30 November 2016

**Reconstruction Capital II Limited**

**Circular to Shareholders and Notice of Annual General Meeting**

Reconstruction Capital II Limited ("the Company") today announces that it has posted an explanatory circular (the “Circular”) to shareholders incorporating formal notice of an annual general meeting (the “Annual General Meeting”) which sets out the Board’s proposals for, and seeks the approval of Shareholders for, the continuation of the life of the Company for a further two years.

The Circular includes a notice of the Company’s Annual General Meeting which is to be held at 10.00am at the offices of Sanne Trust Company Limited at 13 Castle Street, St Helier, Jersey JE4 5UT on Thursday 22 December 2016.

The information contained below has been extracted from, and should be read in conjunction with, the Circular. Capitalised terms used but not defined in this announcement will have the same meaning as set out in the Circular. The Circular will also be posted on the Company’s website: <http://www.reconstructioncapital2.com/>

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# Continuation of the Life of the Company

**Introduction**

The purpose of this Circular is to set out your Board’s proposals for the continuation of the life of the Company.

The Company was incorporated in 2005 to invest in private and listed equity securities and fixed income securities primarily in Romania and Bulgaria. The Articles provided that, at the 2012 annual general meeting and at a general meeting of the Company in each second subsequent year, a resolution would be proposed for the Company to continue as presently constituted. Should the resolution not be passed, the Directors would be required to formulate proposals to be put to Shareholders to reorganise, unitise or reconstruct the Company or for the Company to be wound up. At the annual general meetings of both 2012 and 2014 a resolution was adopted for the Company to continue as presently constituted.

The Directors believe that the Company should continue for at least a further two years as the Company has already begun to realise its investments in portfolio companies, and consider that it would be in the best interests of shareholders that this process continues.

Accordingly, subject to Shareholder approval, it is proposed that the life of the Company be continued for a further two years (the “Proposal”).

# Background to and Reasons for the Proposal

The Company’s primary strategy since inception has been to invest in, and subsequently dispose of, significant or controlling stakes in companies in South East Europe where the Company’s Adviser believes it can add value to companies by implementing operational and/or financial restructuring over a three to five year horizon prior to achieving an exit.

Whilst most of the Company’s investments were made prior to 2009, the prolonged financial crisis which started that year resulted in a strong general change of sentiment towards South East Europe, delaying the divestment process. However, the majority of the Company’s investments are now concentrated in Romania, and after a number of difficult years during which the Romanian government implemented reforms to adapt to the new international financial and economic situation, the Romanian economy has shown signs of recovery, and is forecast to achieve GDP growth of 5.2% this year, which represents the strongest growth in the EU.

Against this background, the sentiment of strategic investors towards Romania has started to change, and in the first nine months of 2016 foreign direct investment (FDI) reached €3.1 billion compared to €2.5 billion in the same period in 2015. The Company, with the help of its Adviser, has already taken advantage of this improved climate, by exiting Albalact S.A., one of its main investments, for a total consideration of €19.5 million in September 2016. This represents a premium of just under 60% over the valuation of this investment in RC2’s books the month prior to the announcement of the agreement to sell this investment, and a premium of approximately 100% over the valuation of this investment the month prior to the 2014 shareholder vote on the continuation of the life of the Company.

Against this background, the Board believes that continuing realisations of investments over the coming two years is in the best interests of shareholders, in particular as, due to the highly illiquid nature of the Company’s investments and the possible complexity of exits, the Board believes that the Company’s investments cannot be liquidated or disposed of quickly without risking a significant destruction of value. The Board believes that some exits will require a trade sale, while others may require a reorganisation and break up and subsequent disposal of separate divisions or assets. Also the Company’s investments are at different stages of preparedness for realisation: (i) some investments are already in a good position to be sold by way of a trade sale and are currently being marketed to trade buyers; and (ii) other investments still require their operational and financial restructuring programmes to be completed by the Adviser before being offered for sale.

Therefore, in order for the Company to realise the best value from the Company’s investments, the Board anticipates that the overall exit process will last at least a further two years.

# Continuation of the Life of the Company

In order to allow for the orderly realisation of the Company's investments, the Directors propose that the Company continue for at least a further two years. If the realisation programme has not been completed by 2018, when the next continuation vote falls due, the Directors will review the then current position of the Company and appropriate proposals will be put to Shareholders at that time.

The Board aims to realise the portfolio in an efficient manner to ensure that a balance between value and speed is achieved. Due to the illiquid nature of private equity investments, it is very difficult to provide any certainty on the timeframe for realisations. However, the Board is aware that Shareholders expect some guidance on the expected timeframe for the return of capital. With this in mind, the Board, assisted by the Adviser, has undertaken an exercise to estimate a realisation timetable. Although Shareholders should place only limited reliance on this information, it is the Board's current estimate that the overall timeframe for realisation will be at least three years. As the portfolio realisation will be an on-going process, the Board intends to provide Shareholders with regular updates on the exit process in the Company's annual reports and through the quarterly reports prepared by the Adviser.

# Return of Proceeds to Shareholders

# Following the receipt of proceeds from the Company’s sale of its shareholding in Albalact S.A., the Board has been examining various options for the return of the majority of the proceeds to Shareholders. The Company will retain sufficient funds for working capital purposes, and, if needed, some funds to provide limited support to investee companies to help them grow prior to their realization. Proposals to return proceeds to Shareholders are expected to be made in the first quarter of 2017.

# Benefits of the Proposal

The Board believes that the Proposal offers the following significant potential benefits to Shareholders:

* continuing the life of the Company and continuing a managed realisation of assets, rather than winding up the Company and seeking immediate sale of the portfolio, should enable the Company to maximize the realization value of its remaining investments; and
* since the Company's Shares will remain traded on AIM throughout the realisation process, Shareholders and prospective investors will, subject to market conditions, continue to be able to buy and sell the Company's Shares if they choose to do so.

# Risk factors

Your attention is drawn to the information set out in Part II of this document.

# Annual General Meeting

Page 11 of the Circular contains a notice of the Annual General Meeting of the Company to be held at 10.00am on Thursday 22 December 2016 when the following resolution will be proposed:

1. That, in accordance with Article 138.2 of the Articles, the Company continues as presently constituted for a further two years until the annual general meeting to be convened in 2018.

In accordance with the Articles, the vote on Resolution 1 will be taken on a poll and will be deemed not to have been passed if the votes against the Resolution constitute a majority against the Resolution and represent at least 25 per cent. of the total number of votes capable of being cast on that Resolution.

# Action to be taken by Shareholders

Shareholders will find enclosed with this Circular a Form of Proxy to enable you to vote at the Annual General Meeting. Whether or not you intend to be present at the General Meeting, you are requested to complete and return the Form of Proxy in accordance with the instructions printed on it to the Company’s Registrars, Sanne Trust Company Limited, so as to arrive no later than 10.00am on 21 December 2016. Completion and return of the form of proxy will not affect your right to attend in person and vote at the Annual General Meeting should you so wish.

# Irrevocable Undertakings

The Company has received irrevocable undertakings from Shareholders who hold, in aggregate, 87,390,547 Shares at the date of this document, representing 59.20 per cent of the current issued ordinary share capital of the Company, that they will vote in favour of the Resolution.

# Recommendation

Your Board considers that the Proposal is in the best interest of the Company and its Shareholders as a whole and unanimously recommends Shareholders to vote in favour of the resolution to be proposed at the Annual General Meeting, as your Directors intend to do in respect of their own beneficial holdings which, in aggregate, amount to 5,886,151 Shares representing approximately 3.99 per cent of the issued share capital of the Company.