

20 June 2018

Reconstruction Capital II Limited (the “Company”)
Annual Report and Audited Financial Statements
for the year ended 31 December 2017

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 2017.

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 2017 was EUR0.2504 per share (EUR0.3670 per share as at 31 December 2016), a 31.77% decrease over the year;
- The decrease is mainly the result of RC2 returning EUR17.4m to its shareholders;
- The Directors do not recommend the payment of a dividend.

Operational highlights

Private Equity Programme

In March, RC2 disposed of its stake in Top Factoring SRL and the related portfolio of non-performing loans held by RC2's wholly owned subsidiary, Glasro Holdings Ltd (together, the "Top Factoring Group"). The sale was completed in April. The total consideration received amounted to EUR12.8m, net of various closing adjustments. Glasro Holdings Limited distributed EUR7.5m of its exit proceeds to RC2 in the form of dividends and used EUR2.85m to make an investment in Telecredit IFN S.A., a Romanian non-banking financial institution that provides consumer loans to individuals. Glasro owns 80% of Telecredit, with the balance of 20% being owned by RC2's former partner in Top Factoring SRL and his family.

At the end of December, the investments held under the Private Equity Programme had a total fair value of EUR27.7m, which was significantly less than the 2016 valuation of EUR36.0m, primarily related to the Top Factoring Group's disposal.

Trading Programme

RC2 (Cyprus) Limited continued to sell down its residual listed equities portfolio held under the Trading Programme, generating cash proceeds of EUR0.08m over the year. At the end of 2017, the residual Trading Programme portfolio was worth EUR0.09m compared to EUR0.15m 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 2017

During 2017, Reconstruction Capital II Limited ("RC2") issued 16,997,375 B shares at a nominal value of EUR1 per share as a bonus to existing ordinary shareholders, redeemable at the option of RC2, and subsequently redeemed all of those shares, thereby returning EUR17.0m to its shareholders using the bulk of the Albalact S.A. disposal proceeds which had been generated over the prior year. In addition, RC2 bought back 2.6m of its own shares for cancellation in 2017, at a further cost of EUR 0.4m. In total, EUR17.4m was returned to RC2's shareholders and explains the bulk of the EUR17.9m fall in the overall NAV of RC2 over the year. Mainly due to the issuance and subsequent cancellation of the new class B Class shares, the NAV per ordinary share fell from EUR0.3670 to EUR0.2504 over the year.

In March, RC2 disposed of its stake in Top Factoring SRL and the related portfolio of non-performing loans held by RC2's wholly owned subsidiary, Glasro Holdings Ltd (together, the "Top Factoring Group"). The sale was completed in April. The total consideration received amounted to EUR12.8m, net of various closing adjustments. Glasro Holdings Limited distributed EUR7.5m of its exit proceeds to RC2 in the form of dividends and used EUR2.85m to make an investment in Telecredit IFN S.A., a Romanian non-banking financial institution that provides consumer loans to individuals. Glasro owns 80% of Telecredit, with the balance of 20% being owned by RC2's former partner in Top Factoring SRL and his family.

The disposal boosted RC2's cash reserves which had fallen to EUR1.1m after the redemption of the B shares. By the end of 2017, RC2 had cash and cash equivalents of approximately EUR6.4m whilst liabilities amounted to EUR0.4m, of which EUR0.15m represents outstanding B share redemptions and EUR0.28m represents sundry other liabilities.

Private Equity Programme

At the end of December, the investments held under the Private Equity Programme had a total fair value of EUR27.7m, which was significantly less than the 2016 valuation of EUR36.0m, primarily related to the Top Factoring Group's disposal. The results of the annual independent valuation process of its remaining private equity investments are presented in the table below:

	Valuations	
	2017	2016
	EUR	EUR
Policolor S.A.	20,600,000	20,640,000
Top Factoring Group	-	11,284,423
Telecredit IFN S.A.	2,664,000	-
Mamaia Hotel Resorts SRL	4,404,658	4,079,921
	<u>27,668,658</u>	<u>36,004,344</u>

The 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. Consequently, the financial assets at fair value through profit or loss shown in the present financial statements, which amount to EUR30.1m, reflect the valuations of the underlying private equity holdings outlined in the above table, as well as the cash balances of EUR1.3m and EUR0.1m of sundry financial assets and liabilities of these intermediary holding companies, including shares held under the Trading Programme as summarised below.

Trading Programme

RC2 (Cyprus) Limited continued to sell down its residual listed equities portfolio held under the Trading Programme, generating cash proceeds of EUR0.08m over the year. At the end of 2017, the residual Trading Programme portfolio was worth EUR0.09m compared to EUR0.15m at the end of the prior year. All the investments held under the Trading Programme were in Romanian equities.

Economic Overview

Romania's GDP increased by 7% year-on-year in 2017, mainly triggered by higher private consumption. According to its latest forecast published in February, the EU Commission expects Romania's GDP growth to slow down to 4.5% in 2018, as rising inflation erodes disposable income, tempering domestic demand. Bulgaria's GDP is estimated to have grown by 3.6% in 2017, whilst the EU Commission forecasts it will grow by 3.7% in 2018, also based on strong domestic demand.

Events after the Reporting Period

At a general shareholder meeting on 21 February 2018, the investment objective of RC2 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 investments in companies operating in sectors other than real estate would be limited to 25% of RC2's total assets at the time of effecting the investment. However, RC2 may continue to make follow-on investments in existing portfolio companies without any such limitation. The same shareholder meeting decided that the next continuation vote will be held in 2023 and that RC2 can acquire 22% of the issued share capital of Reconstruction Capital Plc for EUR1.6m and 10% of the issued share capital of the Romanian Investment Fund Limited for EUR1.7m, two Romanian-focused investment funds whose main underlying asset is a 60% shareholding in Policolor S.A. in which RC2 already owns the balance of 40%. The main objective of the acquisition, which will give RC2 a further 15.36% indirect shareholding in Policolor S.A., is to provide RC2 with greater control over the exit process from this asset. Only a part of the above-mentioned acquisition has been settled to date, amounting to EUR1.2m, with the rest being delayed by technical settlement issues which are in the course of being resolved with the vendors.

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

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. The same shareholder meeting decided that the next continuation vote will be held in 2023 and that the Company can acquire 22% of the issued share capital of Reconstruction Capital Plc for EUR1.6m and 10% of the issued share capital of the Romanian Investment Fund Limited for EUR1.7m.

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 2017

	2017	2016
	EUR	EUR
Investment income		
Fair value (loss)/gain on financial assets at fair value through profit or loss	(10,981,533)	4,699,325
Recovery of previously written off receivable	189,000	-
Interest income	4,334,820	5,854,313
Dividend income	7,619,610	2,000,000
Other income	-	11,347
	<hr/>	<hr/>
Net investment income	1,161,897	12,564,985
	<hr/>	<hr/>
Expenses		
Operating expenses	(1,619,749)	(1,230,810)
Financial expenses	(188)	(775,195)
	<hr/>	<hr/>
Total expenses	(1,619,937)	(2,006,005)
	<hr/>	<hr/>
(Loss)/profit for the year	(458,040)	10,558,980
	<hr/>	<hr/>
Other comprehensive income	-	-
	<hr/>	<hr/>
Total comprehensive (loss)/income for the year attributable to owners	(458,040)	10,558,980
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Earnings Per Share		
Basic and diluted earnings per share	(0.0031)	0.0971

STATEMENT OF FINANCIAL POSITION

As at 31 December 2017

	2017 EUR	2016 EUR
ASSETS		
Non-current assets		
Financial assets at fair value through profit or loss	30,143,162	36,300,265
Total non-current assets	30,143,162	36,300,265
Current assets		
Trade and other receivables	136,439	17,791
Cash and cash equivalents	6,439,763	18,004,241
Total current assets	6,576,202	18,022,032
TOTAL ASSETS	36,719,364	54,322,297
LIABILITIES		
Current liabilities		
Trade and other payables	430,510	138,006
Total current liabilities	430,510	138,006
TOTAL LIABILITIES	430,510	138,006
NET ASSETS	36,288,854	54,184,291
EQUITY AND RESERVES		
Share capital	1,449,460	1,476,223
Share premium	110,581,355	127,991,989
Retained deficit	(75,741,961)	(75,283,921)
TOTAL EQUITY	36,288,854	54,184,291
Net Asset Value per share		
Basic and diluted net asset value per share	0.2504	0.3670

CASH FLOW STATEMENT
For the year ended 31 December 2017

	2017	2016
	EUR	EUR
Cash flows from operating activities		
(Loss)/profit for the year	(458,040)	10,558,980
<i>Adjustments for:</i>		
Fair value loss/(gain) on financial assets at fair value through profit or loss	10,981,533	(4,699,325)
Reversal of loan impairment	(189,000)	-
Interest income	(4,334,820)	(5,854,313)
Financial expenses	-	775,152
Dividend income	(7,619,610)	(2,000,000)
Net loss on foreign exchange	188	43
Net cash outflow before changes in working capital	(1,619,749)	(1,219,463)
Decrease in trade and other receivables	7,352	19,671
Increase in trade and other payables	138,108	14,945
Purchase of financial assets	(370,000)	(2,710)
Disposals and repayments of financial assets	63,000	20,410,000
Dividends received	7,500,000	2,000,000
Net cash generated by operating activities	5,718,711	21,222,443
Cash flows from financing activities		
Payments to purchase own shares	(440,022)	(3,439,849)
Redemptions of B shares	(16,842,979)	-
Loans received from subsidiaries	-	200,000
Repayment of loans from subsidiaries	-	(240,000)
Interest paid	-	(8,029)
Net cash flow generated from financing activities	(17,283,001)	(3,487,878)
Net increase in cash and cash equivalents before currency adjustment	(11,564,290)	17,734,565
Effects of exchange rate differences on cash and cash equivalents	(188)	(43)
Net increase in cash and cash equivalents after currency adjustment	(11,564,478)	17,734,522
Cash and cash equivalents at the beginning of the year	18,004,241	269,719
Cash and cash equivalents at the end of the year	6,439,763	18,004,241

