

10 June 2015

**Reconstruction Capital II Limited (the“Company”)**

**Annual Report and Audited Consolidated Financial Statements  
for the year ended 31 December 2014**

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 2014.

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 2014 was EUR 0.3775 per share (EUR 0.3287 per share as at 31 December 2013), a 14.8% increase over the year;
- 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. The investments held under the Private Equity Programme had a fair value of EUR 44m at the end of 2014, an increase of 16.1% year-on-year. This was primarily due to the increase in market value of the Albalact SA holding by 69% to EUR 9.7m.

**Trading Programme**

RC2 did not modify its positions in listed equities held under its Trading Programme in 2014. At the end of 2014, RC2’s listed equities held under the Trading Programme had a total market value of EUR 0.3m. All of the investments held under the Trading Programme were in Romanian equities.

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## **ADVISER'S REPORT**

On 31 December 2014, Reconstruction Capital II Limited ("RC2") had a total audited net asset value ("NAV") of EUR 37.7m or EUR 0.3775 per share, a 14.8% increase over the year, primarily due to an increase in the market value of its shareholding in Albalact SA which is listed on the Bucharest Stock Exchange.

RC2's audited undiluted NAV per share of EUR 0.3775 as at the end of 2014 compares to an unaudited published NAV per share of EUR 0.3771. The fully diluted NAV per share of EUR 0.2812 as at the end of 2014 compares to an unaudited published NAV per share of EUR 0.2810. The variance between the audited and published NAV's is a result of the consolidation of New Europe Capital Limited, which is not consolidated in the published NAV.

At the end of 2014, RC2 had cash and cash equivalents of EUR 0.7m. RC2's borrowings, after allocating EUR 0.62m of the proceeds from the convertible loan note to equity reserves in accordance with applicable accounting standards, amounted to EUR 8.0m, whilst suppliers' liabilities amounted to EUR 0.8m.

In 2014, RC2 issued a convertible loan note of EUR 8.45m, the proceeds of which enabled the Company to repay prior borrowings and overdue suppliers while providing working capital for its current operations.

### **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. The investments held under the Private Equity Programme had a fair value of EUR 44m at the end of 2014, an increase of 16.1% year-on-year. This was primarily due to the increase in market value of the Albalact SA holding by 69% to EUR 9.7m. All four investments in Romania (Policolor SA, Top Factoring SRL and its sister company Glasro Holdings Limited, Mamaia Resort Hotels SRL and Albalact SA) continue to generate positive EBITDA and in the case of Glasro and Albalact free cash flow in the form of dividends. Klas DOO, the Serbian bakery, reported an improved valuation of EUR 0.3m, in part a result of RC2's exchange of half of its shareholder loans for a 40.9% shareholding in the company taking its overall stake to 52%.

### **Trading Programme**

RC2 did not modify its positions in listed equities held under its Trading Programme in 2014. At the end of 2014, RC2's listed equities held under the Trading Programme had a total market value of EUR 0.3m. All of the investments held under the Trading Programme were in Romanian equities.

### **Outlook**

Both the Romanian and Bulgarian economies which reported increases in GDP during 2014 of 2.9% and 1.7% respectively are expected to grow during 2015. Increased private consumption and recovering investment are expected to be the main drivers for Romania's GDP growth in 2015, whereas the Bulgarian economy would benefit from higher international demand resulting in higher net exports. In contrast, Serbia's economy is expected to languish with GDP expected to contract a further 0.5% in 2015 as the government tries to correct macro-economic imbalances.

**Events after the reporting period**

Effective 1 January 2015, New Europe Capital DOO (the Serbia-based investment adviser) and New Europe Capital Limited (the UK-based investment manager) ceased to work for RC2. RC2 continued to be advised by its Romania-based Adviser, New Europe Capital SRL.

New Europe Capital SRL

## 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 New Europe Capital SRL (the “Adviser”) 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 Adviser believes there is a clear exit strategy available, such as trade sale, break up and subsequent disposal of different divisions or assets, or 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 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 Adviser is 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 Adviser seeks to identify specific actions that it believes 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. The Adviser believes 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 and the Adviser have sought 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 were 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% 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 2014**

	<b>31-Dec-14</b>	<b>31-Dec-13</b>
	<b>EUR</b>	<b>EUR</b>
<b>Investment income/(loss)</b>		
Gain/loss on investments at fair value through profit and loss	4,747,123	(4,139,530)
Interest income	104,949	449,689
Dividend income	1,527,111	1,786,545
Other income	140,883	111,693
<b>Total investment income/(loss)</b>	<b>6,520,066</b>	<b>(1,791,603)</b>
<b>Expenses</b>		
Impairment on loan receivables	-	(1,915,317)
Operating expenses	(1,405,276)	(1,724,249)
<b>Total operating expenses</b>	<b>(1,405,276)</b>	<b>(3,639,566)</b>
<b>Operating profit/(loss)</b>	<b>5,114,790</b>	<b>(5,431,169)</b>
Financial expenses	(889,739)	(994,901)
<b>Loss before taxation</b>	<b>4,225,051</b>	<b>(6,426,070)</b>
Income tax expense	(14,713)	(10,353)
<b>Profit/(loss) for the year</b>	<b>4,210,338</b>	<b>(6,436,423)</b>
<b>Other comprehensive income</b>		
<b>Amounts that maybe reclassified to profit or loss</b>		
Exchange differences on translating foreign operations	19,129	3,835
<b>Total comprehensive income/(loss) for the year</b>	<b>4,229,467</b>	<b>(6,432,588)</b>
<b>Net income/(loss) for the year attributable to:</b>		
- Equity holders of the parent	4,241,776	(6,459,070)
- Non-controlling interest	(31,438)	22,647
	<b>4,210,338</b>	<b>(6,436,423)</b>
<b>Total comprehensive income/(loss) attributable to:</b>		
- Equity holders of the parent	4,243,209	(6,458,782)
- Non-controlling interest	(13,742)	26,194
<b>Total comprehensive income/(loss) for the year</b>	<b>4,229,467</b>	<b>(6,432,588)</b>

**CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME  
FOR THE YEAR ENDED 31 DECEMBER 2014**

	<b>31-Dec-14</b>	<b>31-Dec-13</b>
	<b>EUR</b>	<b>EUR</b>
<b>Earnings Per Share attributable to the equity shareholders of the Company</b>		
Basic undiluted earnings per share	0.0424	(0.0646)
Fully diluted earnings per share	0.0261	(0.0646)

**CONSOLIDATED STATEMENT OF FINANCIAL POSITION  
AS AT 31 DECEMBER 2014**

<u>Assets</u>	<b>31-Dec-14</b>	<b>31-Dec-13</b>
	<b>EUR</b>	<b>EUR</b>
<b>Non-current assets</b>		
Property, plant and equipment	10,518	10,305
Financial assets at fair value through profit or loss	44,085,288	37,983,957
Loans receivable	1,409,796	-
<b>Total non-current assets</b>	<b>45,505,602</b>	<b>37,994,262</b>
<b>Current assets</b>		
Financial assets at fair value through profit or loss	342,696	369,656
Trade and other receivables	276,274	365,859
Loans receivable	-	3,215,156
Cash and cash equivalents	768,606	350,142
<b>Total current assets</b>	<b>1,387,576</b>	<b>4,300,813</b>
<b>Total assets</b>	<b>46,893,178</b>	<b>42,295,075</b>
<b>Liabilities</b>		
<b>Current liabilities</b>		
Trade and other payables	847,194	4,726,550
Loans and borrowings	44,190	4,306,163
Corporation tax payable	2,211	1,792
<b>Total current liabilities</b>	<b>893,595</b>	<b>9,034,505</b>
<b>Non-current liabilities</b>		
Convertible loan notes	7,976,965	-
<b>Total non-current liabilities</b>	<b>7,976,965</b>	<b>-</b>
<b>Total liabilities</b>	<b>8,870,560</b>	<b>9,034,505</b>
<b>Total net assets</b>	<b>38,022,618</b>	<b>33,260,570</b>



**CONSOLIDATED STATEMENT OF FINANCIAL POSITION**  
**AS AT 31 DECEMBER 2014***(Continued)*

	<b>31-Dec-14</b>	<b>31-Dec-13</b>
	<b>EUR</b>	<b>EUR</b>
<b><u>Capital and reserves attributable to equity holders</u></b>		
Share capital	1,000,000	1,000,000
Share premium reserve	121,900,310	
	0	121,900,310
Retained deficit	(85,758,495)	(90,000,271)
Equity component of convertible loan notes	629,445	-
Foreign exchange reserve	(26,245)	(27,678)
<b>Total equity and reserves</b>	<b>37,745,015</b>	<b>32,872,361</b>
Non-Controlling Interests	277,603	388,209
<b>Total equity</b>	<b>38,022,618</b>	<b>33,260,570</b>
	<b>31-Dec-14</b>	<b>31-Dec-13</b>
	<b>EUR</b>	<b>EUR</b>
<b>Net Asset Value per share</b>		
Basic undiluted net asset value per share	0.3775	0.3287
Fully diluted net asset value per share	0.2812	0.3287

**CONSOLIDATED CASH FLOW STATEMENT FOR THE YEAR ENDED  
31 DECEMBER 2014**

	<b>31-Dec-14</b>	<b>31-Dec-13</b>
	<b>EUR</b>	<b>EUR</b>
<b>Cash flows from operating activities</b>		
Net profit/(loss) before tax	4,225,051	(6,426,070)
<i>Adjustments for:</i>		
Depreciation and amortisation	2,588	3,315
(Gain)/loss on financial assets at FVTPL	(4,747,123)	4,066,936
Impairments on loans receivable	-	1,915,318
Interest income	(104,949)	(449,689)
Interest expense	889,739	994,901
Dividend income	(1,527,111)	(1,786,545)
<b>Net cash outflow before changes in working capital</b>	<b>(1,261,805)</b>	<b>(2,745,412)</b>
(Increase)/decrease in trade and other receivables	68,870	(93,984)
(Decrease)/increase in trade and other payables	(3,990,128)	694,304
Sale of financial assets	-	40,498
Interest income received	387	-
Dividends received	1,526,708	1,792,446
<b>Cash (used)/generated by operating activities</b>	<b>(3,655,968)</b>	<b>751,429</b>
Income tax paid	(14,666)	(53,212)
<b>Net Cash(used)/generated by operating activities</b>	<b>(3,670,634)</b>	<b>698,217</b>
<b>Cash flows from investing activities</b>		
Purchase of property, plant and equipment	(2,059)	(500)
Proceeds of loans granted to unconsolidated subsidiaries	594,943	40,000
Payments of loans granted to unconsolidated subsidiaries	-	(756,000)
<b>Net cash flow generated/(used) in investing activities</b>	<b>592,884</b>	<b>(716,500)</b>
<b>Cash flows from financing activities</b>		
Payments of loans granted by related parties	(4,256,045)	(993,402)
Dividends paid to non-controlling interests	(96,864)	-

Proceeds from the issuance of convertible loan notes	8,449,999	-
Interest paid on loans	(622,255)	-
<b>Net cash generated/(used) in financing activities</b>	<b>3,474,835</b>	<b>(993,402)</b>
<b>Increase/(decrease) in cash and cash equivalents</b>	<b>397,085</b>	<b>(1,011,685)</b>
<b>Cash and cash equivalents at beginning of the year</b>	350,142	1,318,380
Foreign exchange gain/(loss)	21,379	43,447
<b>Cash and cash equivalents at end of the year</b>	<b>768,606</b>	<b>350,142</b>