14 June 2019

Reconstruction Capital II Limited (the "Company")
Annual Report and Audited Financial Statements
for the year ended 31 December 2018

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 2018.

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 2018 was €0.2238 per share (€0.2504 per share as at 31 December 2017), a 10.62% decrease over the year;
- The Directors do not recommend the payment of a dividend.

Operational highlights

Private Equity Programme

During the year, the Company acquired shares in two Romanian-focused investment companies, Reconstruction Capital Plc ("RC") and The Romanian Investment Fund Ltd (RIF) for consideration of €1.73m and €1.84m, respectively. RC's only investment is a 69.2% shareholding in RIF, whose main underlying asset is a 60% shareholding in Policolor S.A. ("Policolor"), in which the Company already owns the balance of 40%. The main objective of the acquisitions was to provide the Company with greater control over the exit process from Policolor.

At the end of December 2018, the investments held under the Private Equity Programme had a total fair value of €27.8m, which was slightly higher than the 2017 valuation of €27.7m.

The fall in the valuation of Policolor reflects a weakening of its operating performance. On a more positive note, the company managed to bring forward the completion of the sale of part of its land, generating proceeds of €6.2m in 2018 which, under the original sales contract, were due to be received in the summer of 2019. In August, Policolor started the construction of its new factory where it is due to relocate its Bucharest production in 2019, and in December it closed down operations at its existing Bucharest site, in order to prepare the remaining land for delivery to the buyers of the site in the summer of 2019, which should generate further proceeds of €4.2m. Over the year, the Policolor group's indebtedness fell from €15.5m to €13.1m, and the company also paid €0.97m of dividends to its shareholders. In April 2018 the Policolor Board appointed a new CEO with a view to improving the operating performance of the Group.

The Mamaia hotel continues to face increased competition from "Airbnb"-style lets, and new hotel developments, coupled with operating costs inflation, and this is reflected in its lower valuation. The hotel has undertaken an investment plan of €1m to upgrade its accommodation and facilities which is being funded by a bank loan.

The prospects for the consumer loans market were adversely impacted by new prudential regulations capping the indebtedness of individuals which were announced by the National Bank of Romania in the second half of 2018 and came into effect on 1 January 2019. This is reflected in Telecredit's revised valuation of €0.84m. A revised business model for Telecredit has been developed aimed at supplementing its consumer loan business with financial products targeting small and medium-sized businesses, such as factoring facilities and micro loans.

Trading Programme

RC2 (Cyprus) Limited sold its residual listed equities portfolio held under the Trading Programme in the first quarter of 2018, generating cash proceeds of €0.187m.

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ADVISER'S REPORT
For the year ended 31 December 2018

On 31 December 2018, Reconstruction Capital II Limited ("RC2" or the "Company") had a total audited net asset value ("NAV") of €31.405m, or €0.2238 per share. During the course of 2018, RC2 bought back for cancellation 4,613,641 of its own Ordinary shares, bringing the total number of Ordinary shares in issue at year end to 140,332,376. The NAV per share fell by 10.62% over the course of the year.

Private Equity Programme

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At the end of December 2018, the investments held under the Private Equity Programme had a total fair value of €27.8m, which was slightly higher than the 2017 valuation of €27.7m. The valuations of Policolor and Mamaia were performed by independent valuers, whilst the valuation of Telecredit IFN SA was based on its audited net asset value. The valuations of RC and 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.

	Valuations 2018 €	2017 €
Reconstruction Capital Plc	2,242,600	-
The Romanian Investment Fund Limited	2,147,229	-
Policolor S.A.	18,320,000	20,600,000
Mamaia Hotel Resorts SRL ("Mamaia")	4,228,219	4,404,658
Telecredit IFN S.A. ("Telecredit")	849,514	2,664,000
	27,787,562	27,668,658

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The prospects for the consumer loans market were adversely impacted by new prudential regulations capping the indebtedness of individuals which were announced by the National Bank of Romania in the second half of 2018 and came into effect on 1 January 2019. This is reflected in Telecredit's revised valuation of €0.84m. A revised business model for Telecredit has been developed aimed at supplementing its consumer loan business with financial products targeting small and medium-sized businesses, such as factoring facilities and micro loans.

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 €30.6m, reflect the valuations of the underlying private equity holdings outlined in the above table, plus cash balances of €2.7m, and €0.1m of sundry financial assets and liabilities of these intermediary holding companies.

Trading Programme

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Economic Overview

Both the Romanian and Bulgarian economies continued to report increases in GDP during 2018 of 4.1% (2017: +7.0%) and 3.1% (2017: +3.6%), respectively, and are expected to continue to grow during 2019. Romania's 2018 GDP growth, which was the highest in the EU for the second year running, continued to be mainly driven by increased private consumption. The IMF is forecasting a slowdown in GDP growth to 3.4% in 2019 due to the effect of inflation on disposable incomes.

Events after the Reporting Period

On 23 January 2019 the Company announced that it had purchased for cancellation 1,710,611 Ordinary shares for €0.16 each, and in a separate transaction a further 2,364,852 Ordinary shares for €0.16 each. After these cancellations the Company has 136,256,913 Ordinary shares in issue.

INVESTMENT POLICY

Change of 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 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 2018

	2018 EUR	2017 EUR
Investment income		
Fair value loss on financial assets at fair value through profit or loss	(7,436,971)	(10,981,533)
Recovery of previously written off receivable	9,000	189,000
Interest income	4,341,794	4,334,820
Dividend income	-	7,619,610
Other income	10	-
Net investment (loss)/gain	**(3,086,167)**	**1,161,897**
Expenses		
Operating expenses	(1,031,186)	(1,619,749)
Financial expenses	(886)	(188)
Total expenses	**(1,032,072)**	**(1,619,937)**
Loss for the year	**(4,118,239)**	**(458,040)**
Other comprehensive income	-	-
Total comprehensive income for the year attributable to owners	**(4,118,239)**	**(458,040)**
Loss Per Share		
Basic and diluted loss per share	(0.0285)	(0.0031)

STATEMENT OF FINANCIAL POSITION

As at 31 December 2018

	2018 EUR	2017 EUR
ASSETS		
Non-current assets		
Financial assets at fair value through profit or loss	30,614,632	30,143,162
Total non-current assets	**30,614,632**	**30,143,162**
Current assets		
Trade and other receivables	21,011	136,439
Cash and cash equivalents	1,480,305	6,439,763
Total current assets	**1,501,316**	**6,576,202**
TOTAL ASSETS	**32,115,948**	**36,719,364**
LIABILITIES		
Current liabilities		
Trade and other payables	710,726	430,510
Total current liabilities	**710,726**	**430,510**
TOTAL LIABILITIES	**710,726**	**430,510**
NET ASSETS	**31,405,222**	**36,288,854**
EQUITY AND RESERVES		
Share capital	1,403,324	1,449,460
Share premium	109,862,098	110,581,355
Accumulated deficit	(79,860,200)	(75,741,961)
TOTAL EQUITY	**31,405,222**	**36,288,854**
Net Asset Value per share		
Basic and diluted net asset value per share	0.2238	0.2504

STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2018

	Share capital EUR	Share premium EUR	Accumulated deficit EUR	Total EUR
Balance at 1 January 2017	1,476,223	127,991,989	(75,283,921)	**54,184,291**
Loss for the year	-	-	(458,040)	**(458,040)**
Other comprehensive income	-	-	-	**-**
Total comprehensive income for the year	**-**	**-**	**(458,040)**	**(458,040)**
Issue and redemption of B shares	-	(16,997,375)	-	**(16,997,375)**
Repurchase and cancellation of own shares	(26,763)	(413,259)	-	**(440,022)**
Transactions with owners	(26,763)	(17,410,634)	-	**(17,437,397)**
Balance at 31 December 2017	**1,449,460**	**110,581,355**	**(75,741,961)**	**36,288,854**
Loss for the year	-	-	(4,118,239)	**(4,118,239)**
Other comprehensive income	-	-	-	**-**
Total comprehensive income for the year	**-**	**-**	**(4,118,239)**	**(4,118,239)**
Repurchase and cancellation of own shares	(46,136)	(719,257)	-	**(765,393)**
Transactions with owners	(46,136)	(719,257)	-	**(765,393)**
Balance at 31 December 2018	**1,403,324**	**109,862,098**	**(79,860,200)**	**31,405,222**

CASH FLOW STATEMENT

For the year ended 31 December 2018

	2018 EUR	2017 EUR
Cash flows from operating activities		
Loss for the year	(4,118,239)	(458,040)
Adjustments for:		
Fair value loss on financial assets at fair value through profit or loss	7,436,971	10,981,533
Reversal of loan impairment	(9,000)	(189,000)
Interest income	(4,341,794)	(4,334,820)
Dividend income	-	(7,619,610)
Net loss on foreign exchange	886	188
Net cash outflow before changes in working capital	**(1,031,176)**	**(1,619,749)**
Decrease in trade and other receivables	115,427	7,352
(Decrease)/increase in trade and other payables	(180,513)	138,108
Purchase of financial assets	(3,433,045)	(370,000)
Disposals and repayments of financial assets	9,000	63,000
Dividends received	-	7,500,000
Net cash (used in)/ generated by operating activities	**(4,520,307)**	**5,718,711**
Cash flows from financing activities		
Payments to purchase own shares	(416,810)	(440,022)
Redemptions of B shares	(21,455)	(16,842,979)
Net cash flow used in financing activities	**(438,265)**	**(17,283,001)**
Net decrease in cash and cash equivalents before currency adjustment	**(4,958,572)**	**(11,564,290)**
Effects of exchange rate differences on cash and cash equivalents	(886)	(188)
Net decrease in cash and cash equivalents after currency adjustment	**(4,959,458)**	**(11,564,478)**
Cash and cash equivalents at the beginning of the year	6,439,763	18,004,241
Cash and cash equivalents at the end of the year	**1,480,305**	**6,439,763**