,070)	(53,181,064)
Income tax expense	(10,353)	(71,733)
Loss for the year	(6,436,423)	(53,252,797)
Other comprehensive income		
Amounts that will be reclassified to profit or loss		
Exchange differences on translating foreign operations	3,835	10,458
Total comprehensive loss for the year	(6,432,588)	(53,242,339)
Net loss for the year attributable to:		
- Equity holders of the parent	(6,459,070)	(53,392,784)
- Non-controlling interest	22,647	139,987
	(6,436,423)	(53,252,797)
- Equity holders of the parent	(6,458,782)	(53,392,000)
- Non-controlling interest	26,194	149,661
Total comprehensive loss for the year	(6,432,588)	(53,242,339)
Earnings Per Share attributable to the equity shareholders of the Company		
Basic and diluted earnings per share	(0.0646)	(0.5339)

**CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT 31 DECEMBER 2013**

<u>Assets</u>	31-Dec-13	31-Dec-12
	EUR	EUR
Non-current assets		
Property, plant and equipment	10,305	13,458
Financial assets at fair value through profit or loss	37,983,957	42,041,100
Loans receivable	-	560,501
Total non-current assets	37,994,262	42,615,059
Current assets		
Financial assets at fair value through profit or loss	369,656	456,773
Trade and other receivables	365,859	277,777
Loans receivable	3,215,156	3,366,167
Cash and cash equivalents	350,142	1,318,380
Total current assets	4,300,813	5,419,097
Total assets	42,295,075	48,034,156
<u>Liabilities</u>		
Current liabilities		
Trade and other payables	4,726,550	3,754,477
Loans and borrowings	4,306,163	1,541,870
Corporation tax payable	1,792	44,651
Total current liabilities	9,034,505	5,340,998
Non-current liabilities		
Loans and borrowings	-	3,000,000
Total non-current liabilities	-	3,000,000
Total liabilities	9,034,505	8,340,998
Total net assets	33,260,570	39,693,158

	31-Dec-13	31-Dec-12
<u>Capital and reserves attributable to equity holders</u>	EUR	EUR
Share capital	1,000,000	1,000,000
Share premium reserve	121,900,310	121,900,310
Retained deficit	(90,000,271)	(83,541,201)
Foreign exchange reserve	(27,678)	(27,966)
Total equity and reserves	32,872,361	39,331,143
Non-Controlling Interests	388,209	362,015
Total equity	33,260,570	39,693,158

**CONSOLIDATED STATEMENT OF CHANGES IN EQUITY AS OF
31 DECEMBER 2013**

	Share Capital EUR	Share Premium EUR	Foreign exchange reserve EUR	Retained (Deficit)/ Earnings EUR	Sub-total EUR	Non- controlling Interest EUR	Total EUR
Balance at 1 January 2012	1,000,000	121,900,310	(28,750)	(30,148,417)	92,723,143	360,146	93,083,289
(Loss) / Profit for the year	-	-	-	(53,392,784)	(53,392,784)	139,987	(53,252,797)
Other comprehensive income	-	-	784	-	784	9,674	10,458
Total comprehensive (loss) / income for the year	-	-	784	(53,392,784)	(53,392,000)	149,661	(53,242,339)
Dividends paid to non-controlling interests	-	-	-	-	-	(147,792)	(147,792)
Balance at 31 December 2012	1,000,000	121,900,310	(27,966)	(83,541,201)	39,331,143	362,015	39,693,158
(Loss) / Profit for the year	-	-	-	(6,459,070)	(6,459,070)	22,647	(6,436,423)
Other comprehensive income	-	-	288	-	288	3,547	3,835
Total comprehensive (loss) / income for the year	-	-	288	(6,459,070)	(6,458,782)	26,194	(6,432,588)
Balance at 31 December 2013	1,000,000	121,900,310	(27,678)	(90,000,271)	32,872,361	388,209	33,260,570

Share premium is stated net of share issue costs and is not distributable by way of dividend.

**CONSOLIDATED CASH FLOW STATEMENT FOR THE YEAR ENDED
31 DECEMBER 2013**

	31-Dec-13	31-Dec-12
	EUR	EUR
Cash flows from operating activities		
Net loss before tax	(6,426,070)	(53,181,064)
<i>Adjustments for:</i>		
Depreciation and amortisation	3,315	3,243
Loss on financial assets at FVTPL	4,066,936	49,389,415
Impairments on loans receivable	1,915,318	943,143
Interest income	(449,689)	(329,387)
Interest expense	994,901	430,520
Dividend income	(1,786,545)	(1,282)
Net cash outflow before changes in working capital	(1,681,835)	(2,745,412)
(Increase)/Decrease in trade and other receivables	(93,984)	(90,265)
Increase in trade and other payables	694,304	2,076,105
Sale of financial assets	40,498	1,365,234
Interest income received	-	12,118
Dividends received	1,792,446	1,282
Cash generated by operating activities	751,429	619,062
Income tax paid	(53,212)	(80,049)
Net Cash generated by operating activities	698,217	539,013
Cash flows from investing activities		
Purchase of property, plant and equipment	(500)	(8,631)
Receipts of loans granted from subsidiaries	40,000	-
Payments of loans granted to subsidiaries	(756,000)	(2,268,000)
Proceeds from loans granted to subsidiaries	-	550,186
Net Cash flow used in investing activities	(716,500)	(1,726,445)
Cash flows from financing activities		
Payments of loans granted from related parties	(993,402)	-
Dividends paid to non-controlling interests	-	(147,792)
Proceeds from loans granted by related parties	-	3,000,000
Repayments of loans granted by related parties	-	(400,000)
Interest paid on loans	-	(244,953)
Net Cash generated / (used) in financing activities	(993,402)	2,207,255
Increase / (decrease) in cash and cash equivalents	(1,011,685)	1,019,823
Cash and cash equivalents at beginning of the year	1,318,380	296,040
Foreign exchange gain / (loss)	43,447	2,517
Cash and cash equivalents at end of the year	350,142	1,318,380