

Reconstruction Capital II Limited (the “Company”)

**Annual Report and Audited Financial Statements
for the year ended 31 December 2016**

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 2016.

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 2016 was EUR0.3670 per share (EUR0.3736 per share as at 31 December 2015), a 1.75% decrease over the year;
- The Directors do not recommend the payment of a dividend.

Operational highlights

Private Equity Programme

In 2016, RC2 Cyprus Limited, a wholly owned subsidiary of RC2, sold its investment in Albalact S.A., generating cash proceeds of EUR19.5m. The transaction was concluded on 20 September 2016 and generated a profit of EUR14.9m on the total cost of this investment. RC2 Cyprus Limited's holding in Albalact S.A. was valued at EUR12.3m at the end of 2015.

The investments held under the Private Equity Programme had a total fair value of EUR36.0m at the end of 2016, which was significantly less than the 2015 valuation of EUR44.4m, primarily due to the sale of the holding in Albalact S.A. RC2 received EUR2m of dividends in 2016 from its investment in Glasro Holdings Limited. RC2 did not make any new investments under its Private Equity Programme during 2016.

Trading Programme

RC2 Cyprus Limited sold down its residual listed equities portfolio held under the Trading Programme during the year, generating cash proceeds of EUR0.1m. At the end of the year, the portfolio was worth EUR0.1m compared to EUR0.2m at the end of the prior year. All the investments held under the Trading Programme were in Romanian equities.

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ADVISER'S REPORT
For the year ended 31 December 2016

On 31 December 2016, Reconstruction Capital II Limited ("RC2") had a total audited net asset value ("NAV") of EUR54.2m or EUR0.3670 per share, a 1.75% decrease over the year on an undiluted basis and a 28.92% year-on-year increase on a fully diluted basis.

In 2016, EUR9.0m of convertible loan notes were converted into ordinary shares at the rate of 7.41 shares for every EUR1 of convertible loan notes, resulting in 62.6m new shares being issued. Having acquired 15.0m of its own shares during the course of 2016, at year end RC2 had 147.6m shares in issue, compared to 100m shares at the end of the prior year.

Private Equity Programme

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The investments held under the Private Equity Programme had a total fair value of EUR36.0m at the end of 2016, which was significantly less than the 2015 valuation of EUR44.4m, primarily due to the sale of the holding in Albalact S.A. Following the annual independent valuation of its remaining private equity investments at 31 December 2016, RC2 Cyprus Limited recorded a gain on revaluation of EUR3.9m (2015: loss of EUR6.2m), as illustrated by the table below:

	Valuations	
	2016	2015
	EUR	EUR
Policolor S.A.	20,640,000	19,920,000
Top Factoring Group	11,284,423	9,026,716
Mamaia Resort Hotels SRL	4,049,921	3,194,735
	<u>36,004,344</u>	<u>32,141,451</u>

RC2 received EUR2m of dividends in 2016 from its investment in Glasro Holdings Limited. RC2 did not make any new investments under its Private Equity Programme during 2016.

Trading Programme

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Economic Overview

Both the Romanian and Bulgarian economies reported increases in GDP during 2016 of 4.8% and 3.4% respectively, and are expected to continue to grow during 2017. Increased private consumption is expected to be the main driver for Romania's GDP growth in 2017 (forecast at 4.4% by the European Commission), whilst Bulgaria is expected to benefit from the positive effect of investments, as a number of big infrastructure projects are to be launched in 2017 (with GDP growth in 2017 forecast at 2.9% in the latest European Commission report).

Events after the Reporting Period

On 23 February 2017, RC2 held an Extraordinary General Meeting to increase its authorised share capital by 17,000,000 non-voting, transferrable B shares of EUR1 nominal value, redeemable at the option of RC2. On 24 February 2017, 16,997,375 B shares were issued as a bonus to existing ordinary shareholders, being one B share for each 8.685 ordinary shares in issue, and all such B shares were redeemed during March and April 2017, with RC2 thereby returning EUR17m to its shareholders, being the bulk of the Albalact S.A. disposal proceeds.

On 19 April 2017, RC2 Cyprus Limited completed the disposal of its 93% interest in Top Factoring SRL, and Glasro Holdings Limited disposed of the whole of its non-performing loan book for a total cash consideration of approximately EUR13.1m.

A condition of the disposal was the acquisition by Glasro Holdings Limited of a 74.5% interest in Telecredit IFN SA ("Telecredit"), a Romanian non-banking financial institution that provides consumer loans, which is majority-owned by Cătălin Neagu, the founder and CEO of Top Factoring SRL. The cash consideration for the acquisition was EUR2.67m, and Glasro Holdings Limited also committed to making a EUR0.15m capital increase in Telecredit, bringing its total shareholding to 80%.

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 entity 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 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 investee. 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 Directors do not normally authorise any investment in a single investee that is greater than 20% 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 that is greater than 25% 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.

STATEMENT OF COMPREHENSIVE INCOME
For the year ended 31 December 2016

	2016	2015
	EUR	EUR
Revenue		
Fair value gain/(loss) on financial assets at fair value through profit or loss	4,699,325	(6,210,170)
Gain on disposal of investments	-	170,498
Interest income	5,854,313	5,954,844
Dividend income	2,000,000	1,700,000
Other income	11,347	29,232
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Total revenue	12,564,985	1,644,404
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Expenses		
Operating expenses	(1,230,810)	(1,035,750)
Financial expenses	(775,195)	(977,821)
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Total expenses	(2,006,005)	(2,013,571)
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Profit/(loss) from continuing operations	10,558,980	(369,167)
Loss for the year from discontinued operations	-	(69,349)
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Profit/(loss) for the year	10,558,980	(438,516)
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Other comprehensive income		
Reclassification of foreign exchange differences to profit or loss	-	26,245
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Total comprehensive income/(loss) for the year	10,558,980	(412,271)
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Profit/(loss) for the year attributable to:		
- Owners of the Company	10,558,980	(372,605)
- Non-controlling interest	-	(39,666)
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	10,558,980	(412,271)
	<hr/>	<hr/>
Total comprehensive income/(loss) attributable to:		
- Owners of the Company	10,558,980	(372,605)
- from continuing operations	10,558,980	(369,167)
- from discontinued operations	-	(3,438)
- Non-controlling interest	-	(39,666)
- from continuing operations	-	-
- from discontinued operations	-	(39,666)
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	10,558,980	(412,271)
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STATEMENT OF COMPREHENSIVE INCOME (continued)
For the year ended 31 December 2016

	2016	2015
	EUR	EUR
Total comprehensive income/(loss) from:		
- Continuing operations	10,558,980	(369,167)
- Discontinued operations	-	(69,349)
	<u>10,558,980</u>	<u>(438,516)</u>
 Total Earnings Per Share attributable to the owners of the Company		
Basic undiluted earnings per share	0.0971	(0.0037)
Fully diluted earnings per share	0.0971	0.0036
 Continuing operations Earnings Per Share attributable to the owners of the Company		
Basic undiluted earnings per share	0.0971	(0.0037)
Fully diluted earnings per share	0.0971	0.0036
 Discontinued operations Earnings Per Share attributable to the owners of the Company		
Basic undiluted earnings per share	-	(0.00003)
Fully diluted earnings per share	-	(0.00002)

STATEMENT OF FINANCIAL POSITION
As at 31 December 2016

	2016	2015
	EUR	EUR
ASSETS		
Non-current assets		
Financial assets at fair value through profit or loss	36,300,265	4,995,164
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Total non-current assets	36,300,265	4,995,164
	<hr/>	<hr/>
Current assets		
Financial assets at fair value through profit or loss	-	41,158,753
Trade and other receivables	17,791	37,462
Cash and cash equivalents	18,004,241	269,719
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Total current assets	18,022,032	41,465,934
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TOTAL ASSETS	54,322,297	46,461,098
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LIABILITIES		
Current liabilities		
Trade and other payables	138,006	123,061
Loans and borrowings	-	46,490
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Total current liabilities	138,006	169,551
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Non-current liabilities		
Convertible loan notes	-	8,934,201
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TOTAL LIABILITIES	138,006	9,103,752
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NET ASSETS	54,184,291	37,357,346
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STATEMENT OF FINANCIAL POSITION (continued)
As at 31 December 2016

	2016	2015
	EUR	EUR
EQUITY ATTRIBUTABLE TO OWNERS		
Share capital	1,476,223	1,000,000
Share premium	127,991,989	121,570,802
Retained deficit	(75,283,921)	(85,842,901)
Equity component of convertible loan notes	-	629,445
	54,184,291	37,357,346
TOTAL EQUITY	54,184,291	37,357,346
	2016	2015
	EUR	EUR
Net Asset Value per share		
Basic undiluted net asset value per share	0.3670	0.3736
Fully diluted net asset value per share	0.3670	0.2847

CASH FLOW STATEMENT
For the year ended 31 December 2016

	2016	2015
	EUR	EUR
Cash flows from operating activities		
Profit/(loss) before taxation	10,558,980	(412,271)
<i>Adjustments for:</i>		
Fair value (gain)/loss on financial assets at fair value through profit or loss	(4,699,325)	6,210,170
Gain on disposal of investments	-	(170,498)
Loss for the year from discontinued operations	-	16,859
Interest income	(5,854,313)	(5,954,844)
Financial expenses	775,152	977,294
Dividend income	(2,000,000)	(1,700,000)
Net loss on foreign exchange	43	527
Net cash outflow before changes in working capital	(1,219,463)	(1,032,763)
Decrease in trade and other receivables	19,671	2,043
Increase/(decrease) in trade and other payables	14,945	(391,797)
Purchase of financial assets	(2,710)	(535,000)
Disposals and repayments of financial assets	20,410,000	778,968
Dividends received	2,000,000	1,700,000
Net cash flows from continuing activities	21,222,443	521,451
Net cash flows from discontinued activities	-	20,296
Net cash generated by operating activities	21,222,443	541,747
Cash flows from financing activities		
Payments to purchase own shares	(3,439,849)	-
Loans received from subsidiaries	200,000	-
Repayment of loans from subsidiaries	(240,000)	-
Interest paid	(8,029)	(237,274)
Net cash flow generated from financing activities	(3,487,878)	(237,274)
Net increase in cash and cash equivalents before currency adjustment	17,734,565	304,473
Effects of exchange rate differences on cash and cash equivalents	(43)	(36,958)
Net increase in cash and cash equivalents after currency adjustment	17,734,522	267,515
Cash and cash equivalents at the beginning of the year	269,719	124,343
Cash and cash equivalents included in discontinued operations	-	(122,139)
Cash and cash equivalents at the end of the year	18,004,241	269,719

