RECONSTRUCTION CAPITAL II LIMITED

ANNUAL REPORT AND AUDITED CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2015

RECONSTRUCTION CAPITAL II LIMITED
Annual Report and Audited Consolidated Financial Statements
For the year ended 31 December 2015

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DIRECTORS AND COMPANY INFORMATION

Domicile and country of incorporation of parent company
Cayman Islands

Legal form
Limited Liability Company

Company number
HL-156549

Directors
Howard I. Golden *(resigned on 15 February 2015)*
Mihai Rădoi
Dirk Van den Broeck
Markus Winkler

Secretary and Registered Office
Appleby Corporate Services (Cayman) Limited
Clifton House
PO Box 1350
75 Fort Street
Grand Cayman KY1-1108
Cayman Islands

Adviser
New Europe Capital SRL
21 Tudor Arghezi Str., Floor 6
020946 Bucharest
Romania

Nominated Adviser
Grant Thornton UK LLP
30 Finsbury Square
London, EC2P 2YU

Broker
Panmure Gordon (UK) Limited *(from 1 April 2016)*
One New Change
London, EC4M 9AF

Edmond de Rothschild Securities (UK) Limited *(until 31 March 2016)*
4 Carlton Gardens
London, SW1Y 5AA

DIRECTORS AND COMPANY INFORMATION (continued)

Administrator and Custodian
Sanne Fiduciary Services Limited
13 Castle Street
St Helier
Jersey
JE4 5UT

Independent Auditor
Grant Thornton Audit SRL
26, Armand Calinescu Street, 2nd Floor
021012, Bucharest
Romania

ADVISER'S REPORT
For the year ended 31 December 2015

On 31 December 2015, Reconstruction Capital II Limited ("RC2") had a total audited net asset value ("NAV") of EUR37.4m or EUR0.3736 per share on an undiluted basis, a 1.03% decrease over the year. The fully diluted NAV per share was EUR0.2847, an increase of 1.24% over the year.

At the end of 2015, RC2 had cash and cash equivalents of EUR1.1m. RC2's borrowings, after allocating EUR0.63m of the proceeds from the convertible loan note to equity reserves in accordance with applicable accounting standards, amounted to EUR8.98m, whilst suppliers' liabilities amounted to EUR0.1m.

Private Equity Programme

Apart from acquiring a 7.69% minority stake in Glasro Holding Limited for EUR0.54m in June 2015, 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 total fair value of EUR44.4m at the end of 2015, which was slightly more than the 2014 valuation of EUR44.1m. The increase of EUR2.6m in the market value of the Albalact SA holding to EUR12.3m and in the valuations of the Glasro Holdings Limited and Mamaia Hotels SRL investments by EUR1.1m and EUR0.4m, respectively, were offset by the EUR0.4m and EUR0.6m falls in the valuations of the investments in Top Factoring SRL and Policolor SA, respectively, and the full write-down of the EUR2.6m equity investment in Klas DOO. In addition to the write off of the equity investment in Klas DOO, a partial provision of EUR0.9m was made against the shareholder loan of EUR1.5m (including accrued interest).

Based on unaudited management accounts, all four investments in Romania (Policolor SA, Top Factoring SRL and its sister company Glasro Holdings Limited, Mamaia Resort Hotels SRL and Albalact SA) generated positive EBITDA in 2015, and in the case of Glasro and Albalact free cash flow in the form of dividends.

Trading Programme

RC2 reduced its positions held under the Trading Programme during the year. At the end of 2015, RC2's listed equities held under this programme had a total market value of EUR0.27m (2014: EUR0.34m). All of the investments held under the Trading Programme were in Romanian equities.

Outlook

Both the Romanian and Bulgarian economies reported increases in GDP during 2015 of 3.7% and 3.0%, respectively, and are expected to continue to grow during 2016. Increased private consumption and recovering investment are expected to be the main drivers for Romania's GDP growth in 2016, whilst Bulgaria is expected to benefit from net exports though private consumption will remain subdued. Serbian GDP is also expected to continue to grow in 2016, after having achieved modest 0.8% growth in 2015, with the main drivers being a relaxation in monetary policy and an increase in external demand.

ADVISER'S REPORT (continued)
For the year ended 31 December 2015

Events after the reporting period

On 28 January 2016 RC2 announced an agreement to sell its 25.4% holding in Albalact SA to Lactalis for estimated proceeds of EUR16.7m, to be finally determined based on its net debt immediately prior to the completion of the transaction. This represents a premium of approximately 36% over the carrying value of the investment at year-end. The closing of this transaction is subject to the fulfilment of a series of conditions precedent, including favourable clearance by the Romanian Competition Council which is expected by 1 June 2016.

New Europe Capital SRL

INVESTMENT POLICY

Private Equity Programme

Under the Private Equity Programme, the Group takes significant or controlling stakes in companies operating primarily in Romania, Serbia, Bulgaria and neighbouring countries (the "Target Region"). The Group 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 Group 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 Group 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 Group 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 Group to seek to implement operational and financial changes to enhance returns. As part of the Group's pre-acquisition due diligence, the Adviser seeks to identify specific actions that it believes will create value in the target investee Group 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 Group. 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 Group from investing in other closed-ended funds operating in the Target Region. In line with the Group's investment policy, the Directors do not normally authorise any investment in a single investee company that is greater than 20% of the Group's net asset value at the time of effecting the investment and in no circumstances will it approve an investment in a single investee Group that is greater than 25% of the Group's net asset value at the time of effecting the investment.

Change of Investment Objective and Policy of the Group

Following the annual general meeting of the Company on 14 December 2012, the investment objective and policy of the Group 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.

INVESTMENT POLICY (continued)

Gearing
The Group may borrow up to a maximum level of 30% of its gross assets (as defined in its articles).

Distribution Policy
The Group's investment objective is focused principally on the provision of capital growth. For further details of the Group's distribution policy, please refer to the Admission Document on the Group's website.

REPORT OF THE DIRECTORS
For the year ended 31 December 2015

The Directors present their annual report together with the audited consolidated financial statements of Reconstruction Capital II Limited (the "Company") and its subsidiaries (together, the "Group") for the year ended 31 December 2015.

Activities and Business Review
The Group's principal activity is holding and managing of investments in Romania and other countries in South-East Europe. A summary of the Group's business review for the year ended 31 December 2015 is contained within the Adviser's report.

Accounting Policies
The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") adopted for use in the European Union in accordance with Art. 3 of the IAS Regulation (EC) No. 1606/2002.

Share Capital
Details of the Company's authorised and issued share capital as at 31 December 2015 are contained in note 25 of the consolidated financial statements.

Results and Dividends
The investment income for the year amounted to EUR2,560,964 (2014: EUR6,520,066) and the total loss for the year amounted to EUR411,607 (2014: profit of EUR4,210,338).

The Directors do not recommend the payment of a dividend.

Events after the Reporting Period
Other than the matters disclosed in note 27, there have been no significant events after the reporting period that require disclosure in the consolidated financial statements.

Directors and their Interests
The Directors of the Company during the year and their interests in the ordinary shares and convertible loan notes of the Company were as follows at 31 December 2015:

	Ordinary Shares		Convertible Loan Notes	
	Number	% of issued share capital	Number	% of issued convertible loan notes
Mihai Rădoi	500,000	0.50%	-	0.00%
Dirk Van den Broeck	2,036,831	2.04%	202,000	2.39%
Markus Winkler	500,000	0.50%	110,000	1.30%

REPORT OF THE DIRECTORS (continued)
For the year ended 31 December 2015

Board
During the year the Board of Directors comprised three Directors, all of whom are Independent Non-Executive Directors. The Directors have a range of business, financial and asset management skills and experience relevant to the direction and control of the Company.

Since all the day to day management responsibilities are subcontracted to the Administrator, the Company does not have a Chief Executive Officer as the roles are already effectively separated.

The Adviser has ensured that the Directors have had timely access to all relevant management, financial and regulatory information to enable informed decisions to be made. The Board meets on a regular basis at least twice each year, and additional meetings are arranged as necessary.

Due to the size of the Board, and the fact that the Directors were independent of the Adviser and all Directors are independent of the Administrator, the Board has not set up separate audit and remuneration committees on the grounds that the Board as a whole considers these matters.

Audit Responsibilities
All audit committee responsibilities are performed by the Board, with specified terms of reference.

The principal terms of reference are to appoint auditors, to set their fees, to review the scope and results of the audit, to consider the independence of the auditors, to review the internal financial and non-financial controls, to approve the contents of the draft interim and annual reports to shareholders and to review the accounting policies. In addition, the Board reviews the quality of the services of all the service providers to the Group and reviews the Group's compliance with financial reporting and regulatory requirements.

The Group's internal financial controls and risk management systems have been reviewed by the Adviser. The audit programme and timetable are drawn-up and agreed with the Group's Auditor in advance of the financial year end. At this stage, matters for audit focus are discussed and agreed. The audit report is considered by the Board and discussed with the Auditor prior to approving and signing the consolidated financial statements.

Remuneration Responsibilities
The Board has resolved that a remuneration committee is not appropriate for the Group, as the Group has contracted the advisory and administration activities with third parties and it has no employees.

The contracting parties themselves are responsible for paying their employees. The Board's policy is that the Directors' remuneration should be fair and reasonable in relation to the time commitment and responsibilities of the Directors. The Directors are not eligible for bonuses, pension benefits, share options or other benefits. Details of the payments to Directors are given in note 5 of the financial statements.

Each of the Directors has entered into a service agreement with the Company and either party can terminate the Agreement by giving to the other at least three months' notice.

REPORT OF THE DIRECTORS (continued)
For the year ended 31 December 2015

Directors' liability insurance
The Company has in place a Directors' insurance policy to cover the relevant individuals against claims arising from their work on behalf of the Company. The Board intends to keep the level of cover provided under annual or more frequent review, as appropriate.

Relationship with Shareholders
Shareholder relations are given high priority by the Board. The prime medium by which the Company communicates with shareholders is through the interim and annual report and consolidated financial statements which aim to provide shareholders with a full understanding of the Company's activities and its results. This information is supplemented by a monthly calculation of the net asset value of the Company's ordinary shares, which is published via the Stock Exchange, and monthly and quarterly reports that are issued by the Adviser which are distributed by e-mail. Copies are also available from the Adviser's office upon request and on the Company's website where the shareholders are able to access all the news and published information about the Company.

Going Concern
Following the annual general meeting of the Company on 29 October 2014, the life of the Company was extended for two years until the end of 2016. A further extension will be discussed at the Annual General Meeting scheduled for October 2016.

The Group has made a loss during the year, which has increased the retained deficit of the Group to EUR86,172,409.

The Directors have reasonable expectations and are satisfied that the Group has adequate resources to continue its operations and meet its commitments for the foreseeable future and they continue to adopt the going concern basis of preparation of the consolidated financial statements.

Directors' Responsibilities
The Directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the Group, for safeguarding the assets of the Group, for taking reasonable steps for the prevention and detection of fraud and other irregularities and for the preparation of the annual report and consolidated financial statements.

The consolidated financial statements have been prepared in accordance with IFRS, as issued by the International Accounting Standards Board ("IASB") and adopted by the European Union, and the rules of the London Stock Exchange for companies trading securities on the AIM.

International Accounting Standard 1 requires that financial statements present fairly for each financial year the Group's financial position, financial performance and cash flows. This requires the faithful representation of the effects of transactions, other events and conditions in accordance with the definitions and recognition criteria for assets, liabilities, income and expenses set out in the IASB's "Framework for the preparation and presentation of financial statements". In virtually all circumstances, a fair presentation will be achieved by compliance with all applicable IFRS.

REPORT OF THE DIRECTORS (continued)
For the year ended 31 December 2015

Directors' responsibilities (continued)
A fair representation also requires the Directors to:

- consistently select and apply appropriate accounting policies;
- present information, including accounting policies, in a manner that provides relevant, reliable, comparable, and understandable information;
- provide additional disclosures when compliance with the specific requirements of IFRS is insufficient to enable users to understand the impact of particular transactions, other events and conditions on the Group's financial position and financial performance;
- state that the Group has complied with IFRS, subject to any material departures disclosed and explained in the financial statements.

The consolidated financial statements are published on the Company's website in accordance with legislation in the United Kingdom governing the preparation and dissemination of financial statements which may vary from legislation in other jurisdictions. The maintenance and integrity of the Company's website is the responsibility of the Directors. Directors' responsibilities also extend to the ongoing integrity of the consolidated financial statements.

Change of investment objective and policy of the Group
Following the annual general meeting of the Company on 14 December 2012, the investment objective and policy of the Company was 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.

Independent Auditor
The independent auditor, Grant Thornton Audit SRL, have expressed their willingness to continue in office and the Directors intend to propose a resolution at their next meeting to reappoint them.

On behalf of the Board

Dirk Van den Broeck
Chairman

28 April 2016

Grant Thornton

Grant Thornton Audit S.R.L

26, Armand Calinescu Str,
Sector 2, Bucharest
Romania

T + 40 21 320 23 28
F + 40 21 320 23 27
E office@ro.gt.com
W www.grant-thornton.ro

INDEPENDENT AUDITOR'S REPORT

To the Members of RECONSTRUCTION CAPITAL II LIMITED

Report on the consolidated financial statements

1 We have audited the accompanying consolidated financial statements of Reconstruction Capital II Limited (the 'Company') and its subsidiaries (together with the Company, the "Group") for the year ended 31 December 2015 which comprise the consolidated statement of financial position, the consolidated statement of comprehensive income, the consolidated statement of changes in equity, and the consolidated cash flow statement, a summary of significant accounting policies and other explanatory information. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRS) as adopted by the European Union.

Board of Directors' responsibility for the consolidated financial statements

2 Board of Directors is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards as adopted for use in the European Union, and for such internal control as the Board of Directors determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's responsibility

3 Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

4 An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by Board of Directors, as well as evaluating the overall presentation of the consolidated financial statements.

5. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

6 In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Group as at 31 December 2015, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted for use in the European Union.

Other matters

7 This report is made solely to the Company's members, as a body. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work, for this report, or for the opinion we have formed.

Grant Thornton

Grant Thornton Audit SRL
Bucharest, Romania
28 April 2016

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
For the year ended 31 December 2015

	Notes	2015 EUR	2014 EUR
Investment income			
(Loss)/gain on revaluation of investments at fair value through profit or loss		(148,934)	4,747,123
Gain on disposal of investments		176,627	-
Interest income		99,583	104,949
Dividend income	4	2,404,456	1,527,111
Other income		29,232	140,883
Total investment income		**2,560,964**	**6,520,066**
Expenses			
Impairment on loan receivables	14	(892,639)	-
Operating expenses	5	(1,058,837)	(1,405,276)
Total expenses		**(1,951,476)**	**(1,405,276)**
Operating profit		**609,488**	**5,114,790**
Financial expenses	6	(977,294)	(889,739)
(Loss)/profit before taxation		**(367,806)**	**4,225,051**
Income tax expense	7	(697)	(14,713)
(Loss)/profit for the year from continuing operations		**(368,503)**	**4,210,338**
Loss for the year from discontinued operations	2, 9	(43,104)	-
(Loss)/profit for the year		**(411,607)**	**4,210,338**
Other comprehensive income			
Amounts that may be reclassified to profit or loss			
Exchange differences on translating foreign operations		-	19,129
Total comprehensive (loss)/income for the year		**(411,607)**	**4,229,467**
(Loss)/profit for the year attributable to:			
- Equity holders of the parent		(371,941)	4,241,776
- Non-controlling interest		(39,666)	(31,438)
		(411,607)	**4,210,338**
Total comprehensive (loss)/income attributable to:			
- Equity holders of the parent		**(371,941)**	**4,243,209**
- from continuing operations		(368,503)	4,243,209
- from discontinued operations		(3,438)	-
- Non-controlling interest		**(39,666)**	**(13,742)**
- from continuing operations		-	(13,742)
- from discontinued operations		(39,666)	-
		(411,607)	**4,229,467**

The notes on pages 19 to 63 form an integral part of these financial statements.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME (continued)
For the year ended 31 December 2015

	Notes	2015 EUR	2014 EUR
Total comprehensive (loss)/income from:			
- Continuing operations		(368,503)	4,210,338
- Discontinued operations		(43,104)	-
		(411,607)	**4,210,338**
Total Earnings Per Share attributable to the equity shareholders of the Company	**26**		
Basic undiluted earnings per share		(0.0037)	0.0424
Fully diluted earnings per share		0.0036	0.0270
Continuing operations Earnings Per Share attributable to the equity shareholders of the Company			
Basic undiluted earnings per share		(0.0037)	0.0424
Fully diluted earnings per share		0.0036	0.0270
Discontinued operations Earnings Per Share attributable to the equity shareholders of the Company			
Basic undiluted earnings per share		(0.00003)	-
Fully diluted earnings per share		(0.00002)	-

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
As at 31 December 2015

	Notes	2015 EUR	2014 EUR
ASSETS			
Non-current assets			
Property, plant and equipment	**10**	-	10,518
Financial assets at fair value through profit or loss	**13**	44,455,046	44,085,288
Loans receivable	**14**	616,709	1,409,796
Total non-current assets		**45,071,755**	**45,505,602**
Current assets			
Financial assets at fair value through profit or loss	**13**	268,591	342,696
Trade and other receivables	**15**	37,462	276,274
Cash and cash equivalents		1,083,954	768,606
Total current assets		**1,390,007**	**1,387,576**
TOTAL ASSETS		**46,461,762**	**46,893,178**
LIABILITIES			
Current liabilities			
Trade and other payables	**16**	123,725	847,194
Loans and borrowings	**17**	46,490	44,190
Corporation tax payable		-	2,211
Total current liabilities		**170,215**	**893,595**
Non-current liabilities			
Convertible loan notes	**17**	8,934,201	7,976,965
Total non-current liabilities		**8,934,201**	**7,976,965**
TOTAL LIABILITIES		**9,104,416**	**8,870,560**
NET ASSETS		**37,357,346**	**38,022,618**

The notes on pages 19 to 63 form an integral part of these financial statements.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION (continued)
As at 31 December 2015

	Notes	2015 EUR	2014 EUR
CAPITAL AND RESERVES ATTRIBUTABLE TO EQUITY HOLDERS			
Share capital	**25**	1,000,000	1,000,000
Share premium		121,900,310	121,900,310
Retained deficit		(86,172,409)	(85,758,495)
Equity component of convertible loan notes		629,445	629,445
Foreign exchange reserve		-	(26,245)
		37,357,346	**37,745,015**
Non-controlling interests		-	277,603
TOTAL EQUITY		**37,357,346**	**38,022,618**

		2015 EUR	2014 EUR
Net Asset Value per share			
Basic undiluted net asset value per share	**19**	0.3736	0.3775
Fully diluted net asset value per share	**19**	0.2847	0.2812

The financial statements were approved by the Board of Directors and authorised for issue on 28 April 2016.

Dirk Van den Broeck
Chairman

Mihai Rădoi
Director

The notes on pages 19 to 63 form an integral part of these financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
For the year ended 31 December 2015

	Share capital EUR	Share premium EUR	Foreign exchange reserve EUR	Retained (deficit)/ earnings EUR	Equity component of loan notes EUR	**Subtotal EUR**	Non-controlling interest EUR	**Total EUR**
Balance at 1 January 2014	1,000,000	121,900,310	(27,678)	(90,000,271)	-	**32,872,361**	388,209	**33,260,570**
Profit/(loss) for the year	-	-	-	4,241,776	-	**4,241,776**	(31,438)	**4,210,338**
Other comprehensive income	-	-	1,433	-	-	**1,433**	17,696	**19,129**
Total comprehensive income/(loss) for the year	**-**	**-**	**1,433**	**4,241,776**	**-**	**4,243,209**	**(13,742)**	**4,229,467**
Issuance of convertible loan notes (equity portion)	-	-	-	-	629,445	**629,445**	-	**629,445**
Dividends paid to minorities	-	-	-	-	-	**-**	(96,864)	**(96,864)**
Contributions by the owners recognised directly in equity	-	-	-	-	629,445	**629,445**	(96,864)	**532,581**
Balance at 31 December 2014	**1,000,000**	**121,900,310**	**(26,245)**	**(85,758,495)**	**629,445**	**37,745,015**	**277,603**	**38,022,618**
Loss for the year	-	-	-	(371,941)	-	**(371,941)**	(39,666)	**(411,607)**
Other comprehensive income	-	-	-	-	-	**-**	-	**-**
Total comprehensive loss for the year	**-**	**-**	**-**	**(371,941)**	**-**	**(371,941)**	**(39,666)**	**(411,607)**
Discontinued operations - share of non-controlling interest	-	-	26,245	(41,973)	-	**(15,728)**	(237,937)	**(253,665)**
Transactions with owners	-	-	26,245	(41,973)	-	**(15,728)**	(237,937)	**(253,665)**
Balance at 31 December 2015	**1,000,000**	**121,900,310**	**-**	**(86,172,409)**	**629,445**	**37,357,346**	**-**	**37,357,346**

The notes on pages 19 to 63 form an integral part of these financial statements.

CONSOLIDATED CASH FLOW STATEMENT
For the year ended 31 December 2015

	Notes	2015 EUR	2014 EUR
Cash flows from operating activities			
(Loss)/profit before taxation		(411,607)	4,225,051
Adjustments for:			
Depreciation and amortisation	**10**	-	2,588
Loss/(gain) on revaluation of investments at fair value through profit or loss		148,934	(4,747,123)
Gain on disposal of investments		(176,627)	-
Loss for the year from discontinued operations		43,104	-
Impairment on loans receivable	**14**	892,639	-
Interest income		(99,583)	(104,949)
Financial expenses		977,294	889,739
Dividend income		(2,403,759)	(1,527,111)
Net loss on foreign exchange		5,200	-
Net cash outflow before changes in working capital		**(1,024,405)**	**(1,261,805)**
Increase in trade and other receivables		2,043	68,870
Decrease in trade and other payables		(391,140)	(3,990,128)
Purchase of financial assets		(535,000)	-
Sale of financial assets		267,040	-
Interest income received		45	387
Dividends received		2,403,759	1,526,708
Income tax paid	**7**	-	(14,666)
Net cash flows from continuing activities		722,342	(3,670,634)
Net cash flows from discontinued activities		20,296	-
Net cash used by operating activities		**742,638**	**(3,670,634)**
Cash flows from investing activities			
Purchase of property, plant and equipment	**10**	-	(2,059)
Proceeds from loans granted to unconsolidated subsidiaries		-	594,943
Net cash flow generated from investing activities		**-**	**592,884**
Cash flows from financing activities			
Payments of loans granted by related parties		-	(4,256,045)
Dividends paid to non-controlling interests		-	(96,864)
Proceeds from the issuance of convertible loan notes		-	8,449,999
Interest paid		(237,274)	(622,255)
Net cash flow generated from financing activities		**(237,274)**	**3,474,835**
Net increase in cash and cash equivalents before currency adjustment		**505,364**	**397,085**
Effects of exchange rate differences on cash and cash equivalents		(67,877)	21,379
Net increase in cash and cash equivalents after currency adjustment		**437,487**	**418,464**
Cash and cash equivalents at the beginning of the year		768,606	350,142
Cash and cash equivalents included in discontinued operations		(122,139)	-
Cash and cash equivalents at the end of the year		**1,083,954**	**768,606**

The notes on pages 19 to 63 form an integral part of these financial statements.

NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 December 2015

1. Establishment

Reconstruction Capital II Limited (the "Company") was incorporated on 17 October 2005 in the Cayman Islands as a tax exempt company created to invest in private and listed equity and fixed income securities, including convertible and other mezzanine instruments, primarily in Romania, Bulgaria and Serbia. The Company was listed on AIM on 23 December 2005 and started trading on 27 January 2006. These financial statements show the results of the Company and its subsidiaries for the year ended 31 December 2015.

The Company generates returns for its Shareholders through two primary routes: by achieving medium and long term capital appreciation through the investment in and subsequent disposal of significant or controlling stakes in companies, both listed and private, established and/or operating primarily in Romania, Serbia and Bulgaria (the Private Equity Programme), and by making portfolio investments in listed equities and fixed income securities, including convertible and other mezzanine instruments, issued primarily by Romanian, Serbian and Bulgarian entities (the Trading Programme).

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 was amended such that no new investments will be made. Further investments into existing portfolio companies are permitted in certain circumstances pending their realisation and, following each realisation, all proceeds will be returned to the Shareholders after paying outstanding liabilities and setting aside a sufficient amount for working capital purposes.

2. Principal accounting policies

2.1 Basis of preparation

The consolidated financial statements of the Group have been prepared in accordance with International Financial Reporting Standards ("IFRS"), adopted for use in the European Union in accordance with Art. 3 of the IAS Regulation (EC) No. 1606/2002. The consolidated financial statements have been prepared under the historical cost convention as modified by the revaluation of financial assets at fair value through profit or loss and under the going concern basis.

Following the annual general meeting of the Company on 29 October 2014, the life of the Company was extended for at least two years. A further extension will be discussed at the annual general meeting in 2016.

The Directors have reasonable expectations and are satisfied that the Group has adequate resources to continue its operations and meet its commitments for the foreseeable future and they continue to adopt the going concern basis for the preparation of the consolidated financial statements.

The preparation of financial statements in accordance with IFRS requires the use of certain critical accounting estimates. It also requires the Board of Directors to exercise its judgement in the process of applying the Group's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements, are disclosed in note 3.

NOTES TO THE FINANCIAL STATEMENTS (continued)
For the year ended 31 December 2015

2. Principal accounting policies (continued)
2.1 Basis of preparation (continued)

(i) New standards, amendments and interpretations adopted by the Group

- Amendments to IFRS 10, IFRS 12 and IAS 27 regarding investment entities - entities meeting the definition of an investment entity are no longer required to consolidate controlling interests in another entity, with the exception of some service entities. Non-investment entity parents of an investment entity will continue to consolidate.

- IFRIC 21 'Levies' considers how an entity should account for liabilities to pay levies imposed by governments (other than income taxes) in its financial statements. It results in some levies being recognised as expenses on a specific date rather than over a period of time and is required to be applied retrospectively.

- Amendments to IAS 36 clarify when the recoverable amount disclosures for non-financial assets apply.

- Amendments to IAS 32 clarify how the criteria for offsetting financial assets and financial liabilities should be applied.

- Amendments to IAS 39 allow hedge accounting to continue when derivatives are novated to a central counterparty as a result of laws or regulations, if specific conditions are met.

Mandatory amendments to IFRS that became effective in 2015 have no material impact on the Group's financial results or position. Accordingly, the Group has made no changes to its accounting policies in 2015.

(ii) New standards, amendments and interpretations not yet adopted

The standards and interpretations that are issued, but not effective, up to the date of issuance of the Group's consolidated financial statements are disclosed below. The Group intends to adopt these standards, if applicable, when they become effective.

- IFRS 9, 'Financial Instruments', addresses the classification, measurement and recognition of financial assets and financial liabilities. The complete version of IFRS 9 was issued in July 2014. It replaces the guidance in IAS 39 that related to the classification and measurement of financial instruments and introduces a new "expected credit loss" model for the impairment of financial assets. IFRS 9 also provides new guidance on the application of hedge accounting. It will no longer be possible to measure equity investments at cost less impairment, and all such investments will be measured at fair value instead, with the irrevocable option at inception to present changes in fair value in other comprehensive income and not subsequently recycling them through profit or loss. There were no changes to classification and measurement of financial liabilities, except for the recognition of changes in own credit risk in other comprehensive income, for liabilities designated at fair value through profit or loss. The standard is effective for accounting periods beginning on or after 1 January 2018. The Group has yet to assess IFRS 9's full impact.

NOTES TO THE FINANCIAL STATEMENTS (continued)
For the year ended 31 December 2015

2. Principal accounting policies (continued)
2.1 Basis of preparation (continued)

(ii) New standards, amendments and interpretations not yet adopted (continued)

- IFRS 15 'Revenue from Contracts with Customers' presents new requirements for revenue recognition, replacing IAS 18 'Revenue', IAS 11 'Construction Contracts' and several revenue-related Interpretations. The new standard establishes a control-based revenue recognition model and provides additional guidance in many areas not covered in detail under existing IFRSs, including how to account for arrangements with multiple performance obligations, variable pricing, customer refund rights, supplier repurchase options, and other common complexities. The standard is effective for accounting periods beginning on or after 1 January 2018. The Group is currently assessing the impact of IFRS 15 and plans to adopt the new standard on the required effective date.

- Amendments to IFRS 11, 'Joint Arrangements' provide guidance on the accounting for acquisitions of interests in joint operations constituting a business. The amendments require all such transactions to be accounted for using the principles on business combinations accounting in IFRS 3 'Business Combinations' and other IFRSs except where those principles conflict with IFRS 11. Acquisitions of interests in joint ventures are not impacted by this new guidance. The amendments are effective for reporting periods beginning on or after 1 January 2016. These amendments are not expected to have any impact on the Group.

Annual improvements 2012-2014 are effective for annual periods beginning on or after 1 January 2016 and are not expected to have a material impact on the Group. They include:

- IFRS 5 'Discontinued Operations' - provides guidance on classification and measurement of non-current assets held for sale or distribution to owners. Special rules apply to "changes to a plan of sale" where the classification criteria are no longer met.

- IFRS 7 'Financial Instruments: Disclosures' - requires specific disclosures in connection with financial assets that are either not de-recognised in their entirety, or de-recognised in their entirety, but the entity retains some form of continuing involvement, and provides guidance on the meaning of "continuing involvement" for this purpose.

- IAS 19 'Employee Benefits' - clarifies that the assessment of the depth of the corporate bond market is to be made at currency level rather than country level.

- IAS 34 'Interim Financial Reporting' - was amended to clarify that certain disclosures must appear either in the financial statements or incorporated by cross-reference from the interim financial statements to the "other part" of the interim financial report, which must be available to users on the same terms as the interim financial statements.

NOTES TO THE FINANCIAL STATEMENTS (continued)
For the year ended 31 December 2015

2. Principal accounting policies (continued)

2.2 Revenue recognition

Revenue is wholly attributable to the principal activities of the Group. The Group's principal activities are the holding and managing of investments.

Revenue is recognised when it is probable that the economic benefits associated with the transaction will flow to the enterprise and the amount of the revenue can be measured reliably.

Interest income is recognised on a time-proportionate basis using the effective interest method and includes interest income from debt securities. Dividend income from listed and unlisted securities is recognised when the right to receive payment is established. Other income mainly comprises interest received from credit institutions, investment management and administration fees.

2.3 Basis of consolidation

2.3 a) Subsidiaries

Subsidiaries which provide services relating to investment activities are entities (including special purpose entities) controlled by the Company. The Company controls a subsidiary if it is exposed, or has rights, to variable returns from its involvement with the subsidiary and has the ability to affect those returns through its power over the subsidiary. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Company controls another entity. The Company also assesses existence of control where it does not have more than 50% of the voting power but is able to govern the financial and operating policies by virtue of de-facto control. De-facto control may arise in circumstances where the size of the Company's voting rights relative to the size and dispersion of holdings of other shareholders result in the Company being exposed, or having rights, to variable returns from its involvement with the subsidiary and having the ability to affect those returns through its power over the subsidiary.

Subsidiaries are fully consolidated from the date on which control is transferred to the Company. They are deconsolidated from the date that control ceases.

The Company applies the acquisition method to account for business combinations. The consideration transferred for the acquisition of a subsidiary is the fair values of the assets transferred, the liabilities incurred to the former owners of the acquiree and the equity interests issued by the Company. The consideration transferred includes the fair value of any asset or liability resulting from a contingent consideration arrangement. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. The Company recognises any non-controlling interest in the acquiree on an acquisition-by-acquisition basis, either at fair value or at the non-controlling interest's proportionate share of the recognised amounts of the acquiree's identifiable net assets. The non-controlling interest are adjusted subsequently by recognition of a portion of comprehensive income and dividends paid.

NOTES TO THE FINANCIAL STATEMENTS (continued)
For the year ended 31 December 2015

2. Principal accounting policies (continued)
2.3 Basis of consolidation (continued)

2.3 a) Subsidiaries (continued)
Inter-company transactions, balances, income and expenses on transactions between group companies are eliminated. Profits and losses resulting from inter-company transactions that are recognised in assets are also eliminated. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Company. All subsidiaries have a reporting date of 31 December.

2.3 b) Changes in ownership interests in subsidiaries without change of control
Transactions with non-controlling interests that do not result in loss of control are accounted for as equity transactions - that is, as transactions with the owners in their capacity as owners. The difference between fair value of any consideration paid and the relevant share acquired of the carrying value of net assets of the subsidiary is recorded in equity. Gains or losses on disposals to non-controlling interests are also recorded in equity.

2.3 c) Non-consolidated subsidiaries
The Company has determined that the definition of an investment entity (as defined in IFRS 10) applies to the Company in relation to some of its subsidiaries and entities (including special purpose entities) which the Company has invested in, as the following conditions exist:

- the Company has obtained funds for the purpose of providing investors with investment management services;
- the Company's business purpose, which was communicated directly to investors, is investing solely for returns from capital appreciation and investment income;
- the performance of investments is measured and evaluated on a fair value basis.

An investment entity does not present consolidated financial statements if it is required to measure all of its subsidiaries at fair value through profit or loss. An investment entity shall not consolidate its subsidiaries or apply IFRS 3 when it obtains control of another entity, except in limited circumstances, explained below. Instead, an investment entity shall measure an investment in a subsidiary at fair value through profit or loss in accordance with IAS 39 'Financial Instruments: Recognition and Measurement'.

An investment entity is exempt from consolidation on the date it meets the classification of an investment entity, and the exemption ceases when the investment entity no longer qualifies. The only exception is for subsidiaries that provide services relating to the same investment activities which are consolidated.

Accordingly, the Company does not consolidate its investments in some of its subsidiaries and entities (including special purpose vehicles).

NOTES TO THE FINANCIAL STATEMENTS (continued)
For the year ended 31 December 2015

2. Principal accounting policies (continued)
2.3 Basis of consolidation (continued)

2.3 d) Investments in associates
An associate is an entity over which the Company has significant influence but not control, generally accompanying a shareholding of between 20% and 50% of the voting rights, and is neither a subsidiary nor an interest in a joint venture. Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not control or joint control over those policies. Investments in associates that are held as part of the Company's investment portfolio are carried at fair value even though the Company may have significant influence over those companies. Realised and unrealised gains and losses arising from changes in the fair value of these investments are recognised in the profit or loss in the period in which they arise.

For an investment entity this treatment is permitted by IFRS 10 'Consolidated Financial Statements' and IAS 28 'Investment in Associates', which allow investments held by venture capital organisations and similar institutions to be exempt from the equity method of accounting, provided that those investments upon initial recognition are designated at fair value through profit or loss and accounted for in accordance with IAS 39, with changes in fair value recognised through profit or loss in the period of change.

2.4 Foreign currency translation

2.4 a) Functional and presentational currency
Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates (the "functional currency"). The consolidated financial statements are presented in Euros, which is the parent's functional and presentational currency.

2.4 b) Transactions and balances
Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the statement of comprehensive income.

Foreign exchange gains and losses that relate to borrowings and cash and cash equivalents are presented in the statement of comprehensive income within 'operating expenses'. All other foreign exchange gains and losses are presented in the statement of comprehensive income within financial items.

Translation differences on non-monetary financial assets and liabilities such as equity investments held at fair value through profit or loss are recognised in the statement of comprehensive income as part of the fair value gain or loss.

NOTES TO THE FINANCIAL STATEMENTS (continued)
For the year ended 31 December 2015

2. Principal accounting policies (continued)

2.4 Foreign currency translation (continued)

2.4 c) Group companies

The results and financial position of all the group entities (none of which has the currency of a hyper-inflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

(a) assets and liabilities are translated at the closing rate at the reporting date;
(b) income and expenses are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the rate on the dates of the transactions); and
(c) all resulting exchange differences are recognised in other comprehensive income.

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the closing rate. Exchange differences arising are recognised in other comprehensive income.

2.5 Operating segments

Operating segments are reported in a manner consistent with the internal reporting framework provided to the Chief Operating Decision Maker, which is considered to be the Board of Directors.

2.6 Financial assets

The Group classifies its financial assets into one of the following categories, depending on the purpose for which the asset was acquired. The Group's accounting policy for each category is as follows:

2.6 a) Investments at fair value through profit or loss

Investments consist of principally listed and unlisted securities and are initially recognised at fair value, excluding transaction costs which are expensed in the statement of comprehensive income.

The investments designated at fair value through profit or loss are designated as such as the portfolio is managed and performance evaluated on a fair value basis in accordance with the Group's documented investment strategy.

Securities listed on a stock exchange or traded on any other regulated market are valued at the bid price on such exchange or market or, if no such price is available, the last traded price on such day. If there is no such price or such market price is not representative of the fair market value of any such security, then the security will be valued in a manner determined by the Directors to reflect its fair value.

Realised and unrealised gains and losses arising from changes in the fair value of investments are recognised in the statement of comprehensive income.

NOTES TO THE FINANCIAL STATEMENTS (continued)
For the year ended 31 December 2015

2. Principal accounting policies (continued)
2.6 Financial assets (continued)

2.6 a) Investments at fair value through profit or loss (continued)
All purchases and sales of investment securities that require delivery within the time frame established by regulation or market convention ("regular way" purchases and sales) are recognised on the trade date, which is the date on which the Group commits to purchase or sell the asset.

2.6 b) Loans and receivables
These assets are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise principally through the provision of services to customers but also incorporate other types of monetary assets. They are initially measured at fair value and subsequently at amortised cost, using the effective interest method. Such receivables are as a result of services provided to third parties. Receivable balances are measured at their recoverable amount based on management's expectation on recovery of the asset. Loans and receivables are reported net of impairment provisions.

A provision for impairment of loan receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of the receivables. Significant financial difficulties of the debtor, the probability that the debtor will enter bankruptcy or delinquency in payments are considered indicators that the trade receivable is impaired. The amount of the provision is the difference between the carrying amount and the recoverable amount, being the present value of estimated future cash flows, discounted at the original effective interest rate. The carrying amount of the asset is reduced through the use of an allowance account, and the amount of the loss is recognised in the statement of comprehensive income within 'Impairment on loan receivables'. When a loan or receivable is uncollectible, it is written off against the allowance account for trade and other receivables. Subsequent recoveries of amounts previously written off are credited against 'Impairment on loan receivables' in the statement of comprehensive income.

2.7 Cash and cash equivalents

Cash and cash equivalents include cash at bank and short-term highly liquid investments. Cash equivalents are highly liquid investments with original maturities of three months or less. Foreign exchange gains and losses relating to cash and cash equivalents are presented in the statement of comprehensive income within operating expenses.

NOTES TO THE FINANCIAL STATEMENTS (continued)
For the year ended 31 December 2015

2. Principal accounting policies (continued)
2.8 Financial liabilities

Financial liabilities are classified according to the substance of the financial instrument's contractual obligations, rather than the financial instrument's legal form. The Group's accounting policy for each category is as follows:

2.8 a) Trade and other payables
Trade and other payables are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Trade and other payables are classified as current liabilities if payment is due within one year or less (or in the normal operating cycle of the business if longer). If not, they are presented as non-current liabilities.

Trade and other payables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.

2.8 b) Borrowings
Borrowings are recognised initially at fair value, net of transaction costs incurred. Borrowings are subsequently carried at amortised cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognised in the statement of comprehensive income over the period of the borrowings using the effective interest method.

Fees paid on the establishment of loan facilities are recognised as transaction costs of the loan to the extent that it is probable that some or all of the facility will be drawn down. In this case, the fee is deferred until drawdown occurs. To the extent there is no evidence that it is probable that some or all of the facility will be drawn down, the fee is capitalised as a prepayment for liquidity services and amortised over the period of the facility to which it relates.

Borrowings are classified as current liabilities, unless the Group has an unconditional right to defer settlement of the liability for at least twelve months after the reporting date.

2.8 c) Convertible loan notes
Convertible loan notes are classified as compound instruments as they have both equity and liability characteristics. The amounts of the liability and equity components are determined on initial recognition and are subsequently altered only by the effective interest recorded as liability.

The liability portion of convertible loan notes is classified as non-current liabilities, unless the Group has an unconditional obligation to repay the liability within twelve months after the reporting date at which point it is classified as current liabilities. The equity portion of the convertible loan notes is classified as equity components of convertible loans.

NOTES TO THE FINANCIAL STATEMENTS (continued)
For the year ended 31 December 2015

2. Principal accounting policies (continued)

2.9 Fair value hierarchy

Financial assets and financial liabilities measured at fair value in the statement of financial position are categorised into three levels of a fair value hierarchy. The three levels are defined based on the observability of significant inputs to the measurement, as follows:

- Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities, that the Group can access at the measurement date;
- Level 2: inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly;
- Level 3: unobservable inputs for the asset or liability (see note 22 for measurement basis for unobservable inputs);

2.10 Equity

Share capital is determined using the nominal value of shares that have been issued. Additional premiums received on the initial issuing of the shares are included in the share premium.

Any initial expenses of the Company as those necessary for issues of shares, and expenses entirely related to the placing and admission, such as fees payable under the placing agreement, receiving agent's fees, registrar's fees, admission fees, and any other applicable expenses are offset against the share premium.

2.11 Taxation

Current tax is measured at amounts expected to be paid using the tax rates and laws that have been enacted or substantively enacted by the reporting date.

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. However, deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither the accounting nor the taxable profit or loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the date of the statement of financial position and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

Deferred income tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

2.12 Dividends

Equity dividends are recognised when they become legally payable. Interim and final equity dividends are recognised when approved by the shareholders at an annual general meeting.

NOTES TO THE FINANCIAL STATEMENTS (continued)
For the year ended 31 December 2015

2. Principal accounting policies (continued)

2.13 Share premium

Share premium is stated net of share issue costs and is not distributable by way of dividend.

2.14 Profit or loss from discontinued operations

A discontinued operation is a component of the group that either has been disposed of, or is classified as held for sale. Profit or loss from discontinued operations comprises the post-tax profit or loss of discontinued operations and the post-tax gain or loss resulting from the measurement and disposal of assets classified as held for sale.

3. Critical accounting estimates and assumptions

Management makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below. The fair value of balances for which estimates and assumptions have been made as at 31 December 2015 were as follows:

	2015	**2014**
	EUR	**EUR**
Unlisted equity securities (*note 13*)	32,141,451	34,345,899
Loans receivable (*note 14*)	616,709	1,409,796

Critical accounting estimates and assumptions and critical judgements in applying the Group's accounting policies

(i) Functional currency
The Board of Directors considers the Euro as the currency that most faithfully represents the economic effect of the underlying transactions, events and conditions. The Euro is the currency in which the parent measures its performance and reports its results, as well as the currency in which it receives subscriptions from its investors. This determination also considers the competitive environment in which the Group is compared to other European investment products.

(ii) Fair value of financial instruments
The fair value of financial instruments that are not traded in an active market is determined by using valuation techniques. The Group uses its judgement to select a variety of methods and make assumptions that are mainly based on market conditions existing at each reporting date.

NOTES TO THE FINANCIAL STATEMENTS (continued)
For the year ended 31 December 2015

3. Critical accounting estimates and assumptions (continued)

(ii) Fair value of financial instruments (continued)
The fair value of unlisted equity securities has been determined by independent valuers using DCF analysis. The DCF analysis is based on the investee company's management business plans for the period 2016-2020. The valuation methodology applied by the independent valuers is consistent with IFRS and International Valuation Standards ("IVS").

The critical assumptions applied in the valuations are stated in note 13 and note 22.

Based on the reports of independent valuers, management has accepted the fair value estimations of unlisted equity investments as at 31 December 2015, which resulted in a revaluation loss of EUR2.7m recognised in the statement of comprehensive income (2014: revaluation gain of EUR2.1m) (note 13).

(iii) Investment entity status
The Board of Directors considers that the Company meets the criteria set out in IFRS 10 'Consolidated Financial Statements' to be classified as an investment entity on the basis that the Group has:

- obtained funds from more than one investor for the purpose of providing those investors with investment management services;
- committed to its investors that its business purpose is to invest funds solely for returns from capital appreciation and investment income; and
- measured and evaluated its performance of all its investments on a fair value basis.

As a result of this classification, the Company is required to account for subsidiaries at fair value through profit or loss, except for subsidiaries providing services that are related to the Company's investment activity, which are consolidated. These subsidiaries are RC2 (Cyprus) Limited and Georok Holdings Limited (dormant company). New Europe Capital Limited was discontinued in 2015.

Management has assessed that the following subsidiaries should be held at fair value through profit or loss for the purposes of the consolidated financial statements as at 31 December:

2015	**2014**
Top Factoring SRL	Top Factoring SRL
Glasro Holdings Limited	Glasro Holdings Limited
Mamaia Resort Hotels SRL	Mamaia Resort Hotels SRL
Klas DOO	East Point Holdings Limited
	Klas DOO

(iv) Provision for impairment of loans receivable
The impairment charge reflects estimates of losses arising from the failure or inability of the parties concerned to make the required payments. The charge is based on the ageing of the party accounts, the party's credit worthiness and the historic write-off experience. Changes to the estimated impairment charge may be required if the financial condition of the counter party was to improve or deteriorate.

NOTES TO THE FINANCIAL STATEMENTS (continued)
For the year ended 31 December 2015

3. Critical accounting estimates and assumptions (continued)

(v) Split of convertible loan notes into equity and liability components
Convertible loan notes have both equity and liability characteristics and are split into their respective equity and liability components based on the fair value at the time of recognition in the financial statements.

The liability component is derived from the net present value of the cashflows of the convertible bond. The discount rate used was based on the market rate of a similar liability at the date of recognition that did not have an associated equity component and was estimated to be 12%.

4. Dividend income

	2015 EUR	2014 EUR
Glasro Holdings Limited	1,700,000	1,523,080
S.C. Comelf SA	6,978	4,031
S.C. Albalact SA	697,478	-
	2,404,456	1,527,111

5. Operating expenses

		2015 EUR	2014 EUR
Advisory fees	(note 21)	753,965	486,487
General administrative expenses incurred wholly and exclusively by the Company's former subsidiary New Europe Capital Limited		-	338,459
Fees in respect of the issuance of convertible loan notes		-	215,223
Legal and professional fees		118,153	180,099
Administration and custodian fees		81,342	70,331
Directors' fees		25,844	66,716
Audit fees		23,712	27,229
Insurance premium		9,125	9,125
Consultancy fees		-	7,500
Bank charges		4,283	3,418
Depreciation	(note 10)	-	2,588
Other expenses		37,213	-
Net loss/(profit) on foreign exchange		5,200	(1,899)
		1,058,837	1,405,276

NOTES TO THE FINANCIAL STATEMENTS (continued)
For the year ended 31 December 2015

5. Operating expenses (continued)

Advisory fees
New Europe Capital SRL, the Adviser, received an advisory fee equivalent to 2.25% per annum of the average monthly net asset value of the Group, which was accrued and invoiced on a monthly basis.

Until 31 December 2014, New Europe Capital SRL, the Adviser, and New Europe Capital Limited, the Investment Manager and a former subsidiary, received a management and advisory fee equivalent to 2.25% per annum of the average monthly net asset value of the Group, which was accrued and invoiced on a monthly basis.

The Group reimburses the Adviser in respect of its out-of-pocket expenses (including reasonable travel expenses) incurred in connection with the performance of its duties.

The amount charged for the year in the consolidated statement of comprehensive income is EUR753,965 (2014: EUR486,487). Please see note 21 for full details.

The Adviser is also entitled to a performance fee of 20% of any increase in the Net Asset Value in excess of the Base Net Asset Value (adjusted to reflect any dividends or share buy backs, but before the deduction of any accrued management fee and performance fee). The performance fee shall accrue quarterly and be payable annually in arrears (pro rata for partial periods) within three months after the end of each calendar year.

The Base Net Asset Value is the greater of the Net Asset Value at the time of issue of the Shares and the highest Net Asset Value based on which a performance fee is paid in any prior calendar year ("Prior High Net Asset Value") plus an additional annually compounding hurdle rate of 8 per cent. The total performance fee for the year included in the statement of comprehensive income is EUR nil (2014: EUR nil).

Administrator and Custodian fees
The current administrator and custodian, Sanne Fiduciary Services Limited, receives a variable monthly fee based on the Group's NAV, payable quarterly in arrears. The administration and custodian fees for the year included in the statement of comprehensive income are EUR81,342 (2014: EUR70,331). An amount of EUR18,622 was outstanding at the year end (2014: EUR18,374).

Directors' fees
The Directors are considered to be key management personnel of the Company. The remuneration of each Director is detailed in note 21. During the year, accrued directors' fees of EUR42,307 (2014: EUR9,951) were written off in respect of former directors, who had waived their entitlements.

In addition, the Directors were entitled to be reimbursed for their reasonable out of pocket expenses incurred in discharging their duties as directors. During the current and prior years, the Directors did not benefit from long term incentive schemes or post-employment benefits and no Director made gains from exercising share options.

NOTES TO THE FINANCIAL STATEMENTS (continued)
For the year ended 31 December 2015

6. Financial expenses

	2015 EUR	2014 EUR
Interest expense	977,294	889,739

During the year, the Group incurred interest on the following loans:

		2015 EUR	2014 EUR
Loan from Mr Florescu		-	393,000
Loan from Northview Investment Fund Limited		-	179,257
Effective interest on convertible loan notes		957,236	156,411
Interest on outstanding advisory fees	(note 21)	17,758	117,001
Loan from Directors of the Company		-	41,770
Loan from S.C. Policolor SA		2,300	2,300
		977,294	889,739

Advisory fee interest
On 31 October 2011, the Directors of the Company resolved to accrue interest at a rate of 10% per annum on all advisory fees outstanding for more than one month. The interest charge for the year relating to overdue advisory fees is EUR17,758 (2014: EUR117,001), and is included in the statement of comprehensive income.

NOTES TO THE FINANCIAL STATEMENTS (continued)
For the year ended 31 December 2015

7. Income tax expense

	2015 EUR	2014 EUR
Current tax on profit for the year	-	14,310
Withholding tax	697	403
Tax on profit from ordinary activities	697	14,713

The reasons for the difference between the actual tax charge for the year and the standard rate of corporation tax in the Cayman Islands applied to the profit for the year are as follows:

	2015 EUR	2014 EUR
(Loss)/profit before taxation	(367,806)	4,225,051
Expected tax charge based on the standard rate of corporation tax in the Cayman Islands of 0%	-	-
Effect of:		
Foreign tax - UK corporation tax	-	14,310
Foreign tax - Romanian corporation tax	-	-
Tax on profit from ordinary activities	-	14,310

Reconstruction Capital II Limited is incorporated in the Cayman Islands and is not subject to taxes on income or gains under Section 6 of the Cayman Islands Tax Concessions Law (Revised).

RC2 (Cyprus) Limited is incorporated in Cyprus and is subject to Cyprus tax rate of 12.5%. No tax charges have been recognised for the financial year in respect of RC2 (Cyprus) Limited (2014: EUR nil).

The UK corporation tax charge during the prior year relates to New Europe Capital Limited, a former subsidiary, and is based on the profit for that year. The tax charge was payable in the United Kingdom in accordance with United Kingdom tax laws.

8. Tax on components of other comprehensive income

The components of other comprehensive income are not subject to tax.

NOTES TO THE FINANCIAL STATEMENTS (continued)
For the year ended 31 December 2015

9. Discontinued operations

On 8 December 2015, the Company's holding in New Europe Capital Limited was sold for a consideration of EUR20,296. At the date of disposal, the carrying amounts of New Europe Capital Limited's net assets were as follows:

	2015 EUR
Trade and other receivables	28,115
Corporation tax recoverable	2,526
Cash and cash equivalents	349,600
Total current assets	380,241
Trade and other payables	(106,663)
Total current liabilities	(106,663)
Total net assets	273,578
Net assets attributable to the Company	20,518
Net cash received	20,296
Loss on disposal	222

The loss on disposal is included in the loss for the year from discontinued operations in the consolidated statement of comprehensive income.

Operating loss of New Europe Capital Limited until the date of disposal is summarised as follows:

	2015 EUR
Interest income	858
Operating expenses	(37,519)
Depreciation	(6,221)
Loss for the period until date of disposal	(42,882)
Group's share of New Europe Capital Limited's loss for the period until date of disposal	(3,216)

NOTES TO THE FINANCIAL STATEMENTS (continued)
For the year ended 31 December 2015

10. Property, plant and equipment

	Office equipment	Computer hardware and software	Total
	EUR	EUR	EUR
Year ended 31 December 2014			
Opening net book amount	10,127	178	10,305
Additions	-	2,058	2,058
Depreciation charges	(1,838)	(750)	(2,588)
Translation differences	730	13	743
Closing net book amount	9,019	1,499	10,518
At 31 December 2014			
Cost	18,348	32,020	50,368
Additions	-	2,058	2,058
Accumulated depreciation	(9,329)	(32,579)	(41,908)
Net book amount	9,019	1,499	10,518
Year ended 31 December 2015			
Opening net book amount	9,019	1,499	10,518
Additions	-	-	-
Depreciation charges	(9,019)	(1,499)	(10,518)
Translation differences	-	-	-
Closing net book amount	-	-	-
At 31 December 2015			
Cost	-	-	-
Accumulated depreciation	-	-	-
Net book amount	-	-	-

NOTES TO THE FINANCIAL STATEMENTS (continued)
For the year ended 31 December 2015

11. Subsidiaries

The principal subsidiaries of Reconstruction Capital II Limited which have been included in these consolidated financial statements, are as follows:

	Country of incorporation	Proportion of ownership interest
RC2 (Cyprus) Limited	Cyprus	100%
Georok Holdings Limited (dormant company)	Cyprus	100%

The Company's proportion of voting rights in these subsidiaries is the same as its ownership interest.

The Company also held a 7.5% interest in New Europe Capital Limited, a company incorporated in Great Britain. New Europe Capital Limited had issued a class of share capital that did not have voting rights. Consequently, the voting power held by the Company was 60%, but its economic interest was 7.5%. As a result, the non-controlling interests held 40% of the voting power, with an economic interest of 92.5%. On 8 December 2015, the Company disposed of its entire holding in New Europe Capital Limited.

The following subsidiaries of the Company are exempt from consolidation under the requirements of IFRS 10, IFRS 12 and IAS 27 on consolidation for investment entities:

	Registered office	Proportion of ownership interest	
		2015	2014
Top Factoring SRL	Romania	92%	92%
Glasro Holdings Limited	Cyprus	100%	92%
Mamaia Resort Hotels SRL	Romania	63%	63%
East Point Holdings Limited	Cyprus	0%	43%
Klas DOO	Serbia	52%	52%

12. Associates

The following associates of the Company are included in the financial statements as financial assets at fair value through profit or loss, based on the requirements of IFRS 10, IFRS 12 and IAS 28 on investment entities:

	Registered office	2015		2014	
		Net equity * EUR'000	Results * EUR'000	Net equity EUR'000	Results EUR'000
S.C. Policolor SA	Romania	39,513	(1,959)	40,539	(2,486)
S.C. Albalact SA	Romania	17,237	3,424	16,219	182

** Management figures, subject to final audit.*

NOTES TO THE FINANCIAL STATEMENTS (continued)
For the year ended 31 December 2015

13. Financial assets at fair value through profit or loss

	2015 EUR	2014 EUR
Non-current investments		
Unlisted equity securities	32,141,451	34,345,899
Listed equity securities	12,313,595	9,739,389
	44,455,046	44,085,288
Cost	61,506,297	94,086,476
Unrealised loss on investments	(17,051,251)	(50,001,188)
Fair value of non-current investments	44,455,046	44,085,288
Current investments		
Listed equity securities	268,591	342,696
Cost	5,846,167	7,555,228
Unrealised loss on investments	(5,577,576)	(7,212,532)
Fair value of current investments	268,591	342,696

The fair value of quoted equity securities has been determined by using the closing bid price on the relevant exchange or market. All financial assets held at fair value through profit or loss were designated as such upon initial recognition.

The fair value of unlisted investments has been determined by commissioning independent valuation reports. The inputs used in valuing these investments are not based on observable market data and require judgement, considering factors specific to the investment.

During the year ended 31 December 2015, based on the reports of independent valuers, the Group reviewed the carrying value of unlisted equity securities held at fair value through profit or loss, resulting in a loss on revaluation of EUR2.7 million (2014: gain of EUR2.1 million).

NOTES TO THE FINANCIAL STATEMENTS (continued)
For the year ended 31 December 2015

14. Loans receivable

		2015 EUR	2014 EUR
Loans to unconsolidated subsidiaries and related entities	(note 21)	616,709	1,409,796
Amounts due for settlement after 12 months		616,709	1,409,796

The principal features of the Group's loans receivable from subsidiaries and related parties are as follows:

a. Loans to Klas DOO from its former parent in the total sum of EUR2,210,000 (2014: EUR2,210,000) were assigned to RC2 Cyprus Limited, a subsidiary of the Group, during 2011. The loans bear interest of 9% p.a. (2014: 9% p.a.). All interest is repayable on maturity.

   During the year ended 31 December 2014, an amount of EUR1,310,962 of loan principal and accrued interest receivable from Klas DOO was exchanged for an additional 40.2% of the company's equity.

   A total of EUR1,509,347 was outstanding at 31 December 2015 (2014: EUR1,409,796), however the carrying value of the loans receivable from Klas DOO has been judged to be impaired by 59% as at 31 December 2015. As a result, the total amount receivable from Klas DOO was impaired by EUR892,639. The outstanding balance has been classified as due to be settled after 12 months.

   The fair value of the loans receivable from Klas DOO is estimated to equal their carrying value as at 31 December 2015.

b. Loans to East Point Metals Limited in the total sum of EUR1,764,000 were granted during 2012 in order to finance its working capital needs. The loans bear interest of 9% p.a. (2014: 9% p.a.). All interest is repayable on maturity.

   A total of EUR2,858,460 was outstanding at 31 December 2015 (2014: EUR2,858,460). However, the carrying value of the loans receivable from East Point Metals Limited had been judged to be impaired by 100% as at 31 December 2013 and the impairment was judged to be appropriate to carry forward as at 31 December 2014 and 31 December 2015. As a result, the total amount receivable from East Point Metals Limited was impaired by EUR2,858,460, with the loan being valued at EUR nil, with no impairment expense being incurred during the year (2014: EUR nil).

NOTES TO THE FINANCIAL STATEMENTS (continued)
For the year ended 31 December 2015

15. Trade and other receivables

	2015 EUR	2014 EUR
Trade and other receivables	29,232	236,769
Prepayments	8,230	39,505
	37,462	276,274

All trade and other receivables are classed as loans and receivables and their carrying value approximates fair value.

16. Trade and other payables

		2015 EUR	2014 EUR
Trade payables		19,358	26,379
Advisory fees and interest	(note 21)	61,671	521,915
Directors' fees and expenses	(note 21)	6,960	50,070
Payables and accruals wholly and exclusively payable by the Company's former subsidiary, New Europe Capital Limited		-	112,813
Administration fees		18,622	18,374
Other payables and accruals		17,114	117,643
		123,725	847,194

All trade and other payables are classed as financial liabilities measured at amortised cost under IAS 39. Their carrying values approximate their fair values.

NOTES TO THE FINANCIAL STATEMENTS (continued)
For the year ended 31 December 2015

17. Borrowings

	2015 EUR	2014 EUR
Secured and unsecured borrowing at amortised cost		
Convertible loan notes	8,934,201	7,976,965
Loans from other related parties	46,490	44,190
	8,980,691	8,021,155
Amounts due for settlement within 12 months	46,490	44,190
Amounts due for settlement after 12 months	8,934,201	7,976,965
	8,980,691	8,021,155

The Group has the following related party loans:

a. Secured convertible notes were issued on 31 October 2014 in the sum of EUR8,450,000. The secured convertible loan notes bear interest of 10% p.a. and both interest and principal are repayable on 30 October 2017, should no conversion take place. The secured convertible loan noteholders have the right to convert EUR1.00 of outstanding amount of principal of secured convertible loan note into 7.41 new ordinary shares. Subject to the above, the Company also has the option to partially repay or fully repay the secured convertible loan notes at any time, with at least 45 days prior written notice. No early repayment penalties shall apply unless the repayment occurs prior to the date falling 6 months after the issue date in which case the repayment shall include interest accrued during the period.

   Security was held over the totality of shares registered in the name of the Company in the following assets:
   - RC2 (Cyprus) Limited; and
   - Glasro Holdings Limited

   A total of EUR9,563,647 was outstanding at 31 December 2015 (2014: EUR8,606,411), of which EUR629,446 was classified as equity (2014: EUR629,446). The loan portion of the convertible loan notes had been classified as due to be settled after more than 12 months.

   The fair value of the loan payable to the secured convertible loan noteholders was estimated to equal its carrying value as at 31 December 2015.

NOTES TO THE FINANCIAL STATEMENTS (continued)
For the year ended 31 December 2015

17. Borrowings (continued)

b. An unsecured loan of EUR40,000 was provided by Policolor SA, a portfolio company, on 12 February 2013. The loan bears interest of 5.75% p.a. All interest is repayable either at the request of the lender or upon maturity.

A total of EUR46,490 was outstanding at 31 December 2015 and classified as due to be settled within 12 months (2014: EUR44,190). The loan was subsequently renewed for one year, and was fully repaid on 25 January 2016.

The fair value of the loan payable to Policolor SA was estimated to equal its carrying value as at 31 December 2015.

18. Exchange rates

The financial statements are presented in Euro. The following exchange rates at 31 December have been used to translate assets and liabilities denominated in other currencies to Euro:

	2015 EUR	2014 EUR
GBP	1.4734	1.2886
USD	0.9203	0.8264
RON	0.2213	0.2230

19. Net Asset Value (excluding non-controlling interest)

	2015 EUR	2014 EUR
Net assets (excluding non-controlling interest)	37,357,346	37,745,015
Number of shares (undiluted)	100,000,000	100,000,000
Net asset value per share (undiluted)	0.3736	0.3775

NOTES TO THE FINANCIAL STATEMENTS (continued)
For the year ended 31 December 2015

19. Net Asset Value (excluding non-controlling interest) (continued)

	2015 EUR	2014 EUR
Net assets (excluding non-controlling interest)	37,357,346	37,745,015
Adjustments for:		
Convertible loan notes	7,820,554	7,820,554
Convertible loan notes accrued interest	1,113,647	156,411
Net assets (adjusted)	46,291,547	45,721,980
Number of shares (fully diluted)	162,614,500	162,614,500
Net asset value per share (fully diluted)	0.2847	0.2812

20. Pledges and guarantees

The Company has provided a pledge in respect of convertible loan notes issued in the amount of EUR8,450,000. Security was held over the totality of shares registered in the name of the Company in the following assets:

- RC2 (Cyprus) Limited; and
- Glasro Holdings Limited

Please refer to Note 17(a) for further details in respect of the above mentioned loans.

The Company has also provided a pledge to Raiffeisen Bank SA in relation to a secured loan provided to Glasro Holdings Limited, a subsidiary of the Company, in the maximum amount of EUR10,000,000 (2014: EUR8,000,000), of which EUR7,559,034 had been drawn down as at 31 December 2015 (2014: EUR5,445,293). Security for this loan was held over the following assets, registered in the name of the Company or its subsidiaries:

- 116,271,000 shares in S.C. Albalact SA.

21. Related party transactions

Parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making financial or operational decisions.

a. Advisory fees

New Europe Capital SRL was the Adviser to the Group during the year. Total advisory fees for the year amounted to EUR753,965 (2014: EUR654,510). Total fees outstanding as at 31 December 2015 were EUR61,671 (2014: EUR347,164).

NOTES TO THE FINANCIAL STATEMENTS (continued)
For the year ended 31 December 2015

21. Related party transactions (continued)

	2015 EUR	2014 EUR
Advisory fees		
New Europe Capital Limited *	-	168,023
New Europe Capital SRL **	753,965	465,174
New Europe Capital DOO **	-	21,313
	753,965	654,510
Outstanding amounts		
New Europe Capital Limited *	-	44,765
New Europe Capital SRL **	61,671	119,845
New Europe Capital DOO **	-	182,554
	61,671	347,164

The advisory fees are accrued and are payable monthly in arrears. There were no performance fees paid or payable in respect of 2015 (2014: nil).

Advisory fees which are unpaid for over a month attract an interest of 10% (2014: 10%) on the entire balance (please refer to Note 5).

	2015 EUR	2014 EUR
Interest charged on outstanding amounts		
New Europe Capital Limited *	256	13,142
New Europe Capital SRL **	3,267	87,106
New Europe Capital DOO **	14,235	29,895
	17,758	130,143

* New Europe Capital Limited is a former subsidiary of the Company, therefore these amounts were eliminated on consolidation.

** New Europe Capital SRL and New Europe Capital DOO are related to the Company through the common beneficial interest of a former Director.

NOTES TO THE FINANCIAL STATEMENTS (continued)
For the year ended 31 December 2015

21. Related party transactions (continued)

b. Directors' fees

		2015 EUR	2014 EUR
Howard I. Golden	*(resigned 15 February 2015)*	3,781	30,000
Markus Winkler		20,000	20,000
Dirk Van den Broeck		24,370	20,000
Mihai Rădoi		20,000	6,667
Waiver of fees		(42,307)	(9,951)
		25,844	66,716

For details of directors' fees, please refer to note 5.

c. Loans receivable from related parties

	2015 EUR	2014 EUR
Loans to subsidiaries and related entities	616,709	1,409,796

For details on loans receivable from related parties, please refer to note 14.

d. Trade and other payables to related parties

	2015 EUR	2014 EUR
Advisory fees	61,671	302,399
Interest on outstanding advisory fees	-	219,516
Directors' fees and expenses	6,960	50,070
	68,631	571,985

For details on trade and other payables to related parties, please refer to note 16.

NOTES TO THE FINANCIAL STATEMENTS (continued)
For the year ended 31 December 2015

21. Related party transactions (continued)

e. Loans payable to related parties

	2015 EUR	2014 EUR
Loans from subsidiaries	46,490	44,190

For details on loans payable to related parties, please refer to note 17.

22. Financial instruments

The Group is exposed to the following financial risks resulting from both its operating and investing activities: market risk, credit risk and liquidity risk.

The Group's risk management is coordinated by its Board of Directors, which manages the assets to achieve the investment objectives.

22.1 Market risk

The Group is exposed specifically to currency risk, interest rate risk and price risk, which result from both its operating and investing activities.

The Group may invest in securities of smaller issuers which are believed by the investment team to have growth potential. Investment in such securities may present greater opportunities for growth but also involves greater risk than is customarily associated with the securities of more established issuers. Such issuers may have limited product lines, markets or financial recourses and therefore being subject to erratic market movements than securities of larger companies and may be dependent for their management on one or two key individuals.

The market for buying and selling private company securities in Romania, Serbia, Bulgaria and neighbouring countries is substantially less developed and the formalities for transferring shares are lengthy. Investments in unlisted securities are more speculative and involve a higher degree of risk and lower level of liquidity.

The Bucharest Stock Exchange has a considerably lower trading volume than most Western European exchanges and the market capitalisation of listed companies is small compared to those listed on more developed exchanges in developed markets. The listed equity securities of many companies in Romania are accordingly materially less liquid, subject to greater dealing spreads and costs and experience materially greater volatility than those of Western European countries.

NOTES TO THE FINANCIAL STATEMENTS (continued)
For the year ended 31 December 2015

22. Financial instruments (continued)
22.1 Market risk (continued)

Government supervision and regulation of the Romanian securities markets and of quoted companies is also less developed. Due to the relative illiquidity of the Bucharest Stock Exchange, anticipation of the investment of the Group's funds may adversely influence the price paid by the Group in purchasing securities for its portfolio and may affect the speed at which the Group can invest those proceeds.

This relative lack of liquidity may also make it difficult for the Group to effect an orderly disposal of an investment listed on the Bucharest Stock Exchange.

The Group measures these risks by monitoring its exposure to certain markets, industries and countries, with details of these exposures as follows:

Markets	**2015 EUR**	**2014 EUR**
Bucharest Stock Exchange	12,582,186	10,082,085

Sector	**2015 EUR**	**2014 EUR**
Paints	19,920,000	20,560,000
Dairy	12,313,595	9,739,389
Leisure	3,194,735	2,821,898
Food manufacturing	-	2,651,490
Receivables collection	9,026,716	8,312,511
Industrial	268,591	342,696
	44,723,637	44,427,984

Country	**2015 EUR**	**2014 EUR**
Romania	44,723,637	41,776,494
Serbia	-	2,651,490
	44,723,637	44,427,984

NOTES TO THE FINANCIAL STATEMENTS (continued)
For the year ended 31 December 2015

22. Financial instruments (continued)
22.1 Market risk (continued)

i. Currency risk

The Group holds monetary assets denominated in Euros, United States Dollars ("USD") and Romanian New Lei ("RON"). Accordingly, a change in the exchange rate between RON and Euro will result in a corresponding change in the Euro value of the Group's assets denominated in RON. There is a greater likelihood of currency devaluation, imposition of more severe foreign currency exchange controls, a lack of availability of or access to foreign currency and pronounced currency exchange rate fluctuations occurring in Romania in relation to the RON than in Western Europe in relation to major Western European currencies.

The Group is unlikely to hedge currency risks or the risk of fluctuations in the value of the assets of the Group due to the present lack of availability of suitable hedging instruments (such as warrants, futures and options). If suitable instruments become available over time, the Group reserves the right to employ a hedging strategy for such purposes. The Adviser closely monitors the currency fluctuations to minimise the exposure to currency risks and ensures that, where possible, foreign currency income and expenses are matched to net off exposure. The table below summarises the Group's exposure to currency risk:

	Monetary assets EUR	Monetary liabilities EUR	Net exposure EUR
31 December 2015			
GBP	-	(134)	(134)
USD	400	(9,164)	(8,764)
RON	13,644,682	-	13,644,682
	13,645,082	(9,298)	13,635,784
31 December 2014			
GBP	278,991	(115,024)	163,967
USD	1,321	-	1,321
RON	10,090,250	-	10,090,250
	10,370,562	(115,024)	10,255,538

NOTES TO THE FINANCIAL STATEMENTS (continued)
For the year ended 31 December 2015

22. Financial instruments (continued)
22.1 Market risk (continued)

i. Currency risk (continued)

At 31 December, had the exchange rates between the Euro and all other currencies increased by 5%, being management's expectation of foreign currency fluctuations over the year based on experience over prior years' fluctuations, with all other variables held constant, the effect on post-tax profit/(loss) and equity would be as follows:

	2015 EUR	**2014 EUR**
GBP	(7)	8,198
USD	(438)	66
RON	682,234	17,543
	681,789	25,807

A 5% decrease in the exchange rates would have had an equal but opposite effect on the post-tax profit/(loss) and equity.

ii. Interest rate risk

The Group is exposed to risks associated with the effects of fluctuations in the prevailing levels of market interest rates on its financial position and cash flows. The table below summarises the Group's exposure to interest rate risks. It includes the Group's assets and liabilities at fair values.

	Interest bearing		**Non-interest**
	Fixed	**Floating**	**bearing**
31 December 2015	**EUR**	**EUR**	**EUR**
Loans receivable - non-current	-	-	616,709
Trade and other receivables	-	-	29,232
Cash and cash equivalents	-	1,083,751	203
Total assets	-	1,083,751	646,144
Trade and other payables	-	-	123,725
Loans and borrowings - current	40,000	-	6,490
Loans and borrowings - non-current	7,820,554	-	1,113,647
Total liabilities	7,860,554	-	1,243,862
Total interest sensitivity gap	(7,860,554)	1,083,751	(597,718)

NOTES TO THE FINANCIAL STATEMENTS (continued)
For the year ended 31 December 2015

22. Financial instruments (continued)
22.1 Market risk (continued)

ii. Interest rate risk (continued)

	Interest bearing		Non-interest
	Fixed	**Floating**	**bearing**
31 December 2014	**EUR**	**EUR**	**EUR**
Loans receivable - current	1,105,000	-	304,796
Trade and other receivables	-	-	276,274
Cash and cash equivalents	40,000	719,328	9,278
Total current assets	1,145,000	719,328	590,348
Trade and other payables	-	-	849,405
Loans and borrowings - current	40,000	-	4,190
Loans and borrowings - non-current	7,820,554	-	156,411
Total liabilities	7,860,554	-	1,010,006
Total interest sensitivity gap	(6,715,554)	719,328	(419,658)

Should interest rates have been lower by 25 basis points, with all other variables remaining constant, and the cash level remaining constant during the year, the decrease in post-tax profit/(loss) and equity attributable to holders of ordinary shares would amount to approximately EUR2,709 (2014: EUR1,798). These changes are considered to be reasonable in the opinion of the Directors, based on observations of current market conditions. An increase in interest rates would have an equal and opposite effect on the post-tax profit/(loss) and equity attributable to holders of ordinary shares.

Should fixed interest rate loans have been based on the average 1 month EURIBOR rate during the year, being -0.061% (2014: 0.131%) plus a margin of 0.25% (2014: 0.25%), with all other variables remaining constant, and the cash level remaining constant during the year, the decrease in post-tax profit/(loss) and equity attributable to holders of ordinary shares would amount to approximately EUR891,746 (2014: EUR810,376).

NOTES TO THE FINANCIAL STATEMENTS (continued)
For the year ended 31 December 2015

22. Financial instruments (continued)
22.1 Market risk (continued)

iii. Price risk

The Group trades in financial instruments, taking positions in traded and over-the-counter instruments. All investments in securities represent a risk of loss of capital. The Group's equity securities are susceptible to market price risk arising from uncertainties about future prices of the instruments. At 31 December, the overall market exposures were as follows:

	2015		2014	
Investment assets	**EUR**	**Percentage of net assets**	**EUR**	**Percentage of net assets**
Listed equity investments	12,582,186	34%	10,082,085	27%

As at 31 December, if the BET-EUR (Bucharest Stock Exchange Trading index) rose or fell by 5%, being the movement considered to be reasonably possible based on observations of current market conditions in the opinion of the Directors, and the listed equity investments reacted in the same way, the increase or decrease respectively in post-tax profit/(loss) would be 177.71% or EUR629,109 (2014: 11.92% or EUR504,104).

The Group manages its exposure to price risk by analysing the listed equity investment portfolio by industrial sector and benchmarking the movements to that of similar competitors. The table below is a summary of the significant sector concentrations within the listed equity investment portfolio:

	2015	2014
Sector	**EUR**	**EUR**
Dairy	12,313,595	9,739,389
Industrial	268,591	342,696
	12,582,186	10,082,085

The exposure to price risk of unlisted equity investments is presented in note 22.5 "Fair value information".

NOTES TO THE FINANCIAL STATEMENTS (continued)
For the year ended 31 December 2015

22. Financial instruments (continued)

22.2 Credit risk

The Group is exposed to credit risk as a result of holding cash balances, trade and other receivables and loans receivable. The maximum exposure to credit risk on 31 December is:

	2015 EUR	2014 EUR
Loans receivable	616,709	1,409,796
Trade and other receivables	37,462	236,769
Cash and cash equivalents	1,083,954	768,606
	1,738,125	2,415,171

Trade and other receivables, loans receivable and cash and cash equivalents are classified as loans and receivables, therefore the total credit risk exposure to loans and receivables is EUR1,738,125 (2014: EUR2,415,171).

The loans receivable amount of EUR616,709 (2014: EUR1,409,796) includes loans and accrued interest in the total amount of EUR2,858,460 to East Point Metals Limited which had been impaired by 100% as at 31 December 2015, and loans and accrued interest in the total amount of EUR1,509,347 to Klas DOO, which have been impaired by 59% at 31 December 2015.

The credit quality of these loans receivable is based on the financial performance of the individual portfolio companies, for which there are no available credit ratings. Management uses other qualitative data such as discounted cash flow projections, and the Adviser consults on the default risk of portfolio companies, with approval from the Board of Directors. For those assets that are not past due, it is believed that the risk of default is low, and the capital repayments and interest payments will be made in accordance with the agreed terms and conditions. No terms or conditions have been renegotiated.

There are no trade and other receivables which are past due or impaired, nor is there any reason to believe that the trade and other receivables balance of EUR37,462 (2014: EUR236,769) will not be fully recovered.

NOTES TO THE FINANCIAL STATEMENTS (continued)
For the year ended 31 December 2015

22. Financial instruments (continued)
22.2 Credit risk (continued)

The Group's cash and cash equivalents are held with regional and foreign banks and are diversified appropriately. The credit ratings of the banks where the Group held cash and cash equivalents are shown below.

Rating	Rating agency	2015 EUR	2014 EUR
Aa2	Moody's	1,083,751	-
Aa3	Moody's	-	596,406
Baa1	Moody's	-	122,139
Ba2	Moody's	-	50,061
Not rated		203	-
		1,083,954	768,606

In accordance with the Group's policy the Adviser monitors credit risk on a daily basis, and management reviews it on a quarterly basis.

22.3 Liquidity risk

Liquidity risk is the risk that the Group will not be able to meet its financial obligations as they fall due. The Group manages its liquidity needs through the ability to borrow in the short term from shareholders and the cash inflows of dividends from marketable securities.

The table below sets out the Group's contractual undiscounted cash flows. The fair values of amounts due within 12 months equal their carrying value, as the impact of discounting is not significant.

	Less than 1 month EUR	Less than 1 year EUR	1-2 years EUR	2-5 years EUR	No stated maturity EUR
31 December 2015					
Trade and other payables	106,611	17,114	-	-	-
Current loans and borrowings	46,490	-	-	-	-
Non-current loans and borrowings	-	-	10,987,315	-	-
	153,101	17,114	10,987,315	-	-

NOTES TO THE FINANCIAL STATEMENTS (continued)
For the year ended 31 December 2015

22. Financial instruments (continued)
22.3 Liquidity risk (continued)

	Less than 1 month EUR	Less than 1 year EUR	1-2 years EUR	2-5 years EUR	No stated maturity EUR
31 December 2014					
Trade and other payables	846,834	-	-	-	360
Current loans and borrowings	-	46,490	-	-	-
Non-current loans and borrowings	-	-	-	10,987,315	-
	846,834	46,490	-	10,987,315	360

22.4 Capital management and procedures

The current Group policy is to fund investments through equity. No future change in this policy is envisaged. In the medium term, the intention is that capital will be managed so as to maximise the return to shareholders while maintaining a capital base to allow the Group to operate effectively in the marketplace and sustain the future development of the business.

The Group's capital is summarised by the consolidated statement of changes in equity and consists of share capital, share premium, retained earnings, foreign exchange reserves, equity component of convertible loan and non-controlling interest.

The amounts managed as capital by the Group for the reporting periods under review are summarised as follows:

	2015 EUR	2014 EUR
Total equity	37,357,346	38,022,618
Cash and cash equivalents	(1,083,954)	(768,606)
Capital	36,273,392	37,254,012
Total equity	37,357,346	38,022,618
Borrowings	8,980,691	8,021,155
Overall financing	46,338,037	46,043,773
Proportion of capital to overall financing	78%	81%

NOTES TO THE FINANCIAL STATEMENTS (continued)
For the year ended 31 December 2015

22. Financial instruments (continued)
22.4 Capital management and procedures (continued)

The Group has complied with its maximum level of gearing of 30% of gross assets, in accordance with the Company's Admission Document, with the current gearing level standing at 22% (2014: 19%) of gross assets.

The Group's policy is not to invest in a single investee company that is greater than 25% of the net asset value at the time of effecting the investment.

22.5 Fair value information

All of the Group's investments are carried at fair value in the Statement of Financial Position. Usually the fair value of the financial instruments can be reliably determined within a reasonable range of estimates.

The carrying amounts of all the Group's financial assets and financial liabilities at the reporting date approximate their fair value.

Estimation of fair values
The major methods and assumptions used in estimating the fair values of financial instruments were disclosed in note 2. As the major methods and assumptions used in estimating the fair values are subjective, the Group has conducted a sensitivity analysis on key areas based on the Adviser's reasonable expectations. For fair values of investments classified as level 3 (see below), the following assumptions apply:

Policolor SA
Policolor SA was valued by an independent valuer as at 31 December 2015. The major assumptions used in the valuation are as follows:

- weighted average cost of capital of 10.9%;
- a terminal value rate of 1.4%;
- revenue growth between 6.6% and 17.8%;
- EBITDA margin between 4.5% and 12%.

As at 31 December 2015, if the projected revenue of Policolor SA rose or fell by 5%, the effect from the corresponding change in the fair value of the investment would be reflected as follows in the consolidated financial statements of the Group:

- 5% increase: increase in Group's total assets of 2.75% or EUR1,280,000 and increase in Group's post-tax profit of 361.58% or EUR1,240,000;
- 5% decrease: decrease in Group's total assets of 2.67% or EUR1,240,000 and decrease in Group's post-tax profit of 350.28% or EUR1,240,000.

NOTES TO THE FINANCIAL STATEMENTS (continued)
For the year ended 31 December 2015

22. Financial instruments (continued)
22.5 Fair value information (continued)

Estimation of fair values (continued)
Mamaia Resort Hotels SRL
Mamaia Resort Hotels SRL was valued by an independent valuer as at 31 December 2015. The major assumptions used in the valuation are as follows:

- weighted average cost of capital of 9.4%;
- a perpetual growth rate of 1.5%;
- revenue growth between 3% and 7.9%;
- EBITDA margin between 12.4% and 26.1%.

As at 31 December 2015, if the projected revenue growth of Mamaia Resort Hotels SRL rose or fell by 1%, the effect from the corresponding change on the fair value of the investment would be reflected as follows in the consolidated financial statements of the Group:

- 1% increase: increase in the Group's total assets of 0.42% or EUR196,782 and an increase in the Group's post-tax profit of 55.59% or EUR196,782;
- 1% decrease: decrease in the Group's total assets of 0.42% or EUR196,782 and a decrease in the Group's post-tax profit of 55.59% or EUR186,782.

Top Factoring SRL
Top Factoring SRL was valued by an independent valuer as at 31 December 2015. The major assumptions used in the valuation are as follows:

- weighted average cost of capital of 7.1%;
- terminal value rate of 0%;
- revenue (shrinkage)/growth between (19.6%) and 3.1%;
- EBITDA margin between 12.3% and 17.3%.

As at 31 December 2015, if the projected revenue of Top Factoring SRL rose or fell by 5%, the effect from the corresponding change on the fair value of the investment would be reflected as follows in the consolidated financial statements of the Group:

- 5% increase: increase in the Group's total assets of 4.17% or EUR1,937,343 and an increase in the Group's post-tax profit of 547.26% or EUR1,937,343;
- 5% decrease: decrease in the Group's total assets of 4.17% or EUR1,937,337 and a decrease in the Group's post-tax profit of 547.26% or EUR1,937,343.

Glasro Holdings Limited
Glasro Holdings Limited was valued by an independent valuer as at 31 December 2015. The major assumptions used in the valuation are as follows:

- weighted average cost of capital of 10%;
- revenue (shrinkage)/growth between (21.3%) and 2.6%;
- EBITDA margin between 20% and 46%;
- terminal value rate of 0%.

NOTES TO THE FINANCIAL STATEMENTS (continued)
For the year ended 31 December 2015

22. Financial instruments (continued)
22.5 Fair value information (continued)

Estimation of fair values (continued)
Glasro Holdings Limited (continued)
As at 31 December 2015, if the projected revenue of Glasro Holdings Limited rose or fell by 5%, the effect from the corresponding change on the fair value of the investment would be reflected as follows in the consolidated financial statements of the Group:

- 5% increase: increase in the Group's total assets of 5.17% or EUR2,400,402 and an increase in the Group's post-tax profit of 678.07% or EUR2,400,402;
- 5% decrease: decrease in the Group's total assets of 5.17% or EUR2,400,395 and a decrease in the Group's post-tax profit of 678.07% or EUR2,400,395.

Fair value hierarchy
Investment in securities are carried at fair value. IFRS 7 defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. IFRS 7 establishes a three-tier fair value hierarchy that prioritises the inputs to valuation techniques to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (level 1 measurement) and lowest priority to unobservable inputs (level 3 measurement). The three levels of the fair value hierarchy under IFRS 7 are described below:

Level 1	Unadjusted quoted prices in active markets that are accessible at the measurement date for identical, unrestricted assets or liabilities;
Level 2	Quoted prices in markets that are not active or financial instruments for which all significant inputs are observable from the market, either directly (as prices) or indirectly (as derived from prices);
Level 3	Prices or valuations that require inputs that are both significant to the fair value measurement and are unobservable.

The following tables present the financial instruments in the Statement of Financial Position by caption and by level within the valuation hierarchy:

31 December 2015	Level 1 EUR	Level 3 EUR	Total EUR
Assets			
Equity investments	12,582,186	32,141,451	44,723,637
31 December 2014			
Assets			
Equity investments	10,082,085	34,345,899	44,427,984

NOTES TO THE FINANCIAL STATEMENTS (continued)
For the year ended 31 December 2015

22. Financial instruments (continued)
22.5 Fair value information (continued)

Fair value hierarchy (continued)
Investments measured at fair value on a recurring basis using significant unobservable inputs (Level 3) were as follows:

	2015 EUR	2014 EUR
Balance at 1 January	34,345,899	32,216,437
Total gains or losses:		
Unrealised (loss)/gain	(2,739,448)	818,500
Purchase and issuances	535,000	1,310,962
Balance at 31 December	32,141,451	34,345,899
Unrealised gain/(loss) from assets still held at year end	(16,045,533)	4,747,123

23. Operating segments

According to its Admission Document, the Company's main objective is to generate returns for its shareholders through two primary routes: to achieve medium and long term capital appreciation through the investment in and subsequent disposal of significant or controlling stakes in companies, both listed and private (the Private Equity Programme), and to make portfolio investments in listed equities and fixed income securities (the Trading Programme). On this basis, the Chief Operating Decision Maker, which is considered to be the Board of Directors, has identified its operating segments.

NOTES TO THE FINANCIAL STATEMENTS (continued)
For the year ended 31 December 2015

23. Operating segments (continued)

Reportable segments

The "All other" column includes items which the Board of Directors does not consider to be operating segments.

31 December 2015	Listed Private Equity Programme EUR	Unlisted Private Equity Programme EUR	Trading Programme EUR	All Other EUR	Total EUR
Reportable segment total assets	12,313,595	32,141,451	268,591	1,738,125	46,461,762
Reportable segment profit/(loss) before tax	3,271,685	(1,632,808)	29,416	(2,079,900)	(411,607)
Reportable segment total liabilities	-	-	-	(9,104,416)	(9,104,416)
Gain on investments at FVTPL	2,574,207	(2,568,952)	22,438	-	27,693
Interest revenue	-	99,551	-	32	99,583
Dividends	697,478	1,700,000	6,978	-	2,404,456
Other income	-	29,232	-	-	29,232
31 December 2014					
Reportable segment total assets	9,739,389	34,345,899	342,696	2,465,194	46,893,178
Reportable segment profit/(loss) before tax	4,068,524	2,446,527	(21,107)	(2,283,606)	4,210,338
Reportable segment total liabilities	-	-	-	(8,870,560)	(8,870,560)
Gain on investments at FVTPL	4,068,524	818,501	(21,107)	(118,795)	4,747,123
Interest revenue	-	104,949	-	-	104,949
Depreciation and impairment	-	-	-	(2,588)	(2,588)
Dividends	-	1,523,080	4,031	-	1,527,111
Income tax expense	-	-	-	(14,713)	(14,713)
Other income	-	-	-	140,883	140,883

NOTES TO THE FINANCIAL STATEMENTS (continued)
For the year ended 31 December 2015

23. Operating segments (continued)

The geographical areas of operation for products and services are as follows:

31 December 2015	Romania EUR	Serbia EUR	Other EUR	Total EUR
Revenues				
Total investment gain/(loss)	2,508,686	(2,480,993)	-	27,693
Interest income	-	99,551	32	99,583
Dividend income	2,404,456	-	-	2,404,456
Other income	-	29,232	-	29,232
	4,913,142	(2,352,210)	32	2,560,964
Assets				
Non-current assets				
Financial assets at FVTPL	44,455,046	-	-	44,455,046
Loans receivable - non-current	-	616,709	-	616,709
	44,455,046	616,709	-	45,071,755
				-
Current assets				
Financial assets at FVTPL	268,591	-	-	268,591
Trade and other receivables	-	29,232	8,230	37,462
Cash and cash equivalents	-	-	1,083,954	1,083,954
	268,591	29,232	1,092,184	1,390,007
	44,723,637	645,941	1,092,184	46,461,762

NOTES TO THE FINANCIAL STATEMENTS (continued)
For the year ended 31 December 2015

23. Operating segments (continued)

31 December 2014	Romania EUR	Serbia EUR	Other EUR	Total EUR
Revenues				
Total investment gain/(loss)	4,188,018	663,428	(104,323)	4,747,123
Interest income	5,451	99,100	398	104,949
Dividend income	1,527,111	-	-	1,527,111
Other income	-	-	140,883	140,883
	5,720,580	762,528	36,958	6,520,066
Assets				
Non-current assets				
Financial assets at FVTPL	41,433,798	2,651,490	-	44,085,288
Property, plant and equipment	-	-	10,518	10,518
Loans receivable - non-current	-	1,409,796	-	1,409,796
	41,433,798	4,061,286	10,518	45,505,602
Current assets				
Financial assets at FVTPL	342,696	-	-	342,696
Trade and other receivables	-	-	276,274	276,274
Cash and cash equivalents	-	-	768,606	768,606
	342,696	-	1,044,880	1,387,576
	41,776,494	4,061,286	1,055,398	46,893,178

24. Reserves

Reserve	Description and purpose
Share capital	Par value of a share multiplied by the number of shares issued
Share premium	Amount subscribed for share capital in excess of nominal value
Retained earnings/(deficit)	Cumulative net gains and losses recognised in the Consolidated Statement of Comprehensive Income, and cumulative transfers from other recognised reserves, where permitted or required
Equity component of convertible loan notes	Allocation of equity part of convertible loan notes issued by the Company
Foreign exchange reserve	Reserve where cumulative gains and losses arising on translation of foreign operations, as reflected in other comprehensive income are held until the operation is disposed of

NOTES TO THE FINANCIAL STATEMENTS (continued)
For the year ended 31 December 2015

25. Share capital

	2015		2014	
	Number of shares	EUR	Number of shares	EUR
Authorised				
Ordinary shares of EUR0.01 each	300,000,000	3,000,000	300,000,000	3,000,000
Issued and fully paid				
Ordinary shares of EUR0.01 each	100,000,000	1,000,000	100,000,000	1,000,000

26. Earnings per share

	2015 EUR	2014 EUR
Earnings		
Earnings for the purposes of basic earnings per share, being net profit attributable to equity owners of the Company	(371,941)	4,241,776
Number of shares		
Weighted average number of shares for the purposes of basic undiluted earnings per share	100,000,000	100,000,000
Basic undiluted earnings per share	**(0.0037)**	**0.0424**
Earnings		
Earnings for the purposes of diluted earnings per share, being net profit attributable to equity owners of the Company after adjusting for effective interest	585,295	4,398,187
Number of shares		
Weighted average number of shares based on full conversion of loan notes with a value of EUR8,450,000 at a rate of 7.41 new ordinary shares for EUR1 of convertible loan note principal	62,614,500	62,614,500
Weighted average number of shares for the purposes of fully diluted earnings per share	162,614,500	162,614,500
Fully diluted earnings per share	**0.0036**	**0.0270**

NOTES TO THE FINANCIAL STATEMENTS (continued)
For the year ended 31 December 2015

27. Events after the reporting period

On 28 January 2016 the Group announced an agreement to sell its 25.4% holding in Albalact SA to Lactalis for estimated proceeds of EUR16.7m, to be finally determined based on its net debt immediately prior to the completion of the transaction. This represents a premium of approximately 36% over the carrying value of the investment at year-end. The closing of this transaction is subject to the fulfilment of a series of conditions precedent, including favourable clearance by the Romanian Competition Council, which is expected by 1 June 2016.