

28 June 2013

Reconstruction Capital II Limited (the "Company")

Annual Report and Audited Consolidated Financial Statements for the year ended 31 December 2012

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 2012.

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 2012 was EUR 0.3933 per share (EUR 0.9272 per share as at 31 December 2011);
- As at 31 December 2012 the Company's market capitalisation was approximately EUR 50m, with a closing price of EUR 0.50 per share;
- The Directors do not recommend the payment of a dividend.

Operational highlights

The Private Equity Programme

During the year, RC2 continued to prepare its investee companies for sale and put both Top Factoring Srl and its sister company Glasro Holdings Ltd up for sale by means of an organised sales process. It also started an organised sales process for Klar, the automotive and industrial paints division of Policolor S.A, and made progress in the preparation of the Policolor's Bucharest site for sale. However, this sale is dependent on the sale of Klar, or the relocation of its production, as Klar is the only division of the Policolor group which still manufactures its products at the Bucharest site.

The Trading Programme

During the year, RC2 exited a number of its equity positions held under the Trading Programme, thereby generating EUR 1.4m of cash proceeds. At year-end, its listed equities held under the Trading Programme had a total market value of EUR 0.5 million. All the Trading Programme was held in Romanian equities.

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INVESTMENT MANAGER AND INVESTMENT ADVISORS' REPORT

During the year, Reconstruction Capital II Limited ("RC2" or the "Company") suffered a dramatic fall in its NAV per share, which fell from EUR 0.9272 (as restated as at 31st December 2011) to EUR 0.3933. The bulk of the fall mainly reflects a significant write-down in the valuation of East Point Holdings Limited, which is the most highly leveraged investment of RC2, and therefore its valuation is highly sensitive to a deterioration in its trading performance. However, the change also reflects lesser write downs of the investments in Policolor S.A., Top Factoring Srl (and its sister company Glasro Holdings Ltd), Mamaia Resort Hotels Srl and Klas D.o.o.

The 2011 accounts were restated due to the early adoption of IFRS 10 "Consolidated Financial Statements", IFRS 11 "Joint arrangements", IFRS 12 "Disclosure of Interests in Other Entities" and amendments to IFRS 10, IFRS 12 and IAS 27 on consolidation for investment entities, which exempt investment companies from the need to consolidate their investments. The Company took advantage of this exemption in order to give a clearer view of the fair value of the various investments held by the Company. Previously, the investments in Top Factoring Srl (and its sister company Glasro Holdings Ltd) and Mamaia Resort Hotels Srl had been consolidated.

RC2's audited NAV per share as at the end of 2012 compares to an unaudited published NAV per share of EUR 0.8784. The difference of EUR 0.4851 per share is the result of a lower fair value for RC2's private equity investments. The new annual independent third parties valuation exercise took place after the computation of the unaudited published year-end NAV.

RC2 did not make any new investments under its Private Equity Programme, but started the exit process for some of its private equity investments. Unfortunately, the depressed macro-economic climate in the region, as well as the extremely low level of interest in the region from strategic investors, meant that it was not possible to effect any exits from these positions during the year. However, RC2 exited certain positions held under its Trading Programme, thereby generating EUR 1.4m, helping its cashflow. The Company had to borrow EUR 3.0m from one of its shareholders in 2012 in order to support its operations. Consequently, it ended 2012 with EUR 1.3m of cash and borrowings of EUR 4.5m, as well as EUR 3.8m of accrued liabilities to its suppliers.

Private Equity Programme

During the year, RC2 continued to prepare its investee companies for sale and put both Top Factoring Srl and its sister company Glasro Holdings Ltd up for sale by means of an organised sales process. It also started an organised sales process for Klar, the automotive and industrial paints division of Policolor S.A, and made progress in the preparation of the Policolor's Bucharest site for sale. However, this sale is dependent on the sale of Klar, or the relocation of its production, as Klar is the only division of the Policolor group which still manufactures its products at the Bucharest site.

Trading Programme

During the year, RC2 exited a number of its equity positions held under the Trading Programme, thereby generating EUR 1.4m of cash proceeds. At year-end, its listed equities held under the Trading Programme had a total market value of EUR 0.5 million. All the Trading Programme was held in Romanian equities.

Outlook

A shareholder meeting held in December 2012 approved extending the life of the Company for a further two years until December 2014. During this time, RC2 will seek to exit its current investments and will not make any new investments except follow-on investments in existing investee companies.

During 2012, Romania, Serbia and Bulgaria, the three countries where RC2 has investments, suffered from their export growth losing steam due to economic weakness in the EU, their main export market. However, the three countries have been sheltered by relatively large foreign reserves and relatively low overall public debt. The low levels of capital inflows and especially of foreign direct investment in the context of a weak external environment should continue to limit the economic growth of the three countries in 2013, making it particularly challenging for RC2 to effect exits from its investments.

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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 2012**

	31-Dec-12	31-Dec-11
	EUR	As restated EUR
Investment loss		
Loss on investments at fair value through profit or loss	(49,389,415)	(11,876,866)
Interest income	329,387	134,545
Dividend income	1,282	35,354
Other income	197,958	238,924
Total investment loss	(48,860,788)	(11,468,043)
Expenses		
Impairment on loan receivables	(943,143)	-
Operating expenses	(2,764,984)	(3,021,485)
Total operating expenses	(3,708,127)	(3,021,485)
Operating loss	(52,568,915)	(14,489,528)
Financial expenses	(612,149)	(32,127)
Loss before taxation	(53,181,064)	(14,521,655)
Income tax expense	(71,733)	(70,883)
Loss for the year	(53,252,797)	(14,592,538)
Other comprehensive income		
Exchange differences on translating foreign operations	10,458	12,705
Total comprehensive loss for the year	(53,242,339)	(14,579,833)
Net loss for the year attributable to:		
- Equity holders of the parent	(53,392,784)	(14,770,148)
- Non-controlling interest	139,987	177,610
	(53,252,797)	(14,592,538)
Total comprehensive loss / income attributable to:		
- Equity holders of the parent	(53,392,000)	(14,769,193)
- Non-controlling interest	149,661	189,360
Total comprehensive loss for the year	(53,242,339)	(14,579,833)
	31-Dec-12	31-Dec-11
	EUR	As restated EUR
Earnings Per Share attributable to the equity shareholders of the Company		
Basic and diluted earnings per share	(0.5339)	(0.1477)

**CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT 31 DECEMBER 2012**

	31-Dec-12	31-Dec-11	1-Jan-11
	EUR	As restated EUR	As restated EUR
<u>Assets</u>			
Non-current assets			
Property, plant and equipment	13,458	7,862	2,515
Financial assets at fair value through profit or loss	42,041,100	91,289,361	99,539,127
Loans receivable	560,501	550,895	406,700
Total non-current assets	42,615,059	91,848,118	99,948,342
Current assets			
Financial assets at fair value through profit or loss	456,773	1,970,473	3,711,882
Trade and other receivables	277,777	187,512	4,133,322
Loans receivable	3,366,167	2,283,833	2,245,500
Cash and cash equivalents	1,318,380	296,040	680,487
Total current assets	5,419,097	4,737,858	10,771,191
Total assets	48,034,156	96,585,976	110,719,533
<u>Liabilities</u>			
Current liabilities			
Trade and other payables	3,754,477	1,678,372	624,718
Loans and borrowings	1,541,870	968,948	2,238,649
Corporation tax payable	44,651	52,967	9,923
Total current liabilities	5,340,998	2,700,287	2,873,290
Non-current liabilities			
Loans and borrowings	3,000,000	802,400	-
Total non-current liabilities	3,000,000	802,400	-
Total liabilities	8,340,998	3,502,687	2,873,290
Total net assets	39,693,158	93,083,289	107,846,243
	31-Dec-12	31-Dec-11	1-Jan-11
	EUR	As restated EUR	As restated EUR
<u>Capital and reserves attributable to equity holders</u>			
Share capital	1,000,000	1,000,000	1,000,000
Share premium reserve	121,900,310	121,900,310	121,900,310
Retained deficit	(83,541,201)	(30,148,417)	(15,378,269)
Foreign exchange reserve	(27,966)	(28,750)	(29,705)
Total equity and reserves	39,331,143	92,723,143	107,492,336
Non-Controlling Interests	362,015	360,146	353,907
Total equity	39,693,158	93,083,289	107,846,243

**CONSOLIDATED STATEMENT OF CHANGES IN EQUITY AS OF
31 DECEMBER 2012**

	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 2011 – as previously reported	1,000,000	121,900,310	(1,639,610)	(24,439,609)	96,821,091	3,498,370	100,319,461
Prior year adjustment – Note 2	-	-	1,609,905	9,061,340	10,671,245	(3,144,463)	7,526,782
Balance at 1 January 2011 – as restated	1,000,000	121,900,310	(29,705)	(15,378,269)	107,492,336	353,907	107,846,243
(Loss)/Profit for the year	-	-	-	(14,770,148)	(14,770,148)	177,610	(14,592,538)
Other comprehensive income	-	-	955	-	955	11,750	12,705
Total comprehensive (loss) / income for the year	-	-	955	(14,770,148)	(14,769,193)	189,360	(14,579,833)
Dividends paid to non-controlling interests	-	-	-	-	-	(183,121)	(183,121)
Balance at 31 December 2011 – as restated	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

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 2012**

	31-Dec-12	31-Dec-11
	EUR	EUR
		As restated
Cash flows from operating activities		
Net loss before tax	(53,181,064)	(14,521,655)
<i>Adjustments for:</i>		
Depreciation and amortisation	3,243	2,258
Loss on financial assets at FVTPL	49,389,415	11,876,866
Impairments on loans receivable	943,143	-
Interest income	(329,387)	(134,545)
Interest expense	430,520	32,127
Dividend income	(1,282)	(35,354)
Net cash outflow before changes in working capital	(2,745,412)	(2,780,303)
(Increase)/Decrease in trade and other receivables	(90,265)	2,918,542
Increase in trade and other payables	2,076,105	1,053,654
Purchase of financial assets	-	(2,839,032)
Sale of financial assets	1,365,234	2,005,319
Interest income received	12,118	62,703
Dividends received	1,282	35,354
Cash generated by operating activities	619,062	456,237
Income tax paid	(80,049)	(27,839)
Net Cash generated by operating activities	539,013	428,398
Cash flows from investing activities		
Purchase of property, plant and equipment	(8,631)	(7,530)
Payments of loans granted to subsidiaries	(2,268,000)	(2,356,186)
Proceeds from loans granted to subsidiaries	550,186	2,245,500
Net Cash flow used in investing activities	(1,726,445)	(118,216)
Cash flows from financing activities		
Dividends paid to non-controlling interests	(147,792)	(183,121)
Proceeds from loans granted by related parties	3,000,000	1,745,505
Repayments of loans granted by related parties	(400,000)	(2,238,649)
Interest paid on loans	(244,953)	(6,284)
Net Cash generated / (used) in financing activities	2,207,255	(682,549)
Increase / (decrease) in cash and cash equivalents	1,019,823	(372,367)
Cash and cash equivalents at beginning of the year	296,040	680,487
Foreign exchange gain / (loss)	2,517	(12,080)
Cash and cash equivalents at end of the year	1,318,380	296,040