

CORPORATE GOVERNANCE

AIM Rules for Companies effective as of March 2018 (the "AIM Rules") require AIM quoted companies to apply and adhere to a recognized corporate governance code.

The Board, being committed to maintaining the highest standards of corporate governance, has given consideration to, and has decided to apply, the principles of corporate governance set out in the Quoted Companies Alliance Code (the "QCA Code"), now in its 2018 version. Both the AIM Rules and the QCA Code require companies to provide on their websites, in addition to the information provided in their Annual Report and Accounts, certain information relating to the system of its corporate governance as a measure of the extent to which the principles embedded in the adopted code of corporate governance have been applied.

The Directors believe that the information contained in this summary which they have chosen to provide on the Company's website, having regard, in particular, to the scale and nature of the Company's activities will help to build up the trust and confidence of the company's shareholders, thereby providing the foundation and support for the achievement of the Company's investment objectives and strategy.

Good governance reduces risk and adds value to a business. Delivering growth and long-term shareholder value with effective and efficient decision-making is of high importance to the Board.

1. Strategy and business model

Following the annual general meeting of the Company on 21 February 2018, the investment objective of the Company is 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 per cent 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 current gearing policy allows the Company to borrow up to 30 per cent. of its gross assets (as defined in the Articles and as further defined in the Company's Admission Document). The Company's diversification policy provides that the Board will not normally authorise any investment in a single Investee Company that is greater than 20 per cent. of the Company's net asset value ("NAV") at the time of effecting the investment and in no circumstances will it approve an investment in a single Investee Company that is greater than 25 per cent. of NAV at the time of effecting the investment. Nevertheless, the Board reserves the right to increase its investment in an existing portfolio company beyond the above limits if it considers that this will facilitate an exit from such existing portfolio company.

The Board intends RC2 to continue to make any new investments in Romania through its wholly owned subsidiary, RC2 (Cyprus) Limited, a company incorporated, managed and controlled under the laws of Cyprus. However, it is possible that some investments may be acquired through new special-purpose subsidiaries formed for the sole purpose of making the acquisition of that investment and then holding it where the Board considers it in the Company's interest to do so.

The key challenges in the Company's business model and the Company's strategy to address them are:

- The Company has invested, and may continue to invest, in the unlisted securities of companies which the Adviser considers 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 resources, may be subject to more abrupt or erratic market movements than securities of larger companies or broad market indices and may be dependent for their management on one or two key individuals. Securities of such issuers are likely to be less liquid and to offer less disclosure to their investors. In order to mitigate the above risks, the Company performs entry due diligence paying attention to all operational, financial and legal aspects of the issuers. Furthermore, there are certain elements regarding the issuers for which the Company, aided by the Adviser, where appropriate and wherever possible, take 'hands on' responsibility. Principally, these elements are: the composition of the management team of the Investee Companies along with the establishment and management of an appropriate management incentive scheme; the financial management and the capital structure of the Investee Companies; initiatives to dispose of any non-core subsidiaries, divisions or significant assets of the Investee Companies; initiatives to outsource non-core activities to improve cost efficiency; initiatives to execute any acquisitions; identifying the exit strategy and ensuring the Investee Companies are proactively managed towards the chosen exit, including developing an understanding of the value drivers for the pool of exit routes and the optimum time to dispose of the investment; and specific projects identified in the value creation plan which are likely to have a significant impact on the overall value of the business. Over time, the Company's equity portfolio has become more concentrated due to the disposal of some of the Company's investments, and subsequent distribution of proceeds.
- The Company operates in a competitive market for investment opportunities. There can be no assurance that the competitive pressures the Company faces will not have a material adverse effect on its business, financial condition and results of operations. Also, as a result of this competition, the Company may not be able to take advantage of attractive investment opportunities from time to time, and the Company can offer no assurance that it will be able to identify and make investments or divestments that are consistent with the Company's investment objective. The Adviser maintains a close relationship with M&A advisers, consultants etc to understand the trends of the market influencing prospective entry or exit deals.
- Political, regulatory and macro-economic risks in Romania and Bulgaria can adversely influence the results of Investee Companies. The Adviser monitors and maintains a close relationship with the managers, consultants, and auditors of Investee Companies in order to understand and identify signs of financial and operational difficulties early in order to prevent or limit any potential losses.

2. Shareholder communication

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 Accounts 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 London Stock Exchange, and Quarterly Reports issued by the Adviser which are distributed by e-mail with copies 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. The information published on the Company's website is in accordance with the AIM Rule 26. The maintenance and integrity of the Company's website is the responsibility of the Directors. Communications to shareholders can be accessed at the following link:

<http://reconstructioncapital2.com/announcements.html/>.

Every announcement published by the Company provides contact details in case the shareholders need further clarification. The Adviser is in contact with the Board and makes sure relevant comments provided by the shareholders are considered.

The Company encourages communications with its shareholders. Any queries shareholders might have can be addressed to the Adviser whose contact details can be found by accessing this link: <http://reconstructioncapital2.com/contact.html/>.

The Adviser makes sure all such queries received are addressed in a timely manner and feedback from shareholders is considered regarding the structure of information presented (especially, Quarterly reports. Information regarding GSMs over the last ten years can be found by accessing the link: <http://reconstructioncapital2.com/shareholder-communication.html/>).

3. Social responsibilities

In addition to its Shareholders, the Company believes its main stakeholder groups are the employees, suppliers and clients of its Investee companies.

There are no environmental implications for the activity of the Company and its Investee companies with the exception of Policolor Group which has a dedicated Health and Safety department which makes sure the company follows all regulations and is in contact with the relevant authorities to ensure that the Policolor Group's activities have the lowest impact on the environment.

Each of the Investee Companies dedicates significant time to understanding and acting on the needs and requirements of its employees via meetings dedicated to obtain feedback.

The Company and its Investee Companies aim to conduct their business with honesty, integrity and openness, respecting human rights and the interests of their employees and third parties. The Company advocates high ethical standards in carrying out the business activities of its Investee Companies. The latter are bound to respect national legislation which deals with bribery, corruption, whistle-blowing, conflicts of interest and inside information. With regards to corporate social responsibility, the Investee Companies are in contact with local communities and either sponsor various social causes or launch internship programmes aimed of growing skilled personnel. Charitable donations are made only if deemed legal and ethical according to local laws and practices.

The Company and its Investee Companies strongly oppose forced labour, child labour and human trafficking.

The Investee Companies encourage feedback from their clients and suppliers through relevant point of contact employees and engagement with individual clients through customer service teams, own websites and social media (such as Facebook and other specific community sites relevant for the products and services of the Investee Companies).

4. Risk management

The Company's risk management is coordinated by the Board, which manages the assets to achieve the Company's investment objectives. The Directors have sought to ensure that the portfolio of investments is sufficiently diversified to spread the risks of those investments. The Company measures the risks by monitoring its exposure to certain markets, industries and countries. The Investment Strategy does not

restrict the Company from investing in other closed-ended funds operating in the Target Region.

In line with the Company's investment policy, the Directors do not normally authorise any investment in a single Investee that is greater than 20% of the Company's NAV at the time of effecting the investment and in no circumstances will it approve an investment in a single Investee Company that is greater than 25% of the Company's net asset value at the time of effecting the investment.

The Board meets the Adviser at least twice per year to receive updates regarding Investee Companies. The Adviser also notifies the Board on a timely basis on important events relevant for the activity of the Investee Companies. The Adviser participates in Board meetings of the Investee Companies on a monthly or quarterly basis, depending on the particular Investee Company, and has regular communication with their senior management teams to understand how specific risks related to their activities are mitigated.

The Board considers risk to the business at every board meeting (at least two physical meetings are held each year) and the risks are discussed at each meeting. The Company formally reviews and documents the principal risks to the business annually during the financial audit period. The Company reviews and documents the principal risks to its activity annually.

The Company is exposed to the following financial risks resulting from its financial instruments: market risk, credit risk and liquidity risk. The Company is exposed specifically to interest rate risk and price risk, which result from both its operating and investing activities.

4.1 Market Risk

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 erratic market movements compared to securities of larger companies, and may be dependent for their management on one or two key individuals.

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

The Company measures these risks by monitoring its exposure to certain markets, industries and countries.

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.

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.

4.2 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 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.

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

4.3 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 by setting aside sufficient funds to cover its ongoing operating expenses for at least two years, whilst taking into account the cash inflows of dividends from its unlisted investments.

5. Functioning of the Board

The Board is currently made up of three non-executive Directors, two of whom are Independent Non-Executive Directors.

The Directors shall serve for such term as decided by the General Shareholders Meeting or in the absence of such determination, until they are removed from office or are disqualified or resign under the terms of the Articles of Association. Any casual vacancy occurring in the Board of Directors may be filled by the Directors. The Directors have the power at any time, and from time to time, to appoint a person(s) as an additional Director(s). The office of Director is vacated if a Director: resigns by notice in writing to the Company, becomes bankrupt or incapable of holding this position or if he ceases to be a Director by virtue of, or becomes prohibited from being a Director by reason of, an order made under any provisions of any law or enactment.

The Adviser ensures that the Directors have timely access to all relevant management, financial and regulatory information to enable informed decisions to be made.

Due to the size of the Board, and the fact that two Directors are independent of the Adviser and all three Directors are independent of the Administrator and the Custodian, the Board has not set up separate audit and nomination committees on the grounds that the Board as a whole considers these matters. 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 Chairman has served on the Board of the Company for over 12 years. The Board considers that he still fulfils the requirements of an independent director due to his other business interests, which are not related to the Company, and his lack of dependence on his Board position within the Company.

The Board meets on a regular basis at least twice each year and additional meetings are arranged as necessary. The meetings/discussions follow strategic considerations regarding the investments of the Fund following the highlights provided by the Adviser in the form of board papers.

The table below summarizes the meetings held in 2018 and the attendance by each board member.

	Board meetings	Physical	Teleconferences
Number of meetings in 2018	4	2	2
Number attended by each member			
Dirk Van den Broeck	4	2	2
Mihai Radoi	4	2	2
Martin Derbyshire	4	1	3

6. Presentation of the Board

The Board members are:

- Mr. Dirk Van den Broeck, Chairman, Director of the Company since January 2006;
- Mr Mihai Radoi, Director of the Company since September 2014;
- Mr. Martin Derbyshire, Director of the Company since October 2017.

Dirk Van den Broeck was an executive director of Petercam S.A., a Belgian investment bank until the end of 2010. He had been a partner of the firm since 1988 and was lately responsible for its real estate and private equity activities. He started his career at Petercam in 1981 and was registered as an Agent de Change in 1989. Dirk is a board member of several Belgian and international investment funds and companies of which three are listed. Holding dual degrees in law and economics from the University of Louvain Dirk was until the end of 2010 for more than 15 years on the board of Beama (the Belgian Association of Asset Managers). He has given courses on the taxation of financial products at the Université Libre de Bruxelles, and on the securitization of real estate at the University of Louvain. He is now running Patrimonia Real Estate, a Belgian real estate company investing in residential projects such as student accommodation and retirement homes in Belgium. Dirk is also an Executive Director of Care Property Invest(*), is a member of the investment committee of Goodman European Partnership and MPC Student Housing and is the Chairman of the Board of Reconstruction Capital II(*), Terra Capital(*), Meli and Radiomatix.

(*) Listed companies

A British and Romanian citizen, **Mihai Radoi** is a London-based finance professional with over thirty five years' experience in commercial banking. He has extensive experience in corporate governance, international banking practices and legislation, and banking activities in eastern Europe. He started his banking career at Bancorex, the main Romanian bank dedicated to foreign trade activities, and in 1979 he became the Chief Dealer of the London-based Anglo Romanian Bank. Between 1989 and 1990 he was the Vice President and General Manager of the Paris-based Banque Franco Roumaine. Mr. Radoi returned to the Anglo Romanian Bank Limited in 1991 where he served as CEO from 1991 and 2004, and as Managing

Director from 1991 to 2011. As such, Mr Radoi, who also served as a Board member, was responsible to the Board for all the activities of the bank, including liaising with regulators, and all aspects of compliance with the banking rules of the City of London. He also had overall responsibility for all treasury, capital markets, and business development activities.

Martin Derbyshire is an executive Director of the international trust, fund and corporate service provider SMP Group Limited, and sits on the board of a number of its regulated operational subsidiaries. The Group is headquartered in the Isle of Man with offices in Switzerland, Hong Kong, Malta, Jersey, Bahamas and the Cayman Islands. He originally started work for the Group in London in 1994, before relocating to the Isle of Man in 1997, and was appointed to the main board in 2005. He was a member of the management buyout team that acquired the Isle of Man business from the Fortis trust, banking and insurance group in 2007. He is involved on a day-to-day basis in the management of trust and corporate clients of the group, and is regularly engaged to sit on the boards of a diverse range of businesses building experience in a number of sectors. The SMP Group provides trustee and administrative services to the parent of the adviser of the Company. Consequently, Mr Derbyshire is not considered an independent Director of the Company.

The Directors have a range of business, financial and asset management skills and experience relevant to the direction and control of the Company. All the Company's Directors have served as Board members of other companies and have been involved in the running of either investment banks, commercial banks or providers of corporate services for funds and other investing entities. This has helped broaden their financial, business and managerial skills and experience regarding different types of investing, corporate governance, banking practices and corporate structuring. Being continuously exposed to a variety of business cases and specific industry events helps the Directors to keep their skills up to date.

Dirk Van den Broeck is the Chairman of the Company. He is independent from Adviser and is not involved in the day-to-day running of the Company. His primary responsibilities are to ensure that the Company follows its strategy, the Board operates effectively and all board members apply the highest corporate governance standards to the Company by following the principles and guidance of the QCA Code.

Due to the size of the Board, and the fact that two Directors are independent of the Adviser, the Board has not set up separate nomination committees on the grounds that the Board as a whole considers these matters. Since all day-to-day management responsibilities are subcontracted to the Adviser and Administrator, the Company does not have a Chief Executive Officer as the roles are already effectively separated. The board is responsible for making all investment and divestment decisions. The Directors have the power to approve all acquisitions and disposals on behalf of the Company as recommended by the Adviser. In the case of an acquisition, the Adviser coordinates the due diligence on the target company prior to effecting the investment. For each proposed acquisition, the Adviser may propose to retain, if it considers necessary, external accounting, legal, operational and environmental consultants to perform due diligence on the target at the expense of the Company. In the case of a disposal, the Adviser seeks approval from the Board by presenting a detailed report covering the key aspects of the proposed sale. The Adviser does not make any acquisitions or disposals of investments in Investee Companies on behalf of the Company without the approval of the Board.

The Directors and the Board 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 reports and financial statements. Due to the Board comprising only three Directors, the Board has not set up a separate audit committee which issues separate audit committee

reports, as all audit committee responsibilities are performed by the Board as a whole, 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 audit program and timetable are drawn-up and agreed with the Company's Auditors 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 Auditors prior to approving and signing the Financial Statements.

Due to the size of the Board and considering that the Board as a whole considers these matters, the Board has resolved that a remuneration committee is not appropriate for the Company. Furthermore, the Company contracts the advisory and administration activities with third parties and has no employees.

The board supervises and monitors the appointment of Advisers, Administrator, Custodian and Brokers and any other contracting entities.

The contracting parties themselves are responsible for paying their employees. The Board 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.

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

7. Board Performance

The Chair of the Board assesses the performance and effectiveness of the Board during the regular meetings, providing constructive and real-time feedback on better structuring of agendas and development of board papers. Given the structure of the Company, the Chairman has not developed any evaluation criteria for assessing the performance of the Board.

8. Corporate culture

The Board has a good understanding of the Company and its objective of achieving capital appreciation and/or to generate investment income returns in order to have a clear line of sight between the decisions the Board takes and how these impact on the Company's culture and deliver its purpose. The Board and the Adviser are actively engaged in the business of shaping, overseeing and monitoring the culture of Investee Companies and holding their executives to account where they find misalignment with the Company's purpose and values. The Board and the Adviser have built a relationship of trust with the management teams of the Investee Companies in order to help the shared goal of long-term increase in the value of the Investee Companies. The Board and the Adviser are responsible for making sure, wherever possible, that the executive management of the Investee Companies is the most suitable for the objective of the Company and can decide upon appointing or removing executive personnel, thus making sure that, at Investee Company level, the desired culture is embraced.

The Board promotes a corporate culture based on ethical values and behaviours, fair treatment of all partners and actively discusses with the Adviser in order for the same values to be adopted by the management of the Investee Companies as it believes in the power of leading by example. The Board performs annual visits to Investee Companies, and engages in discussions with their managements in order to oversee the promoted corporate cultures. On a regular basis, the Adviser ensures that the management of the Investee Companies adopt the values promoted by the Board through discussions with the management, clients or suppliers of the Investee Companies.

The Adviser makes sure the Board is aware of a number of contextual factors that can influence culture at the Investee Company level, such as history of the company, impact of macroeconomic conditions, political and regulatory climate, market sector, degree of competition, local business environment and cultural norms. The Board makes sure the Adviser spends enough time with the Investee Companies and it itself has regular meetings and teleconferences with the Adviser.

If the Directors feel the need for more information regarding the corporate culture at Investee Company level, the Board through the Adviser asks the executives of the Investee Companies to provide insight information, with the Board being able to probe and challenge where appropriate. The Board assesses that the Board and the Adviser spend sufficient time in the business of the Investee Companies to get a true sense of the prevailing culture. At present, the Board assesses that the Company and the Investee Companies are acting according to the required corporate culture which is consistent with the objective of the Company.

Document reviewed on 27 September 2018