RECONSTRUCTION CAPITAL II LIMITED

ANNUAL REPORT AND AUDITED FINANCIAL STATEMENTS

For the year ended 31 December 2018

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DIRECTORS AND COMPANY INFORMATION

Domicile and country of incorporation
Cayman Islands

Legal form
Limited Liability Company

Company number
HL-156549

Non-executive directors
Martin Derbyshire
Mihai Rădoi
Dirk Van den Broeck *(resigned on 18 December 2018)*

Secretary and Registered Office
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Cayman Islands

Adviser
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Romania

Nominated Adviser
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Broker
finnCap Ltd
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London, EC2M 1JJ

DIRECTORS AND COMPANY INFORMATION (continued)

Administrator and Custodian
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Jersey
JE1 1ST

Independent Auditor
Grant Thornton (Cyprus) Ltd
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ADVISER'S REPORT
For the year ended 31 December 2018

On 31 December 2018, Reconstruction Capital II Limited ("RC2" or the "Company") had a total audited net asset value ("NAV") of €31.405 m, or €0.2238 per share. During the course of 2018, RC2 bought back for cancellation 4,613,641 of its own Ordinary shares, bringing the total number of Ordinary shares in issue at year end to 140,332,376. The NAV per share fell by 10.62% over the course of the year.

Private Equity Programme

During the year, the Company acquired shares in two Romanian-focused investment companies, Reconstruction Capital Plc ("RC") and The Romanian Investment Fund Ltd (RIF) for consideration of €1.73m and €1.84m, respectively. RC's only investment is a 69.2% shareholding in RIF, whose main underlying asset is a 60% shareholding in Policolor S.A. ("Policolor"), in which the Company already owns the balance of 40%. The main objective of the acquisitions was to provide the Company with greater control over the exit process from Policolor.

At the end of December 2018, the investments held under the Private Equity Programme had a total fair value of €27.8m, which was slightly higher than the 2017 valuation of €27.7m. The valuations of Policolor and Mamaia were performed by independent valuers, whilst the valuation of Telecredit IFN SA was based on its audited net asset value. The valuations of RC and RIF were also based on their audited net asset values, but these were in turn based on the same valuation of their main underlying asset, Policolor SA, as adopted by the Company.

	Valuations	
	2018	**2017**
	€	**€**
Reconstruction Capital Plc	2,242,600	-
The Romanian Investment Fund Limited	2,147,229	-
Policolor S.A.	18,320,000	20,600,000
Mamaia Hotel Resorts SRL ("Mamaia")	4,228,219	4,404,658
Telecredit IFN S.A. ("Telecredit")	849,514	2,664,000
	27,787,562	**27,668,658**

The fall in the valuation of Policolor reflects a weakening of its operating performance. On a more positive note, the company managed to bring forward the completion of the sale of part of its land, generating proceeds of €6.2m in 2018 which, under the original sales contract, were due to be received in the summer of 2019. In August, Policolor started the construction of its new factory where it is due to relocate its Bucharest production in 2019, and in December it closed down operations at its existing Bucharest site, in order to prepare the remaining land for delivery to the buyers of the site in the summer of 2019, which should generate further proceeds of €4.2m. Over the year, the Policolor group's indebtedness fell from €15.5m to €13.1m, and the company also paid €0.97m of dividends to its shareholders. In April 2018 the Policolor Board appointed a new CEO with a view to improving the operating performance of the group.

ADVISER'S REPORT (continued)
For the year ended 31 December 2018

Private Equity Programme (continued)

The Mamaia hotel continues to face increased competition from "Airbnb"-style lets, and new hotel developments, coupled with operating costs inflation, and this is reflected in its lower valuation. The hotel has undertaken an investment plan of €1m to upgrade its accommodation and facilities which is being funded by a bank loan.

The prospects for the consumer loans market were adversely impacted by new prudential regulations capping the indebtedness of individuals which were announced by the National Bank of Romania in the second half of 2018 and came into effect on 1 January 2019. This is reflected in Telecredit's revised valuation of €0.84m. A revised business model for Telecredit has been developed aimed at supplementing its consumer loan business with financial products targetting small and medium-sized businesses, such as factoring facilities and micro loans.

Apart from the shareholdings in RC and RIF, the other private equity investments are held through two Cyprus-based wholly-owned subsidiaries, RC2 (Cyprus) Limited and Glasro Holdings Limited, which are not consolidated in the present financial statements, in accordance with IFRS. The Assets at Fair Value shown in the present financial statements, which amount to €30.6m, reflect the valuations of the underlying private equity holdings outlined in the above table, plus cash balances of €2.7m, and €0.1m of sundry financial assets and liabilities of these intermediary holding companies.

Trading Programme

RC2 (Cyprus) Limited sold its residual listed equities portfolio held under the Trading Programme in the first quarter of 2018, generating cash proceeds of €0.187m.

Economic Overview

Both the Romanian and Bulgarian economies continued to report increases in GDP during 2018 of 4.1% (2017: +7.0%) and 3.1% (2017: +3.6%), respectively, and are expected to continue to grow during 2019. Romania's 2018 GDP growth, which was the highest in the EU for the second year running, continued to be mainly driven by increased private consumption. The IMF is forecasting a slowdown in GDP growth to 3.4% in 2019 due to the effect of inflation on disposable incomes.

Events after the Reporting Period

On 23 January 2019 the Company announced that it had purchased for cancellation 1,710,611 Ordinary shares for €0.16 each, and in a separate transaction a further 2,364,852 Ordinary shares for €0.16 each. After these cancellations the Company has 136,256,913 Ordinary shares in issue.

12 June 2019
New Europe Capital SRL

INVESTMENT POLICY

Change of Investment Objective and Policy of the Company

At a general shareholder meeting on 21 February 2018, the investment objective of the Company was changed so that it now aims to achieve capital appreciation and/or to generate investment income returns through the acquisition of real estate assets in Romania, including the development of such assets, and/or the acquisition of significant or controlling stakes in companies established in, or operating predominantly in Romania, primarily in the real estate sector. Any new private equity investment in companies operating in sectors other than real estate is limited to 25% of the Company's total assets at the time of effecting the investment. However, the Company may continue to make follow-on investments in existing portfolio companies without any such limitation.

Gearing

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

Distribution Policy

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

REPORT OF THE DIRECTORS
For the year ended 31 December 2018

The Directors present their annual report together with the audited financial statements of Reconstruction Capital II Limited (the "Company") for the year ended 31 December 2018.

Activities and Business Review

The Company's principal activity is holding and managing of investments in Romania and other countries in South-East Europe. A summary of the Company's business review for the year ended 31 December 2018 is contained within the Adviser's report.

Accounting Policies

The 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 2018 are contained in note 16 of the financial statements.

Results and Dividends

The net investment loss for the year amounted to EUR3,086,167 (2017: gain of EUR1,161,897) and the net loss for the year amounted to EUR4,118,239 (2017: (EUR458,040)).

The Directors do not recommend the payment of a dividend (2017: EURnil).

Events after the Reporting Year

Other than the matters disclosed in note 22, there have been no significant events after the reporting year that require disclosure in the financial statements.

Directors and their Interests

There was just one Director who held shares in the Company at 31 December 2018. He held the position of Director throughout 2018.

	Ordinary Shares	
	Number	**% of issued share capital**
Mihai Rădoi	1,037,500	0.74%

Board

Until the resignation of Mr Dirk Van den Broeck in December 2018, during the year the Board of Directors comprised three Directors, all of whom were 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.

REPORT OF THE DIRECTORS (continued)
For the year ended 31 December 2018

Board

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 two 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 Related 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 Company and reviews the Company's compliance with financial reporting and regulatory requirements.

The Company'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 Company'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 financial statements.

Remuneration Responsibilities

The Board has resolved that a remuneration committee is not appropriate for the Company, as the Company has contracted the advisory and administration activities with third parties and 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 transactions with Directors are given in note 21 of the financial statements.

Each of the Directors have 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 2018

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 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 quarterly calculation of the net asset value of the Company's ordinary shares, which is published via the Stock Exchange, 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 22 December 2016, the life of the Company was extended for two years until the end of 2018. At a general shareholder meeting on 21 February 2018, it was decided that the next continuation vote will be held in 2023.

The Company has made a loss during the year, which has increased the accumulated deficit of the Company to EUR79,860,200.

The Directors have reasonable expectations and are satisfied that the Company 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 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 Company, for safeguarding the assets of the Company, for taking reasonable steps for the prevention and detection of fraud and other irregularities and for the preparation of the annual report and financial statements.

The 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 Alternative Investment Markets ("AIM") rules of the London Stock Exchange for companies with securities admitted to trading on AIM.

International Accounting Standard 1 requires that financial statements present fairly for each financial year the Company'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 2018

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 Company's financial position and financial performance; and
- state that the Company has complied with IFRS, subject to any material departures disclosed and explained in the financial statements.

Change of investment objective and policy of the Company
At a general shareholder meeting on 21 February 2018, the investment objective of the Company was changed so that it now aims to achieve capital appreciation and/or to generate investment income returns through the acquisition of real estate assets in Romania, including the development of such assets, and/or the acquisition of significant or controlling stakes in companies established in, or operating predominantly in Romania, primarily in the real estate sector. Any new private equity investments in companies operating in sectors other than real estate would be limited to 25% of the Company's total assets at the time of effecting the investment. However, the Company may continue to make follow-on investments in existing portfolio companies without any such limitation. The same shareholder meeting decided that the next continuation vote will be held in 2023 and that the Company can acquire 22% of the issued share capital of Reconstruction Capital Plc for EUR1.6m and 10% of the issued share capital of the Romanian Investment Fund Limited for EUR1.7m.

Independent Auditor
The independent auditor, Grant Thornton (Cyprus) Ltd, 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

Director

Mihai Rădoi

14 June 2019

Independent Auditor's Report to the Members of Reconstruction Capital II Ltd

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of Reconstruction Capital II Ltd (the "Company"), which are presented in pages 15 to 48 and comprise the statement of financial position as at 31 December 2018, the statements of comprehensive income, changes in equity, cash flows for the year ended, and the notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements give a true and fair view of the financial position of Reconstruction Capital II Ltd as at 31 December 2018 and of its financial performance and its cash flows for the year then ended, in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union.

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISA). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the Company in accordance with the International Ethics Standards Board for Accountants' of Ethics for Professional Accountants (IESBA Code) together with the ethical requirements that are relevant to our audit of the financial statements in Cyprus, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Independent Auditor's Report to the Members of Reconstruction Capital II Ltd (continued)

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key audit matter	How the matter was addressed
Valuation and existence of unlisted investments designated at fair value through profit or loss The Company's investment objective is to achieve long term total return for shareholders primarily by investment in a diversified portfolio of unlisted equities in Romania. The investment portfolio as at 31 December 2018 amounted to €5,539,626 and is the main driver of the Company's performance. This area was assessed as one of the most significant risks of material misstatement due to the fact that unlisted investments do not have readily determinable prices and because of the degree of judgement exercised by management in determining the inputs used in the valuation models. The valuation methodology primarily used by the Company is based on discounted cash flow techniques making assumptions that are based on market conditions existing at the reporting dates. Unlisted investments are not safeguarded by an independent custodian. There is a risk that the Company may not have sufficient legal entitlement to these investments. Please refer to Notes 9, 10, 11 and 19.5 in the Financial Statements.	Our audit work included: • assessing whether the Company's accounting policy for the valuation of investments is in accordance with IFRS and whether management has applied correctly its policy; • independently evaluating the key drivers used for valuing the unlisted equity portfolio. This process included a review of audited IFRS financial statements as well as budgets used in the preceding years for each investment to assess the reliability of management's budgeting procedures. Additionally, the projected business plans were reviewed to assess the reasonableness of the assumptions used. An in-house valuation specialist was utilised to evaluate the methodology used by the external valuer and assess whether it was correctly applied. • assessing whether the financial statement disclosures, including fair value hierarchy information and sensitivity to key inputs, appropriately reflected the Company's exposure to financial instrument valuation risk in accordance with the requirements of the prevailing accounting standard and; • verifying the existence and legal ownership of investments by confirming holdings to legal certificates of the Companies' Registrar and by confirmations signed by the subsidiary.

Independent Auditor's Report to the Members of Reconstruction Capital II Ltd (continued)

Valuation of the loan receivable designated at fair value through profit or loss The Company has a loan receivable of €25,075,006 from one of its subsidiaries that represents 78% of the total assets. This matter was one of the most significant assessed risks of material misstatement since the Management considers the adjusted net asset value of its subsidiary to be its fair value, since its underlying assets and liabilities are carried at fair value or regarded as an approximation of fair value. No off-balance sheet items (eg. intangible assets) have been identified for which an adjustment would be required. Please refer to Note 11 and 19.5 in the Financial Statements.	Our audit work included: • obtaining the audited financial statements of the subsidiary, prepared under IFRS, to confirm the outstanding balance, verify its adjusted net asset value and assess whether it reflects its fair value and also whether this basis is considered reasonable. • independently evaluating the key drivers used for valuing the underlying unlisted equity portfolio of the specific subsidiary, as described in the previous key audit matter. • assessing whether the financial statement disclosures, including fair value hierarchy information and sensitivity to key inputs, appropriately reflected the Company's exposure to financial instrument valuation risk in accordance with the requirements of IFRSs.

Other Information

The Board of Directors is responsible for the other information. The other information comprises the information included in the Adviser's report, Investment policy, and report of directors but does not include the financial statements and our auditor’s report thereon.

Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of the Board of Directors for the Financial Statements

The Board of Directors is responsible for the preparation of financial statements that give a true and fair view in accordance with International Financial Reporting Standards, and for such internal control as the Board of Directors determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Board of Directors is responsible for assessing the Company’s ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Board of Directors either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

The Board of Directors is responsible for overseeing the Company’s financial reporting process.

Independent Auditor's Report to the Members of Reconstruction Capital II Ltd (continued)

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not a guarantee that an audit conducted in accordance with ISA will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with ISA, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit 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 Company's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Board of Directors.

- Conclude on the appropriateness of the Board of Directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves a true and fair view.

We communicate with the Board of Directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the Board of Directors with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the Board of Directors, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Independent Auditor's Report to the Members of Reconstruction Capital II Ltd (continued)

Other Matter

This report, including the opinion, has been prepared for and only for the Company's members as a body and for no other purpose. We do not, in giving this opinion, accept or assume responsibility for any other purpose or to any other person to whose knowledge this report may come to.

The engagement partner on the audit resulting in this independent auditor's report is Ms. Froso Yiangoulli.

Froso Yiangoulli
Certified Public Accountant and Registered Auditor
for and on behalf of

Grant Thornton (Cyprus) Ltd
Certified Public Accountants and Registered Auditors

Nicosia, 14 June 2019

STATEMENT OF COMPREHENSIVE INCOME
For the year ended 31 December 2018

	Notes	2018 EUR	2017 EUR
Investment income			
Fair value loss on financial assets at fair value through profit or loss	**19.5**	(7,436,971)	(10,981,533)
Recovery of previously written off receivable		9,000	189,000
Interest income	**11.2**	4,341,794	4,334,820
Dividend income	**4**	-	7,619,610
Other income		10	-
Net investment (loss)/gain		**(3,086,167)**	**1,161,897**
Expenses			
Operating expenses	**5**	(1,031,186)	(1,619,749)
Financial expenses	**6**	(886)	(188)
Total expenses		**(1,032,072)**	**(1,619,937)**
Loss for the year		**(4,118,239)**	**(458,040)**
Other comprehensive income		-	-
Total comprehensive income for the year attributable to owners		**(4,118,239)**	**(458,040)**
Loss Per Share	**8**		
Basic and diluted loss per share		(0.0285)	(0.0031)

The notes on pages 19 to 48 form an integral part of these audited financial statements.

STATEMENT OF FINANCIAL POSITION
As at 31 December 2018

	Notes	2018 EUR	2017 EUR
ASSETS			
Non-current assets			
Financial assets at fair value through profit or loss	**11**	30,614,632	30,143,162
Total non-current assets		**30,614,632**	**30,143,162**
Current assets			
Trade and other receivables	**12**	21,011	136,439
Cash and cash equivalents	**13**	1,480,305	6,439,763
Total current assets		**1,501,316**	**6,576,202**
TOTAL ASSETS		**32,115,948**	**36,719,364**
LIABILITIES			
Current liabilities			
Trade and other payables	**14**	710,726	430,510
Total current liabilities		**710,726**	**430,510**
TOTAL LIABILITIES		**710,726**	**430,510**
NET ASSETS		**31,405,222**	**36,288,854**
EQUITY AND RESERVES			
Share capital	**16**	1,403,324	1,449,460
Share premium		109,862,098	110,581,355
Accumulated deficit		(79,860,200)	(75,741,961)
TOTAL EQUITY		**31,405,222**	**36,288,854**
Net Asset Value per share			
Basic and diluted net asset value per share	**17**	0.2238	0.2504

The financial statements were approved by the Board of Directors and authorised for issue on 14June 2019.

Mihai Rădoi
Director

Martin Derbyshire
Director

The notes on pages 19 to 48 form an integral part of these audited financial statements.

STATEMENT OF CHANGES IN EQUITY
For the year ended 31 December 2018

	Share capital EUR	Share premium EUR	Accumulated deficit EUR	Total EUR
Balance at 1 January 2017	1,476,223	127,991,989	(75,283,921)	**54,184,291**
Loss for the year	-	-	(458,040)	**(458,040)**
Other comprehensive income	-	-	-	**-**
Total comprehensive income for the year	**-**	**-**	**(458,040)**	**(458,040)**
Issue and redemption of B shares	-	(16,997,375)	-	**(16,997,375)**
Repurchase and cancellation of own shares	(26,763)	(413,259)	-	**(440,022)**
Transactions with owners	(26,763)	(17,410,634)	-	**(17,437,397)**
Balance at 31 December 2017	**1,449,460**	**110,581,355**	**(75,741,961)**	**36,288,854**
Loss for the year	-	-	(4,118,239)	**(4,118,239)**
Other comprehensive income	-	-	-	**-**
Total comprehensive income for the year	**-**	**-**	**(4,118,239)**	**(4,118,239)**
Repurchase and cancellation of own shares	(46,136)	(719,257)	-	**(765,393)**
Transactions with owners	(46,136)	(719,257)	-	**(765,393)**
Balance at 31 December 2018	**1,403,324**	**109,862,098**	**(79,860,200)**	**31,405,222**

The notes on pages 19 to 48 form an integral part of these audited financial statements.

CASH FLOW STATEMENT
For the year ended 31 December 2018

	Notes	2018 EUR	2017 EUR
Cash flows from operating activities			
Loss for the year		(4,118,239)	(458,040)
Adjustments for:			
Fair value loss on financial assets at fair value through profit or loss		7,436,971	10,981,533
Reversal of loan impairment		(9,000)	(189,000)
Interest income		(4,341,794)	(4,334,820)
Dividend income		-	(7,619,610)
Net loss on foreign exchange		886	188
Net cash outflow before changes in working capital		**(1,031,176)**	**(1,619,749)**
Decrease in trade and other receivables		115,427	7,352
(Decrease)/increase in trade and other payables		(180,513)	138,108
Purchase of financial assets		(3,433,045)	(370,000)
Disposals and repayments of financial assets		9,000	63,000
Dividends received		-	7,500,000
Net cash (used in)/ generated by operating activities		**(4,520,307)**	**5,718,711**
Cash flows from financing activities			
Payments to purchase own shares		(416,810)	(440,022)
Redemptions of B shares		(21,455)	(16,842,979)
Net cash flow used in financing activities		**(438,265)**	**(17,283,001)**
Net decrease in cash and cash equivalents before currency adjustment		**(4,958,572)**	**(11,564,290)**
Effects of exchange rate differences on cash and cash equivalents		(886)	(188)
Net decrease in cash and cash equivalents after currency adjustment		**(4,959,458)**	**(11,564,478)**
Cash and cash equivalents at the beginning of the year		6,439,763	18,004,241
Cash and cash equivalents at the end of the year	**13**	**1,480,305**	**6,439,763**

The notes on pages 19 to 48 form an integral part of these audited financial statements.

NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 December 2018

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 admitted to trading on the Alternative Investment Market ("AIM") of the London Stock Exchange on 23 December 2005 and started trading on 27 January 2006. These financial statements show the results of the Company for the year ended 31 December 2018.

Following a general shareholder meeting on 21 February 2018, the investment objective of the Company was changed so that it now aims to achieve capital appreciation and/or to generate investment income returns through the acquisition of real estate assets in Romania, including the development of such assets, and/or the acquisition of significant or controlling stakes in companies established in, or operating predominantly in Romania, primarily in the real estate sector. Any new private equity investments in companies operating in sectors other than real estate would be limited to 25% of the Company's total assets at the time of effecting the investment. However, the Company may continue to make follow-on investments in existing portfolio companies without any such limitation.

Following the annual general meeting of the Company on 22 December 2016, the life of the Company was extended for two years until the end of 2018. At a general shareholder meeting on 21 February 2018, it was decided that the next continuation vote will be held in 2023.

2. Principal accounting policies

2.1 Basis of preparation

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

The Directors have reasonable expectations and are satisfied that the Company 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 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 Company'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 2018

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

New Accounting Standards, amendments to existing Accounting Standards and/or interpretations of existing Accounting Standards (separately or together, "New Accounting Requirements") adopted during the current year

The Directors have assessed the impact, or potential impact, of all New Accounting Requirements. In the opinion of the Directors, except for the adoption of IFRS 9 Financial Instruments referred to below, there are no mandatory New Accounting Requirements applicable in the current year that had any material effect on the reported performance, financial position, or disclosures of the Company. Consequently, no other mandatory New Accounting Requirements are listed. The Company has not early adopted any New Accounting Requirements that are not mandatory.

IFRS 9, "Financial Instruments" (Replacement of IAS 39 — "Financial Instruments: Recognition and Measurement") – effective for accounting periods commencing on or after 1st January 2018

IFRS 9 addresses the recognition, classification and measurement of financial assets and financial liabilities and replaces most of the guidance in IAS 39.

IFRS 9 requires financial assets to be classified into the following measurement categories: (i) those measured at fair value through profit or loss; (ii) those measured at fair value through other comprehensive income; and, (iii) those measured at amortised cost. The determination is made at initial recognition. Unless the option to designate a financial asset as measured at fair value through profit or loss is applicable, the classification depends on the entity's business model for managing its financial instruments and the contractual cash flow characteristics of the instrument.

IFRS 9 also replaces the "incurred loss" model in IAS 39 with an "expected credit loss" model for the measurement of impairment loss. The new model applies to financial assets that are not measured at fair value through profit or loss.

For financial liabilities, the standard retains most of the IAS 39 requirements. The main change is that, in cases where the fair value option is taken for financial liabilities, the part of a fair value change due to an entity's own credit risk is recorded in other comprehensive income rather than the income statement, unless this creates an accounting mismatch.

In the Directors' opinion, adoption of IFRS 9 simplified approach had no material impact on the recognition, measurement or disclosures relating to its financial instruments.

Standards issued but not yet effective
Standards issued and not yet effective up to the date of issuance of the Company's financial statements are listed below. The Company intends to adopt these standards when they become effective and endorsed by the European Union ("EU"). Based on an assessment, the Directors expect that the standards below will not have a material impact on these financial statements.

NOTES TO THE FINANCIAL STATEMENTS (continued)
For the year ended 31 December 2018

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

- IFRS 14 "Regulatory Deferral Accounts" (effective 1 January 2016, not yet endorsed by the EU)
- IFRS 16 "Leases" (effective 1 January 2019)
- IFRS 17 "Insurance Contracts" (effective 1 January 2021)
- IFRIC 23 "Uncertainty over Income Tax Treatments" (effective 1 January 2019)
- Annual Improvements to IFRS 2015-2017 Cycle (effective 1 January 2019)
- Amendment to IFRS 9 "Prepayment Features with Negative Compensation" (effective 1 January 2019)
- Amendment to IFRS 10 and IAS 28 "Sale or Contribution of Assets between an Investor and its Associate or Joint Venture" (to be determined)
- Amendment to IAS 19 "Plan Amendment, Curtailment or Settlement" (effective 1 January 2019)
- Amendment to IFRS 28 "Long-term Interests in Associates and Joint Ventures" (effective 1 January 2019)
- "Conceptual Framework for Financial Reporting (Revised)" (effective 1 January 2020)
- Amendment to IFRS 3 "Definition of A Business" (effective 1 January 2020), not yet endorsed for use in the EU
- Amendment to IAS 1 and IAS 8 "Definition of Material" (effective 1 January 2020), not yet endorsed for use in the EU

2.2 Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable, net of discounts and revenue indirect taxes.

Revenue is recognised when the amount of revenue can be measured reliably, it is probable that the economic benefits associated with the transaction will flow to the Company, the costs incurred or to be incurred can be measured reliably, and when also the criteria for each of the Company's different activities have been met. These activity-specific recognition criteria are described below.

Dividend from investments in securities is recognised when the right to receive payment is established. Withheld taxes are transferred to profit or loss. Interest from investments in securities is recognised on an accruals basis.

Profits or losses from the sale of investments in securities represent the difference between the net proceeds and the carrying amount of the investments sold and is transferred to profit or loss.

The difference between the fair value of investments at fair value through profit or loss as at 31 December 2018 and the mid cost price represents unrealised gains and losses and is included in profit or loss in the period in which it arises

In the Directors' opinion, adoption of IFRS15 had no material impact on the recognition, measurement or disclosures relating to its financial instruments.

NOTES TO THE FINANCIAL STATEMENTS (continued)
For the year ended 31 December 2018

2. Principal accounting policies (continued)

2.3 Non-consolidated subsidiaries

The Company has determined that the definition of an investment entity (as defined in IFRS 10) applies to the Company, 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; and
- 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 IFRS 9 'Financial Instruments'.

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.

2.4 Foreign currency translation

2.4 a) Functional and presentational currency

Items included in the Company's financial statements are measured using the currency of the primary economic environment in which the entity operates (the "functional currency"). The financial statements are presented in Euro, which is the Company'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 profit or loss.

Foreign exchange gains and losses on non-monetary financial assets and liabilities such as equity investments held at fair value through profit or loss are recognised in profit or loss as part of the fair value gain or loss.

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.

NOTES TO THE FINANCIAL STATEMENTS (continued)
For the year ended 31 December 2018

2. Principal accounting policies (continued)
2.6 Financial assets

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

2.6 a) Financial assets at fair value through profit or loss
Investments consist of mainly unlisted securities and are initially recognised at fair value, excluding transaction costs which are expensed in profit or loss.

The financial assets 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 Company'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 financial assets are recognised in profit or loss.

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 Company commits to purchase or sell the asset.

2.6 b) Debt instruments

Debt instruments are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. These are recognised initially at fair value. They are subsequently measured at amortised cost using the effective interest rate method.

At each reporting date, the Company shall measure the loss allowance on debt instruments at an amount equal to the lifetime expected credit losses if the credit risk has increased significantly since initial recognition. If, at the reporting date, the credit risk has not increased significantly since initial recognition, the Company shall measure the loss allowance at an amount equal to 12-month expected credit losses.

Significant financial difficulties of the borrower, probability that the borrower will enter bankruptcy or financial reorganisation, and default in payments are all considered indicators that a loss allowance may be required. A significant increase in credit risk is defined by management as any contractual payment which is more than 90 days past due. Any contractual payment which is more than 180 days past due is considered credit impaired.

NOTES TO THE FINANCIAL STATEMENTS (continued)
For the year ended 31 December 2018

2. Principal accounting policies (continued)

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.

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 Company's accounting policies for its financial liabilities are as follows:

2.9 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 plus transaction costs and subsequently measured at amortised cost using the effective interest method.

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 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.

2.12 Share premium

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

NOTES TO THE FINANCIAL STATEMENTS (continued)
For the year ended 31 December 2018

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 2018 were as follows:

	2018	**2017**
	EUR	**EUR**
Financial assets at fair value through profit or loss *(note 11)*	30,614,632	30,143,162

Critical accounting estimates and assumptions and critical judgements in applying the Company'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 Company 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 Company 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 Company uses its judgement to select a variety of methods and make assumptions that are mainly based on market conditions existing at each reporting date.

The fair value of the Company's subsidiaries and associates, which are unlisted equity securities, has been determined by using an adjusted net asset approach. The adjusted net asset approach is a way of determining a value indication of an entity's assets and/or equity interest using one or more methods. The most common method within this approach is the Net Asset Value, Net Asset Value representing net equity of the entity after assets and liabilities have been adjusted to their fair values.

The critical inputs and assumptions applied in the valuations are stated in note 19.

Based on the adjusted net asset approach, Management has accepted the fair value estimations of unlisted equity investments as at 31 December 2018, which resulted in a net fair value loss of EUR7.4m, comprised of a fair value loss of EUR8.2million for investment in subsidiaries and loans and receivables and a fair value gain of EUR0.8m for investments in associates respectively, recognised in profit or loss (2017: EUR11.0m) (note 19.5).

NOTES TO THE FINANCIAL STATEMENTS (continued)
For the year ended 31 December 2018

3. Critical accounting estimates and assumptions (continued)

Critical accounting estimates and assumptions and critical judgements in applying the Company's accounting policies (continued)

The fair value of unlisted equity securities held by the Company's subsidiaries and associates has been determined by independent valuers using discounted cash flow analysis, which is based on the investee company's management's business plans for the period 2019-2023, with the exception of Telecredit IFN SA which is valued on an audited net assets basis according to IFRS (see note 19.5). The inputs used in valuing these investments are not based on observable market data and require judgement, considering factors specific to the investment. The valuation methodology applied by the independent valuers is consistent with IFRS and International Valuation Standards ("IVS").

(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 Company 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 and associates at fair value through profit or loss, except for subsidiaries and associates providing services that are related to the Company's investment activity, which are consolidated.

Management has assessed that all of its subsidiaries (note 9) and associates (note 10) should not be consolidated and therefore be accordingly measured at fair value through profit or loss for the purposes of the financial statements as at 31 December 2018 and 2017.

4. Dividend income

	2018 EUR	2017 EUR
Glasro Holdings Limited	-	7,619,610

NOTES TO THE FINANCIAL STATEMENTS (continued)
For the year ended 31 December 2018

5. Operating expenses

		2018 EUR	2017 EUR
Advisory fees	(note 21.1)	779,458	783,566
Legal and professional fees, including transaction fees		78,284	640,575
Administration and custodian fees		71,521	88,267
Directors' fees	(note 21.1)	55,027	60,525
Audit fees		24,545	22,775
Insurance premium		7,825	7,826
Bank charges		4,810	4,159
Other expenses		9,716	12,056
		1,031,186	1,619,749

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 Company, which was accrued and invoiced on a monthly basis for advisory services provided.

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

Performance fees
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 was EUR nil (2017: EUR nil).

Administrator and custodian fees
The current administrator and custodian, Sanne Fiduciary Services Limited, receives a variable monthly fee based on the Company's Net Asset Value ("NAV"), payable quarterly in arrears. An amount of EUR14,850 was outstanding at the year end (2017: EUR38,103).

NOTES TO THE FINANCIAL STATEMENTS (continued)
For the year ended 31 December 2018

5. Operating expenses (continued)

Directors' fees
The Directors are considered to be key management personnel of the Company. The remuneration of each Director is detailed in note 21.

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 any long term incentive schemes or post-employment benefits and no Director made gains from exercising any share options.

6. Financial expenses

	2018 EUR	2017 EUR
Net loss on foreign exchange	886	188
	886	188

7. Income tax

The Company 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).

8. Earnings per share

	2018 EUR	2017 EUR
Earnings		
Earnings for the purposes of basic earnings per share, being net profit attributable to ordinary shareholders of the Company	(4,118,239)	(458,040)
Number of shares		
Weighted average number of shares for the purposes of earnings per share	144,528,092	146,717,893
Basic and diluted earnings per share	**(0.0285)**	**(0.0031)**

There are no potentially dilutive instruments.

NOTES TO THE FINANCIAL STATEMENTS (continued)
For the year ended 31 December 2018

9. Subsidiaries

The following are subsidiaries of the Company and they are all exempt from consolidation under the requirements of IFRS 10 on consolidation for investment entities:

	Principal activity	Country of incorporation	Proportion of ownership interest 2018	2017
Holding company: Reconstruction Capital II Limited				
RC2 (Cyprus) Limited	Investment holding	Cyprus	100%	100%
Glasro Holdings Limited	Consumer loans	Cyprus	100%	100%
Holding company: RC2 (Cyprus) Limited				
Mamaia Resort Hotels S.R.L.	Hotel management	Romania	63%	63%
Holding company: Glasro Holdings Limited				
Telecredit IFN S.A.	Consumer loans	Romania	80%	80%

10. Associates

The Company has the following associates:

	Principal activity	Country of incorporation	Proportion of ownership interest 2018	2017
Holding company: Reconstruction Capital II Limited				
Reconstruction Capital Plc	Investment holding	Isle of Man	23%	-
The Romanian Investment Fund	Investment holding	Cayman	27%*	-
Holding company: RC2 (Cyprus) Limited				
S.C.Policolor S.A.	Paint and varnish manufacture	Romania	40%	40%

* The Company's proportion of ownership interest in The Romanian Investment Fund comprises direct and indirect holdings of 11.3% and 16.11%, respectively, as at 31 December 2018.

NOTES TO THE FINANCIAL STATEMENTS (continued)
For the year ended 31 December 2018

11. Financial assets at fair value through profit or loss

	2018 EUR	2017 EUR
Non-current investments		
Investments in subsidiaries	1,149,797	3,033,023
Investments in associates	4,389,829	-
Loan receivable	25,075,006	27,110,139
	30,614,632	30,143,162

11.1 Investments in subsidiaries

	2018 EUR	2017 EUR
Cost	76,653,660	76,653,660
Net unrealised loss on investments	(75,503,863)	(73,620,637)
Fair value of non-current investments	1,149,797	3,033,023

Included in investments in subsidiaries is an equity investment in RC2 (Cyprus) Limited, a wholly-owned subsidiary of the Company, with a fair value of EUR nil at the year end (2017: EUR nil).

Also included is an equity investment in the wholly owned subsidiary Glasro Holdings Ltd which was valued at EUR 1,149,797 at 31 December 2018, a decrease of EUR 1,883,226 from its value at the end of 2017.

11.2 Investments in associates

	2018 EUR	2017 EUR
Cost	3,566,648	-
Net unrealised gain on investments	823,181	-
Fair value of non-current investments	4,389,829	-

Included in investments in associates are investments in Reconstruction Capital Plc and The Romanian Investment Fund with fair values of EUR 2,242,600 and EUR 2,147,229, respectively, at the year end (2017: EUR nil and EUR nil, respectively).

During the year ended 31 December 2018, the Company reviewed the value of unlisted equity securities measured at fair value through profit or loss, resulting in a fair value gain of EUR0.8 million (2017: gain of EUR nil).

NOTES TO THE FINANCIAL STATEMENTS (continued)
For the year ended 31 December 2018

11.3 Loan receivable at fair value through profit or loss

	2018 EUR	2017 EUR
Loan to unconsolidated subsidiary	25,075,006	27,110,139

Included in the balance of loan to unconsolidated subsidiary is a loan to RC2 (Cyprus) Limited, which bears interest of 8% per annum on the outstanding principal. The loan was repayable on demand, however on 19 April 2018, and effective from 31 December 2017, the Company signed an addendum to the loan agreement with RC2 (Cyprus) Ltd, whereby the Company will not impose the repayment of the outstanding amount or part of the outstanding amount until 31 December 2023. The Company has also committed to provide financial support to RC2 (Cyprus) Limited.

	2018 EUR	2017 EUR
Changes in loan receivable		
Opening balance	27,110,139	28,330,995
Loan amounts granted	-	370,000
Interest income	4,341,794	4,334,820
Fair value loss on loan receivable	(6,376,927)	(5,925,676)
	25,075,006	27,110,139

The valuation of the loan is based on the adjusted net asset value of RC2 (Cyprus) Limited which is available to repay the loan principal and interest payable to the Company (note 19.5). The value of the loan receivable decreased by EUR 2,035,133 during the year. The decrease is a result of the accrued interest income of EUR 4,341,794 being offset by the fair value loss on the receivable of EUR 6,376,927.

12. Trade and other receivables

	2018 EUR	2017 EUR
Trade and other receivables	-	126,000
Prepayments	21,011	10,439
	21,011	136,439

On 24 July 2017, the Company entered into a settlement agreement in respect of loans receivable from East Point Metals Limited, whereby the Company would receive a total of EUR189,000 as settlement of these loans. The Company received EUR63,000 on 28 July 2017 whilst the remaining balance of EUR 126,000 was fully recovered in 2018.

NOTES TO THE FINANCIAL STATEMENTS (continued)
For the year ended 31 December 2018

13. Cash and cash equivalents

	2018 EUR	2017 EUR
Cash at bank	1,480,305	6,439,763

14. Trade and other payables

		2018 EUR	2017 EUR
Advisory fees	(note 21.2)	53,229	178,564
Directors' fees and expenses	(note 21.2)	-	2,192
Auditor's fees		23,000	21,455
Administration fees		14,850	38,103
Amount payable in respect of share cancellations (i)		348,583	-
Amounts payable in respect of share redemptions (ii)		132,941	154,396
Amount payable for investments (iii)		133,602	-
Other payables and accruals		4,521	35,800
		710,726	430,510

(i) Amount payable in respect of share cancellations of EUR 348,583 (2017: EUR nil) relates to the purchase for cancellation on 21 December 2018 of 1,790,000 Ordinary Shares of the Company of EUR 0.01 each. The outstanding amount was settled on 8 January 2019.

(ii) Amounts payable in respect of share redemptions of EUR 132,941 (2017: EUR 154,396) relates to B shares of the Company redeemed in 2017. The outstanding amount was settled on 11 April 2019.

(iii) Amount payable for investments of EUR 133,602 (2017: EUR nil) relates to the purchase of 600 shares in The Romanian Investment Fund Limited on 19 December 2018. The outstanding amount was settled on 9 January 2019.

15. Reserves

Reserve	**Description and purpose**
Share premium	Amount subscribed for share capital in excess of par value, as reduced by bonus issues
Retained earnings/(Accumulated deficit)	Cumulative net gains and losses recognised in the statement of comprehensive income, and cumulative transfers from other recognised reserves, where permitted or required

NOTES TO THE FINANCIAL STATEMENTS (continued)
For the year ended 31 December 2018

16. Share capital

	2018		2017	
	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
B shares of EUR1 each	17,000,000	17,000,000	17,000,000	17,000,000
Issued and fully paid				
Ordinary shares of EUR0.01 each	140,332,376	1,403,324	144,946,017	1,449,460

	2018		2017	
	Number of shares	EUR	Number of shares	EUR
Ordinary shares				
Share capital at 1 January	144,946,017	1,449,460	147,622,267	1,476,223
Share cancellations	(4,613,641)	(46,136)	(2,676,250)	(26,763)
	140,332,376	1,403,324	144,946,017	1,449,460
B shares				
Share capital at 1 January	-	-	-	-
Shares issued	-	-	16,997,375	16,997,375
Share redemptions	-	-	(16,997,375)	(16,997,375)
	-	-	-	-

NOTES TO THE FINANCIAL STATEMENTS (continued)
For the year ended 31 December 2018

16. Share capital (continued)

On 23 February 2017, the Company held an Extraordinary General Meeting to increase the authorised share capital of the Company by 17,000,000 non-voting, transferrable redeemable B shares of EUR1 nominal value.

On 24 February 2017, the Company issued 1 B share for each 8.685 ordinary shares in issue for no consideration, resulting in an increase in the issued share capital of 16,997,375 B shares.

The B shares were redeemable on 14 April 2017, unless the shareholders requested an early redemption, in which case they were redeemable on 6 March 2017 at the option of the Company.

A total of 10,089,154 B shares was redeemed on the early redemption date and the balance of 6,908,221 B shares was redeemed on 14 April 2017. As at 31 December 2018, EUR132,941 (2017: EUR154,396) was outstanding in respect of redemptions of B shares (note 14).

On 12 July 2018, the Company purchased for cancellation 304,744 of its Ordinary Shares of EUR 0.01 each at a price of EUR 0.1675 per share.

On 18 July 2018, the Company purchased for cancellation 340,241 of its Ordinary Shares of EUR 0.01 each at a price of EUR 0.1675 per share.

On 16 November 2018, the Company purchased for cancellation 1,790,000 of its Ordinary Shares of EUR 0.01 each at a price of EUR 0.1725 per share.

On 21 December 2018, the Company purchased for cancellation 2,178,641 of its Ordinary Shares of EUR 0.01 each at a price of EUR 0.16 per share. As at 31 December 2018, EUR348,583 (2017: EUR nil) was outstanding in respect of redemptions of Ordinary shares (note 14).

17. Net Asset Value per share

	2018 EUR	2017 EUR
Net assets	31,405,222	36,288,854
Closing number of shares	140,332,376	144,946,017
Basic and diluted net asset value per share	0.2238	0.2504

There are no potentially dilutive instruments.

NOTES TO THE FINANCIAL STATEMENTS (continued)
For the year ended 31 December 2018

18. Financial assets and liabilities

The carrying amounts of the Company's financial assets and liabilities are:

		2018 EUR	2017 EUR
Financial assets at fair value through profit or loss			
Investments in subsidiaries	(note 11.1)	1,149,797	3,033,023
Investments in associates	(note 11.2)	4,389,829	-
Loan receivable	(note 11.3)	25,075,006	27,110,139
		30,614,632	30,143,162
Financial assets at amortised cost			
Trade and other receivables	(note 12)	-	126,000
Cash and cash equivalents	(note 13)	1,480,305	6,439,763
		1,480,305	6,565,763
Financial liabilities at amortised cost			
Trade and other payables	(note 14)	710,726	430,510

19. Financial risk management

The Company is exposed to the following financial risks resulting from its financial instruments: market risk, credit risk and liquidity risk.

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

19.1 Market risk

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

The Company, through its subsidiaries, invests in securities of 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 more erratic market movements than securities of larger companies and may be dependent for their management on one or two key individuals.

NOTES TO THE FINANCIAL STATEMENTS (continued)
For the year ended 31 December 2018

19. Financial risk management (continued)
19.1 Market risk (continued)

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

The Company measures these risks by monitoring its exposure to certain markets, industries and countries. The details of these exposures are analysed at the level of the Company's subsidiaries as follows:

	2018 EUR	2017 EUR
Sector		
Consumer loans	1,149,797	3,033,023
Other private equity investments	29,464,835	27,110,139
	30,614,632	30,143,162
Other items	1,501,316	6,576,202
Geographical analysis		
Consumer loans		
Romania	1,149,797	2,670,396
Cyprus	-	362,627
	1,149,797	3,033,023
Other private equity investments		
Romania	29,464,835	27,110,139
Other items		
Jersey	1,501,316	6,576,202

Consumer loans have been allocated based on the location of the borrower. Other private equity investments and other items are disclosed based on the location of the underlying investments.

NOTES TO THE FINANCIAL STATEMENTS (continued)
For the year ended 31 December 2018

19. Financial risk management (continued)
19.1 Market risk (continued)

i. Interest rate risk
The Company's exposure to risks associated with fluctuations in the prevailing levels of market interest rates is limited to cash and cash equivalents and subsidiaries' investments in consumer loans:

	2018 EUR	2017 EUR
Cash and cash equivalents	1,480,305	6,439,763
Consumer loans	1,149,797	3,033,023
	2,630,102	9,472,786

Should interest rates in relation to the Company's cash and cash equivalents 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 EUR3,701 (2017: EUR16,099). 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.

ii. Price risk
The Company trades in financial instruments, taking positions in unlisted instruments. All investments in securities represent a risk of loss of capital. The Company's equity securities are susceptible to market price risk arising from uncertainties about future prices of the instruments. The exposure to price risk of unlisted equity investments is presented in note 19.5 under "Fair value information".

19.2 Credit risk

The Company is exposed to credit risk as a result of holding financial assets at fair value through profit or loss, cash and cash equivalents, trade and other receivables. The maximum exposure to credit risk at 31 December is:

	2018 EUR	2017 EUR
Financial assets at fair value through profit or loss	30,614,632	30,143,162
Trade and other receivables	-	126,000
Cash and cash equivalents	1,480,305	6,439,763
	32,094,937	36,708,925

Trade and other receivables and cash and cash equivalents are classified as loans and receivables, therefore the total credit risk exposure from loans and receivables is EUR1,480,305 (2017: EUR6,565,763).

NOTES TO THE FINANCIAL STATEMENTS (continued)
For the year ended 31 December 2018

19. Financial risk management (continued)
19.2 Credit risk (continued)

There are no trade and other receivables which are impaired (2017: EUR126,000). The trade and other receivables balance of EUR 126,000 although past due at the end of 2017 was fully recovered in 2018.

The Company's cash and cash equivalents are held with regional and foreign banks and are diversified appropriately. The Moody's credit ratings of the banks where the Company held cash and cash equivalents was Aa3 (2017: Aa3).

The credit quality of the financial assets at fair value through profit or loss 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.

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

19.3 Liquidity risk

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

The table below sets out the Company'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.

	Carrying amount EUR	Contractual cash flows EUR	Less than 1 month EUR	Less than 1 year EUR
31 December 2018				
Trade and other payables	710,726	710,726	554,780	155,946
31 December 2017				
Trade and other payables	430,510	430,510	409,055	21,455

NOTES TO THE FINANCIAL STATEMENTS (continued)
For the year ended 31 December 2018

19. Financial risk management (continued)
19.4 Capital management and procedures

The current Company 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 Company to operate effectively in the marketplace and sustain the future development of the business.

The Company's equity is summarised in the statement of changes in equity and consists of share capital, share premium and retained deficit.

The amounts managed as capital by the Company for the reporting years under review are summarised as follows:

	2018 EUR	2017 EUR
Equity	31,405,222	36,288,854
Cash and cash equivalents	(1,480,305)	(6,439,763)
Capital	29,924,917	29,849,091
Equity	31,405,222	36,288,854
Overall financing	31,405,222	36,288,854
Proportion of capital to overall financing	95%	82%

The Company 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 0% (2017: 0%) of gross assets.

19.5 Fair value information

All of the Company's investments, as well as the loan receivable, are carried at fair value. Usually the fair value of the financial instruments can be reliably determined within a reasonable range of estimates.

The carrying amounts of the Company's loans and receivables and financial liabilities at amortised cost at the reporting date approximate their fair value.

NOTES TO THE FINANCIAL STATEMENTS (continued)
For the year ended 31 December 2018

19. Financial risk management (continued)
19.5 Fair value information (continued)

The major methods and assumptions used in estimating the fair values of financial instruments classified as Level 3 are disclosed in note 3 and below. As the major methods and assumptions used in estimating the fair values are subjective, the Company has conducted a sensitivity analysis on key areas based on the Adviser's reasonable expectations.

Estimation of fair values - non-consolidated subsidiaries

The Company undertakes valuations of its private equity investments at fair value through profit or loss as at each financial reporting date. In 2018 the Company used an adjusted net asset approach to value its investments in subsidiaries at fair value through profit or loss. Estimates of the value of an entity can be developed using the adjusted net asset approach by adjusting the entity's statement of financial position to approximate current market values of its assets and liabilities. The adjusted net asset approach is a way of determining a value indication of an entity's assets and/or equity interest using one or more methods. The most common method within this approach is the Net Asset Value, Net Asset Value representing net equity of the entity after assets and liabilities have been adjusted to their fair values.

Reconstruction Capital Plc

As at 31 December 2018, all significant assets included in the statement of financial position of Reconstruction Capital Plc were recorded at fair value. The equity value of the Company's investment in Reconstruction Capital Plc amounted to EUR2,242,600.

As at 31 December 2018, if the net assets of Reconstruction Capital Plc increased or decreased by 5%, the effect from the corresponding change on the fair value of the investment would be reflected as follows in the financial statements of the Company:

- 5% increase: increase in the Company's total assets of 0.35% or EUR112,130 and a decrease in the Company's post-tax loss of 2.72% or EUR112,130;
- 5% decrease: decrease in the Company's total assets of 0.35% or EUR112,130 and an increase in the Company's post-tax loss of 2.72% or EUR112,130.

Romanian Investment Fund Limited

As at 31 December 2018, all significant assets included in the statement of financial position of Romanian Investment Fund Limited were recorded at fair value. The equity value of the Company's Investment in The Romanian Investment Fund Limited amounted to EUR2,147,229.

As at 31 December 2018, if the net assets of Romanian Investment Fund Limited increased or decreased by 5%, the effect from the corresponding change on the fair value of the investment would be reflected as follows in the financial statements of the Company:

- 5% increase: increase in the Company's total assets of 0.33% or EUR107,361 and a decrease in the Company's post-tax loss of 2.61% or EUR107,361;
- 5% decrease: decrease in the Company's total assets of 0.33% or EUR107,361 and an increase in the Company's post-tax loss of 2.61% or EUR107,361.

NOTES TO THE FINANCIAL STATEMENTS (continued)
For the year ended 31 December 2018

19. Financial risk management (continued)
19.5 Fair value information (continued)

Glasro Holdings Limited

As at 31 December 2018, all significant assets included in the statement of financial position of Glasro Holdings Limited were recorded at fair value. The equity value of the Company's investment in Glasro Holdings Limited amounted to EUR1,149,797.

As at 31 December 2018, if the net assets of Glasro Holdings Limited increased or decreased by 5%, the effect from the corresponding change on the fair value of the investment would be reflected as follows in the financial statements of the Company:

- 5% increase: increase in the Company's total assets of 0.18% or EUR57,490 and a decrease in the Company's post-tax loss of 1.40% or EUR57,490;
- 5% decrease: decrease in the Company's total assets of 0.18% or EUR57,490 and an increase in the Company's post-tax loss of 1.40% or EUR57,490.

RC2 (Cyprus) Limited

At 31 December 2018, the Company's investment in RC2 (Cyprus) Limited had a fair value of EUR nil. The loan receivable (see note 11.3) from RC2 (Cyprus) Limited had a fair value of EUR25,075,006, determined on an adjusted net value approach as explained in note 11.3. The fair value of the loan receivable reflects the fair value of the underlying investments made by RC2 (Cyprus) Limited in Policolor and Mamaia.

As at 31 December 2018, if the net asset position of RC2 (Cyprus) Limited increased or decreased by 5%, the effect from the corresponding change on the fair value of the loan would be reflected as follows in the financial statements of the Company:

- 5% increase: increase in the Company's total assets of 3.90% or EUR1,253,750 and a decrease in the Company's post-tax loss of 30.44% or EUR1,253,750;
- 5% decrease: decrease in the Company's total assets of 3.90% or EUR1,253,750 and an increase in the Company's post-tax loss of 30.44% or EUR1,253,750.

The equity investment in the subsidiary would not have any impact from the above changes in net assets.

The investments held through the Company's non-consolidated subsidiaries are valued as at each financial reporting date. The determination of fair value is supported by an independent valuer which is engaged to perform the valuation of the investments. The selection of the independent valuer is at the discretion of the Company's Board of Directors. The independent valuer follows up a documented valuation procedure when determining the amount that is most representative for the fair value by describing:

- the appropriate valuation techniques to be used;
- the market conditions and the information available;
- the investment horizon and the type of investment; and
- the industry in which the investee operates.

NOTES TO THE FINANCIAL STATEMENTS (continued)
For the year ended 31 December 2018

19. Financial risk management (continued)
19.5 Fair value information (continued)

Estimation of fair values - non-consolidated subsidiaries (continued)

The Board of Directors reviews and approves the valuation reports prepared by the independent valuer.

Policolor S.A.

Policolor S.A. was valued by an independent valuer as at 31 December 2018. The major assumptions used in the valuation are as follows:

- weighted average cost of capital of 9.6%;
- EBITDA margin rate between 3.4% and 10.4%;
- revenue growth rate between 2% and 7.1%;
- long term growth rate of 2%.

Increase/(decrease) in the Company's net assets relative to changes in valuation assumptions:

	+0.5%	**-0.5%**
Weighted average cost of capital	(1,080,000)	1,240,000
	+5%	**-5%**
EBITDA margin rate	1,240,000	(1,280,000)
	+5%	**-5%**
Revenue growth rate	1,240,000	(1,280,000)
	+0.5%	**-0.5%**
Long term growth rate	880,000	(800,000)

Mamaia Resort Hotels S.R.L.

Mamaia Resort Hotels S.R.L. was valued by an independent valuer as at 31 December 2018. The major assumptions used in the valuation are as follows:

- weighted average cost of capital of 9.4%;
- EBITDA margin rate between 12.4% and 22%;
- revenue growth rate between 2.5% and 8.6%; and
- long term growth rate of 2%.

Increase/(decrease) in the Company's net assets relative to changes in valuation assumptions:

	+0.5%	**-0.5%**
Weighted average cost of capital	(258,356)	289,863
	+5%	**-5%**
EBITDA margin rate	277,260	(283,562)
	+5%	**-5%**
Revenue growth rate	289,863	(296,164)

NOTES TO THE FINANCIAL STATEMENTS (continued)
For the year ended 31 December 2018

19. Financial risk management (continued)
19.5 Fair value information (continued)

Estimation of fair values - investments held through the Company's non-consolidated subsidiaries (continued)

Mamaia Resort Hotels S.R.L. (continued)

Increase/(decrease) in the Company's net assets relative to changes in valuation assumptions (continued):

	+0.5%	**-0.5%**
Long term growth rate	214,247	(189,041)

Telecredit IFN SA
Telecredit IFN SA has not been valued by an independent valuer as at 31 December 2018 because it is changing its business model as a result of new restrictions on lending to individuals introduced by the National Bank of Romania effective 1 January 2019. The valuation of EUR 889,398 reflects Glasro Holdings Limited's share of Telecredit IFN SA's net asset value audited under IFRS as at 31 December 2018.

As at 31 December 2018, if the net asset position of Telecredit IFN SA increased or decreased by 5%, the effect from the corresponding change on the fair value of the loan would be reflected as follows in the financial statements of the Company:

- 5% increase: increase in the Company's total assets of 0.14% or EUR44,470 and a decrease in the Company's post-tax loss of 1.08% or EUR44,470;
- 5% decrease: decrease in the Company's total assets of 0.14% or EUR44,470 and an increase in the Company's post-tax loss of 1.08% or EUR44,470.

The equity investment in the subsidiary would not have any impact from the above changes in net assets.

Fair value hierarchy
IFRS 13 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 13 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	quoted prices (unadjusted) in active markets for identical assets or liabilities, that the Company 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; and
Level 3	unobservable inputs for the asset or liability.

NOTES TO THE FINANCIAL STATEMENTS (continued)
For the year ended 31 December 2018

19. Financial risk management (continued)
19.5 Fair value information (continued)

Fair value hierarchy (continued)

The following tables present the financial assets at fair value through profit or loss by level within the valuation hierarchy:

	2018	2017
Level 3	**EUR**	**EUR**
Investments in subsidiaries	1,149,797	3,033,023
Investments in associates	4,389,829	-
Loan to subsidiary	25,075,006	27,110,139
	30,614,632	30,143,162

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

	2018	2017
	EUR	**EUR**
Balance at 1 January	30,143,162	36,300,265
Total gains or losses for the year:		
Fair value loss	(7,436,971)	(10,861,923)
Purchases and additions	7,908,441	4,704,820
Balance at 31 December	30,614,632	30,143,162
Cumulative unrealised loss from assets still held at year end	(165,403,796)	(157,966,825)

The above amounts are in respect of assets held at year end.

20. 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) through its subsidiary, RC2 (Cyprus) Limited. 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 2018

20. Operating segments (continued)

Reportable segments

The Directors have identified two reportable segments based on the Company's current operations - the private equity programme and other items.

31 December 2018	Private equity programme EUR	Other items EUR	Total per financial statements EUR
Reportable segment total assets	30,614,632	1,501,316	32,115,948
Reportable segment loss before tax	(3,095,167)	(1,023,072)	(4,118,239)
Reportable segment total liabilities	-	(710,726)	(710,726)
Fair value loss on financial assets at FVTPL	(7,436,971)	-	(7,436,971)
Recovery of previously written off receivable	9,000	-	9,000
Interest income	4,341,794	-	4,341,794
Other income	-	10	10
Dividends	-	-	-
Financial expenses	-	(886)	(886)
Operating expenses	-	(1,031,186)	(1,031,186)
31 December 2017			
Reportable segment total assets	30,143,162	6,576,202	36,719,364
Reportable segment profit/(loss) before tax	972,897	(1,430,937)	(458,040)
Reportable segment total liabilities	-	(430,510)	(430,510)
Fair value gain on financial assets at FVTPL	(10,981,533)	-	(10,981,533)
Recovery of previously written off receivable	189,000	-	189,000
Interest income	4,334,820	-	4,334,820
Dividends	7,619,610	-	7,619,610
Financial expenses	-	(188)	(188)
Operating expenses	-	(1,619,749)	(1,619,749)

The geographical location of the investments held under the private equity programme is disclosed in note 19.1.

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.

NOTES TO THE FINANCIAL STATEMENTS (continued)
For the year ended 31 December 2018

21. Related party transactions (continued)

21.1 Key management compensation

	2018 EUR	2017 EUR
Advisory fees	779,458	783,566
Directors' fees	55,027	60,525
	834,485	844,091

a. Advisory fees (note 5)
New Europe Capital SRL was the Adviser to the Company during the year. The advisory fees are accrued and are payable monthly in arrears. Total advisory fees for the year amounted to EUR779,458 (2017: EUR783,566). Total fees outstanding as at 31 December 2018 were EUR53,229 (2017: EUR178,564).

There were no performance fees paid or payable in respect of 2018 (2017: EUR nil).

Advisory fees which are unpaid for over a month attract an interest of 10% (2017: 10%) on the entire balance. No interest was charged during the year (2017: EUR nil).

b. Directors' fees (note 5)

		2018 EUR	2017 EUR
Martin Derbyshire		10,027	2,192
Mihai Rădoi		20,000	20,000
Dirk Van den Broeck	*(resigned on 18 December 2018)*	25,000	25,000
Markus Winkler	*(resigned on 31 August 2017)*	-	13,333
		55,027	60,525

21.2 Trade and other payables to key management (note 14)

	2018 EUR	2017 EUR
Advisory fees	53,229	178,564
Directors' fees and expenses	-	2,192
	53,229	180,756

NOTES TO THE FINANCIAL STATEMENTS (continued)
For the year ended 31 December 2018

21. Related party transactions (continued)
21.3 Related parties' interests

	2018		2017	
Ordinary shares	**Number**	**% of issued share capital**	**Number**	**% of issued share capital**
Held by directors				
Dirk Van den Broeck	-	0.00%	3,533,651	2.44%
Mihai Rădoi	1,037,500	0.74%	1,037,500	0.72%
Held by other related parties				
Ion Florescu and related parties *	81,391,311	59.73%	81,391,311	56.15%

* As at 31 December 2018 a number of 38,559,007 of the Company's shares were held by Ion Florescu and 42,832,304 shares were owned by Portadrix Investments Limited, which is wholly-owned by The Florescu Family Trust.

21.4 Dividend income from subsidiaries (note 4)

	2018 EUR	2017 EUR
Glasro Holdings Limited	-	7,619,610

21.5 Loan to unconsolidated subsidiary

The details of the loan to RC2 (Cyprus) Limited are disclosed in note 11.

21.6 Pledges and guarantees

The Company provided a pledge to Raiffeisen Bank S.A. in relation to a secured loan provided to Glasro Holdings Limited, a subsidiary of the Company, in the maximum amount of EUR10,000,000.

On 14 March 2016, the Company issued a Corporate Guarantee in favour of Raiffeisen Bank S.A. for a maximum amount of EUR10,000,000, which replaced the original pledge.

The guarantee was released in 2017, and therefore there are no pledges or guarantees held as at 31 December 2018.

21.7 Ultimate controlling party

No single party is considered to be the ultimate controlling party of the Company.

NOTES TO THE FINANCIAL STATEMENTS (continued)
For the year ended 31 December 2018

22. Events after the reporting year

On 23 January 2019 the Company announced that it had purchased for cancellation 1,710,611 Ordinary shares for EUR 0.16 each and in a separate transaction a further 2,364,852 Ordinary shares for EUR 0.16 each. After these cancellations the Company has 136,256,913 Ordinary shares in issue.