# RECONSTRUCTION CAPITAL II LIMITED

## ANNUAL REPORT AND CONSOLIDATED FINANCIAL STATEMENTS

**For year ended 31 December 2014**

**RECONSTRUCTION CAPITAL II LIMITED**
**Annual Report and Audited Consolidated Financial Statements**
**For year ended 31 December 2014**

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## DIRECTORS AND COMPANY INFORMATION

**Domicile and country of incorporation of parent company**
Cayman Islands

**Legal form**
Limited Liability Company

**Directors**
Howard I. Golden (resigned 15 February 2015)
Ion Alexander Florescu (resigned 29 August 2014)
Markus Winkler
Dirk Van den Broeck
Mihai Radoi (appointed 30 September 2014)

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

**Investment Manager**
New Europe Capital Limited
33 Marloes Road
London,W8 6LG

**Investment Advisers**
New Europe Capital SRL
21 Tudor Arghezi Str., Floor 6
020946 Bucharest
Romania

New Europe Capital DOO
Francuska 12
11000 Belgrade
Serbia

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

**Broker**
LCF Edmond de Rothschild Securities
Orion House
5 Upper St.Martin's Lane
London,WC2H 9EA

## DIRECTORS AND COMPANY INFORMATION *(Continued)*

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

**Company number**
HL-156549

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

## ADVISER'S REPORT

On 31 December 2014, Reconstruction Capital II Limited ("RC2") had a total audited net asset value ("NAV") of EUR 37.7m or EUR 0.3775 per share, a 14.8% increase over the year, primarily due to an increase in the market value of its shareholding in Albalact SA which is listed on the Bucharest Stock Exchange.

RC2's audited undiluted NAV per share of EUR 0.3775 as at the end of 2014 compares to an unaudited published NAV per share of EUR 0.3771. The fully diluted NAV per share of EUR 0.2812 as at the end of 2014 compares to an unaudited published NAV per share of EUR 0.2810. The variance between the audited and published NAV's is a result of the consolidation of New Europe Capital Limited, which is not consolidated in the published NAV.

At the end of 2014, RC2 had cash and cash equivalents of EUR 0.7m. RC2's borrowings, after allocating EUR 0.62m of the proceeds from the convertible loan note to equity reserves in accordance with applicable accounting standards, amounted to EUR 8.0m, whilst suppliers' liabilities amounted to EUR 0.8m.

In 2014, RC2 issued a convertible loan note of EUR 8.45m, the proceeds of which enabled the Company to repay prior borrowings and overdue suppliers while providing working capital for its current operations.

### Private Equity Programme

RC2 did not make any new investments under its Private Equity Programme, and continued to pursue a number of exits, both from its investee companies as well as from certain assets held by them. The investments held under the Private Equity Programme had a fair value of EUR 44m at the end of 2014, an increase of 16.1% year-on-year. This was primarily due to the increase in market value of the Albalact SA holding by 69% to EUR 9.7m. All four investments in Romania (Policolor SA, Top Factoring SRL and its sister company Glasro Holdings Limited, Mamaia Resort Hotels SRL and Albalact SA) continue to generate positive EBITDA and in the case of Glasro and Albalact free cash flow in the form of dividends. Klas DOO, the Serbian bakery, reported an improved valuation of EUR 0.3m, in part a result of RC2's exchange of half of its shareholder loans for a 40.9% shareholding in the company taking its overall stake to 52%.

### Trading Programme

RC2 did not modify its positions in listed equities held under its Trading Programme in 2014. At the end of 2014, RC2's listed equities held under the Trading Programme had a total market value of EUR 0.3m. All of the investments held under the Trading Programme were in Romanian equities.

### Outlook

Both the Romanian and Bulgarian economies which reported increases in GDP during 2014 of 2.9% and 1.7% respectively are expected to grow during 2015. Increased private consumption and recovering investment are expected to be the main drivers for Romania's GDP growth in 2015, whereas the Bulgarian economy would benefit from higher international demand resulting in higher net exports. In contrast, Serbia's economy is expected to languish with GDP expected to contract a further 0.5% in 2015 as the government tries to correct macro-economic imbalances.

## ADVISER'S REPORT (continued)

### Events after the reporting period

Effective 1 January 2015, New Europe Capital DOO (the Serbia-based investment adviser) and New Europe Capital Limited (the UK-based investment manager) ceased to work for RC2. RC2 continued to be advised by its Romania-based Adviser, New Europe Capital SRL.

New Europe Capital SRL

# INVESTMENT POLICY

**Private Equity Programme**

Under the Private Equity Programme, the Company takes significant or controlling stakes in companies operating primarily in Romania, Serbia, Bulgaria and neighbouring countries (the "Target Region"). The Company invests in investee companies where it believes New Europe Capital SRL (the "Adviser") can add value by implementing operational and/or financial restructuring over a 3 to 5 year horizon. The Company only makes an investment under the Private Equity Programme if its Adviser believes there is a clear exit strategy available, such as trade sale, break up and subsequent disposal of different divisions or assets, or flotation on a stock exchange.

**Trading Programme**

Under the Trading Programme, the Company aims to generate short and medium term returns by investing such portion of its assets as determined by the Directors from time to time in listed equities and fixed income securities, including convertible and other mezzanine instruments, issued by entities in the Target Region. The Trading Programme differs from the Private Equity Programme in the key respect that the Company will typically not take significant or controlling stakes in investee companies and will typically hold investments for shorter periods of time than investments made under the Private Equity Programme.

**Value Creation**

Under its Private Equity Programme, the Adviser is involved at board level in the investee company to seek to implement operational and financial changes to enhance returns. As part of the Company's pre-acquisition due diligence, the Adviser seeks to identify specific actions that it believes will create value in the target investee company post acquisition and, where appropriate, seek to work with third party professionals to develop, in combination with the proposed management team of the target, a value creation plan with clear and identifiable short and medium term targets. These plans are likely to address different parts of the business and are tailored to reflect the specific challenges of the relevant target company. The Adviser believes that the investment strategies under the Private Equity and Trading Programme can achieve returns which are different than the returns of the relevant market indices.

## INVESTMENT POLICY *(Continued)*

**Investing Restrictions and Cross-Holdings**

The Directors and the Adviser have sought to ensure that the portfolio of investments is sufficiently diversified to spread the risks of those investments. The Investment Strategy does not restrict the Company from investing in other closed-ended funds operating in the Target Region. In line with the Company’s investment policy, the Board does not normally authorise any investment in a single investee company that is greater than 20% of the Company’s net asset value at the time of effecting the investment and in no circumstances will it approve an investment in a single investee company that is greater than 25% of the Company’s net asset value at the time of effecting the investment.

**Change of investment objective and policy of the Company**

Following the annual general meeting of the Company on 14 December 2012, the investment objective and policy of the Company were amended such that no new investments will be made. Further investments into existing portfolio companies will be permitted in certain circumstances pending their realisation and, following each realisation, all proceeds will be returned to Shareholders after paying outstanding liabilities and setting aside a sufficient amount for working capital purposes.

**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 2014

The Directors present their report together with the audited consolidated financial statements for the year ended 31 December 2014.

**Activities and business review**

The Company's principal activity is the 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 2014 is contained within Adviser's report.

**Accounting Policies**

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

**Share Capital**

Details of the Company's authorised and issued share capital as at 31 December 2014 are contained in Note 25 of the consolidated financial statements.

**Results and dividends**

The year closed with an investment income of EUR 6,520,066 (2013: loss of EUR 1,791,603) and a total profit for the year of EUR 4,210,338 (2013: loss of EUR 6,436,423).

The Directors do not recommend the payment of a dividend.

The Directors of New Europe Capital Limited, the Investment Manager of the Company in 2014, which is also a subsidiary of Reconstruction Capital II Limited, have not approved any dividends in respect of the year ended 31 December 2014 (2013: GBP 42,600).

**Events after the reporting period**

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

## REPORT OF THE DIRECTORS FOR THE YEAR ENDED 31 DECEMBER 2014
*(Continued)*

**Directors and their interests**
The Directors of the Company during the year and their interests in the ordinary shares and convertible loan notes of the Company were as follows:

| | **Ordinary Shares** | | **Convertible Loan Notes** | |
|---|---|---|---|---|
| | **31-Dec-14 Number** | **% of issued share capital** | **31-Dec-14 Number** | **% of issued convertible loan notes** |
| Markus Winkler | 500,000 | 0.50% | 110,000 | 1.30% |
| Ion Florescu (resigned 29 August 2014) | 33,372,016 | 33.37% | 6,262,000 | 74.11% |
| Dirk Van den Broeck | 2,036,831 | 2.04% | 202,000 | 2.39% |
| Howard I. Golden (resigned 15 February 2015) | 1,059,732 | 1.06% | 151,000 | 1.79% |
| Mihai Radoi (appointed 30 September 2014) | 500,000 | 0.50% | - | - |

**Board**
During the year, the Board of Directors comprised a maximum of four Directors, all of whom are Independent Non–Executive Directors, except for Mr Florescu who sits on the Boards of New Europe Capital Limited and New Europe Capital SRL. Mr Florescu resigned from the Board of Directors of the Company on 29 August 2014. The Directors have a range of business, financial and asset management skills and experience relevant to the direction and control of the Company.

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

The Investment Manager and the Investment Advisers have 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 three out of four Directors were independent of the Investment Manager and Advisers and all four 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.

## REPORT OF THE DIRECTORS FOR THE YEAR ENDED 31 DECEMBER 2014
*(Continued)*

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

The principal terms of reference are to appoint auditors, to set their fees, to review the scope and results of the audit, to consider the independence of the auditors, to review the internal financial and non-financial controls, to approve the contents of the draft interim and annual reports to shareholders and to review the accounting policies. In addition, the Board reviews the quality of the services of all the service providers to the 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 with the Investment Manager and Advisers. The audit programme 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 consolidated financial statements.

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

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. Details of the payments to Directors are given in Note 5 of the Financial Statements.

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

**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.

## REPORT OF THE DIRECTORS FOR THE YEAR ENDED 31 DECEMBER 2014
*(Continued)*

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

**Going concern**
Following the annual general meeting of the Company on 29 October 2014, the life of the Company was extended for at least two years, further extension will be discussed at the next general meeting in 2016. Furthermore, a resolution was passed to authorize the issuance of up to EUR 8,450,000 convertible loan notes.

The Company has made a profit during the year which has decreased the retained deficit of the Company to EUR 85,758,495.

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 consolidated financial statements.

**Directors' responsibilities**
The Directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the 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 consolidated financial statements.

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

International Accounting Standard 1 requires that financial statements present fairly for each financial year the 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 International Accounting Standards Board'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 International Financial Reporting Standards.

## REPORT OF THE DIRECTORS FOR THE YEAR ENDED 31 DECEMBER 2014
*(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 in IFRS is insufficient to enable users to understand the impact of particular transactions, other events and conditions on the entity's financial position and financial performance;
- State that the Company has complied with IFRS, subject to any material departures disclosed and explained in the financial statements.

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

**Change of investment objective and policy of the Company**
Following the annual general meeting of the Company on 14 December 2012, the investment objective and policy of the Company was amended such that no new investments will be made, further investments into existing portfolio companies will be permitted in certain circumstances pending their realisation and, following each realisation, all proceeds will be returned to Shareholders after paying outstanding liabilities and setting aside a sufficient amount for working capital purposes.

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

**On behalf of the Board**

**Dirk Van den Broeck**
**Chairman**

**Date: 10th June 2015**

Grant Thornton

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# INDEPENDENT AUDITOR'S REPORT

## To the Members of RECONSTRUCTION CAPITAL II LIMITED

### Report on the consolidated financial statements

1 We have audited the accompanying consolidated financial statements of Reconstruction Capital II Limited (the 'Company') and its subsidiaries (together with the Company, the "Group"), which comprise the consolidated statement of financial position as at 31 December 2014, and the consolidated statements of comprehensive income, changes in equity and cash flow for the year then ended, and a summary of significant accounting policies and other explanatory information.

### Board of Directors' responsibility for the consolidated financial statements

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

### Auditor's responsibility

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

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

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

**Opinion**

6 In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Group as at 31 December 2014, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted for use in the European Union.

**Other matters**

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

Grant Thornton

**Grant Thornton Audit SRL**
Bucharest, Romania
10 June 2015

## CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
## FOR THE YEAR ENDED 31 DECEMBER 2014

| | Notes | 31-Dec-14<br>EUR | 31-Dec-13<br>EUR |
|---|---|---|---|
| **Investment income/(loss)** | | | |
| Gain/(loss) on investments at fair value through profit and loss | | 4,747,123 | (4,139,530) |
| Interest income | | 104,949 | 449,689 |
| Dividend income | 4 | 1,527,111 | 1,786,545 |
| Other income | | 140,883 | 111,693 |
| **Total investment income/(loss)** | | **6,520,066** | **(1,791,603)** |
| **Expenses** | | | |
| Impairment on loan receivables | 13 | - | (1,915,317) |
| Operating expenses | 5 | (1,405,276) | (1,724,249) |
| **Total operating expenses** | | **(1,405,276)** | **(3,639,566)** |
| **Operating profit/(loss)** | | **5,114,790** | **(5,431,169)** |
| Financial expenses | 6 | (889,739) | (994,901) |
| **Loss before taxation** | | **4,225,051** | **(6,426,070)** |
| Income tax expense | 7 | (14,713) | (10,353) |
| **Profit/(loss) for the year** | | **4,210,338** | **(6,436,423)** |
| **Other comprehensive income** | | | |
| **Amounts that maybe reclassified to profit or loss** | | | |
| Exchange differences on translating foreign operations | | 19,129 | 3,835 |
| **Total comprehensive income/(loss) for the year** | | **4,229,467** | **(6,432,588)** |
| **Net income/(loss) for the year attributable to:** | | | |
| - Equity holders of the parent | | 4,241,776 | (6,459,070) |
| - Non-controlling interest | | (31,438) | 22,647 |
| | | **4,210,338** | **(6,436,423)** |
| **Total comprehensive income/(loss) attributable to:** | | | |
| - Equity holders of the parent | | 4,243,209 | (6,458,782) |
| - Non-controlling interest | | (13,742) | 26,194 |
| **Total comprehensive income/(loss) for the year** | | **4,229,467** | **(6,432,588)** |

## CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 DECEMBER 2014 *(Continued)*

| | Notes | 31-Dec-14 | 31-Dec-13 |
|---|---|---|---|
| | | EUR | EUR |
| **Earnings Per Share attributable to the equity shareholders of the Company** | 26 | | |
| Basic undiluted earnings per share | | 0.0424 | (0.0646) |
| Fully diluted earnings per share | | 0.0261 | (0.0646) |

*The notes on pages 22 to 59 form an integral part of these financial statements*

## CONSOLIDATED STATEMENT OF FINANCIAL POSITION
## AS AT 31 DECEMBER 2014

| | | 31-Dec-14 | 31-Dec-13 |
|---|---|---|---|
| **Assets** | **Notes** | **EUR** | **EUR** |
| **Non-current assets** | | | |
| Property, plant and equipment | 9 | 10,518 | 10,305 |
| Financial assets at fair value through profit or loss | 12 | 44,085,288 | 37,983,957 |
| Loans receivable | 13 | 1,409,796 | - |
| **Total non-current assets** | | **45,505,602** | **37,994,262** |
| | | | |
| **Current assets** | | | |
| Financial assets at fair value through profit or loss | 12 | 342,696 | 369,656 |
| Trade and other receivables | 14 | 276,274 | 365,859 |
| Loans receivable | 13 | - | 3,215,156 |
| Cash and cash equivalents | | 768,606 | 350,142 |
| **Total current assets** | | **1,387,576** | **4,300,813** |
| | | | |
| **Total assets** | | **46,893,178** | **42,295,075** |
| | | | |
| **Liabilities** | | | |
| **Current liabilities** | | | |
| Trade and other payables | 15 | 847,194 | 4,726,550 |
| Loans and borrowings | 16 | 44,190 | 4,306,163 |
| Corporation tax payable | | 2,211 | 1,792 |
| **Total current liabilities** | | **893,595** | **9,034,505** |
| | | | |
| **Non-current liabilities** | | | |
| Convertible loan notes | 16 | 7,976,965 | - |
| **Total non-current liabilities** | | **7,976,965** | **-** |
| | | | |
| **Total liabilities** | | **8,870,560** | **9,034,505** |
| | | | |
| **Total net assets** | | **38,022,618** | **33,260,570** |

## CONSOLIDATED STATEMENT OF FINANCIAL POSITION
## AS AT 31 DECEMBER 2014 *(Continued)*

| | Notes | 31-Dec-14 EUR | 31-Dec-13 EUR |
|---|---|---|---|
| **Capital and reserves attributable to equity holders** | | | |
| Share capital | 24 | 1,000,000 | 1,000,000 |
| Share premium reserve | 24 | 121,900,310 | 121,900,310 |
| Retained deficit | 24 | (85,758,495) | (90,000,271) |
| Equity component of convertible loan notes | 24 | 629,445 | - |
| Foreign exchange reserve | 24 | (26,245) | (27,678) |
| **Total equity and reserves** | | **37,745,015** | **32,872,361** |
| Non-Controlling Interests | | 277,603 | 388,209 |
| **Total equity** | | **38,022,618** | **33,260,570** |

| | 31-Dec-14 EUR | 31-Dec-13 EUR |
|---|---|---|
| **Net Asset Value per share** | | |
| Basic undiluted net asset value per share | 0.3775 | 0.3287 |
| Fully diluted net asset value per share | 0.2812 | 0.3287 |

The financial statements were approved by the Board of Directors and authorised for issue on 10 June 2015.



*The notes on pages 22 to 59 form an integral part of these financial statements*

## CONSOLIDATED STATEMENT OF CHANGES IN EQUITY AS AT 31 DECEMBER 2014

| | Share Capital EUR | Share Premium EUR | Foreign exchange reserve EUR | Retained (Deficit)/ Earnings EUR | Equity component of loan notes EUR | **Sub-total EUR** | Non-controlling Interest EUR | **Total EUR** |
|---|---|---|---|---|---|---|---|---|
| **Balance at 1 January 2013** | **1,000,000** | **121,900,310** | **(27,966)** | **(83,541,201)** | **-** | **39,331,143** | **362,015** | **39,693,158** |
| (Loss)/profit for the year | - | - | - | (6,459,070) | - | **(6,459,070)** | 22,647 | **(6,436,423)** |
| Other comprehensive income | - | - | 288 | - | - | **288** | 3,547 | **3,835** |
| Total comprehensive (loss)/income for the year | - | - | 288 | (6,459,070) | - | **(6,458,782)** | 26,194 | **(6,432,588)** |
| **Balance at 31 December 2013** | **1,000,000** | **121,900,310** | **(27,678)** | **(90,000,271)** | **-** | **32,872,361** | **388,209** | **33,260,570** |
| Profit/(loss) for the year | - | - | - | 4,241,776 | - | **4,241,776** | (31,438) | **4,210,338** |
| Other comprehensive income | - | - | 1,433 | - | - | **1,433** | 17,696 | **19,129** |
| Total comprehensive (loss)/income for the year | | | 1,433 | 4,241,776 | - | **4,243,209** | (13,742) | **4,229,467** |
| Issuance of convertible loan notes (equity portion) | - | - | - | - | 629,445 | **629,445** | - | **629,445** |
| Dividends paid to minorities | - | - | - | - | - | **-** | (96,864) | **(96,864)** |
| Contributions by the owners recognised directly in equity | - | - | - | - | 629,445 | **629,445** | (96,864) | **532,581** |
| **Balance at 31 December 2014** | **1,000,000** | **121,900,310** | **(26,245)** | **(85,758,495)** | **629,445** | **37,745,015** | **277,603** | **38,022,618** |

*The notes on pages 22 to 59 form an integral part of these financial statements*

## CONSOLIDATED CASH FLOW STATEMENT FOR THE YEAR ENDED 31 DECEMBER 2014

| | Note | 31-Dec-14 EUR | 31-Dec-13 EUR |
|---|---|---|---|
| **Cash flows from operating activities** | | | |
| Net profit/(loss) before tax | | 4,225,051 | (6,426,070) |
| *Adjustments for:* | | | |
| Depreciation and amortisation | 9 | 2,588 | 3,315 |
| (Gain)/loss on financial assets at FVTPL | | (4,747,123) | 4,066,936 |
| Impairments on loans receivable | 13 | - | 1,915,318 |
| Interest income | | (104,949) | (449,689) |
| Interest expense | | 889,739 | 994,901 |
| Dividend income | | (1,527,111) | (1,786,545) |
| **Net cash outflow before changes in working capital** | | **(1,261,805)** | **(2,745,412)** |
| (Increase)/decrease in trade and other receivables | 14 | 68,870 | (93,984) |
| (Decrease)/increase in trade and other payables | 16 | (3,990,128) | 694,304 |
| Sale of financial assets | | - | 40,498 |
| Interest income received | | 387 | - |
| Dividends received | | 1,526,708 | 1,792,446 |
| **Cash (used)/generated by operating activities** | | **(3,655,968)** | **751,429** |
| Income tax paid | 7 | (14,666) | (53,212) |
| **Net Cash (used)/generated by operating activities** | | **(3,670,634)** | **698,217** |
| **Cash flows from investing activities** | | | |
| Purchase of property, plant and equipment | 9 | (2,059) | (500) |
| Proceeds of loans granted to unconsolidated subsidiaries | | 594,943 | 40,000 |
| Payments of loans granted to unconsolidated subsidiaries | | - | (756,000) |
| **Net cash flow generated/(used) in investing activities** | | **592,884** | **(716,500)** |
| **Cash flows from financing activities** | | | |
| Payments of loans granted by related parties | | (4,256,045) | (993,402) |
| Dividends paid to non-controlling interests | | (96,864) | - |
| Proceeds from the issuance of convertible loan notes | | 8,449,999 | - |
| Interest paid on loans | | (622,255) | - |
| **Net cash generated/(used) in financing activities** | | **3,474,835** | **(993,402)** |
| **Increase/(decrease) in cash and cash equivalents** | | **397,085** | **(1,011,685)** |
| **Cash and cash equivalents at beginning of the year** | | 350,142 | 1,318,380 |
| Foreign exchange gain/(loss) | | 21,379 | 43,447 |
| **Cash and cash equivalents at end of the year** | | 768,606 | 350,142 |

*The notes on pages 22 to 59 form an integral part of these financial statements*

## NOTES FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2014

### 1. Establishment

Reconstruction Capital II Limited was incorporated on 17 October 2005 in the Cayman Islands as a tax exempted company created to invest in private and listed equity and fixed income securities, including convertible and other mezzanine instruments, primarily in Romania, Bulgaria and Serbia. The Company was listed on AIM on 23 December 2005 and started trading on 27 January 2006. These financial statements show the results of the Company for the year from 1 January 2014 to 31 December 2014.

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

The main focus of the Company is investments in Romania, Serbia and Bulgaria.

**Change of investment objective and policy of the Company**

Following the annual general meeting of the Company on 14 December 2012, the investment objective and policy of the Company was amended such that no new investments will be made. Further investments into existing portfolio companies will be permitted in certain circumstances pending their realization and, following each realization, all proceeds will be returned to Shareholders after paying outstanding liabilities and setting aside a sufficient amount for working capital purposes.

### 2. Principal accounting policies

### 2.1 Basis of preparation

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

Following the annual general meeting of the Company on 29 October 2014, the life of the Company was extended for at least two years. A further extension will be discussed at the annual general meeting in 2016. Furthermore, a resolution was passed to authorize the issuance of up to EUR 8,450,000 convertible loan notes.

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 consolidated financial statements.

The preparation of financial statements in conformity 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.

## 2. Principal accounting policies *(Continued)*

### 2.1 Basis of preparation

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

The following standards have been adopted by the Company for the first time for the financial year beginning on or after 1 January 2014 and are relevant for, but do not have a material impact on, the Company:

Amendment to IAS 32, 'Financial Instruments: Presentation' on offsetting financial assets and financial liabilities. This amendment clarifies that the right of set-off must not be contingent on a future event. It must also be legally enforceable for all counterparties in the normal course of business, as well as in the event of default, insolvency or bankruptcy. The amendment also considers settlement mechanisms. The amendment did not have a significant effect on the consolidated financial statements.

Amendments to IAS 36, 'Impairment of assets', on the recoverable amount disclosures for non-financial assets. This amendment removes certain disclosures of the recoverable amount of cash generating units which had been included in IAS 36 by the issue of IFRS 13. The amendment did not have a significant effect on the consolidated financial statements.

Amendment to IAS 39, 'Financial instruments: Recognition and measurement' on the novation of derivatives and the continuation of hedge accounting. This amendment considers legislative changes to 'over-the-counter' derivatives and the establishment of central counterparties. Under IAS39 novation of derivatives to central counterparties would result in discontinuance of hedge accounting. The amendment provides relief from discontinuing hedge accounting when novation of a hedging instrument meets specified criteria. The Company has applied the amendment and there has been no significant impact on the consolidated financial statements as a result.

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

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

IFRS 9, 'Financial instruments', addresses the classification, measurement and recognition of financial assets and financial liabilities. The complete version of IFRS 9 was issued in July 2014. It replaces the guidance in IAS 39 that relates to the classification and measurement of financial instruments. IFRS 9 retains but simplifies the mixed measurement model and establishes three primary measurement categories for financial assets: amortised cost, fair value through other comprehensive income (OCI) and fair value through P&L. The basis of classification depends on the entity's business model and the contractual cash flow characteristics of the financial asset. Investments in equity instruments are required to be measured at fair value through P&L with the irrevocable option at inception to present changes in fair value in OCI and not subsequently recycling them through P&L. There is now a new expected credit losses model that replaces the incurred loss impairment model used in IAS 39. For financial liabilities there were no changes to classification and measurement except for the recognition of changes in own credit risk in OCI, for liabilities designated at fair value through P&L. IFRS 9 relaxes the requirements for hedge effectiveness by replacing the bright line hedge effectiveness tests. It requires an economic relationship between the hedged item and hedging instrument and for the 'hedged ratio' to be the same as the one management actually use for risk management purposes. Contemporaneous documentation is still required but is different to that currently prepared under IAS 39. The standard is effective for accounting periods beginning on or after 1 January 2018. Early adoption is permitted.

## 2. Principal accounting policies *(Continued)*

### 2.1 Basis of preparation *(Continued)*

The Company is yet to assess IFRS 9's full impact.

Annual improvements 2010-2012 Cycle are effective from 1 July 2014 and are not expected to have a material impact on the Company. They include:

IFRS 3 'Business Combinations' which is applied prospectively and clarifies that:

- all contingent consideration arrangements classified as liabilities (or assets) arising from a business combination should be subsequently measured at fair value through profit or loss whether or not they fall within the scope of IFRS 9 (or IAS 39, as applicable);
- joint arrangements, not just joint ventures, are outside the scope of IFRS 3. This scope exception applies only to the accounting in the financial statements of the joint arrangement itself.

IFRS 8 'Operating Segments' which is applied retrospectively and clarifies that:

- An entity must disclose the judgements made by management in applying the aggregation criteria in paragraph 12 of IFRS 8, including a brief description of operating segments that have been aggregated and the economic characteristics (e.g. sales and gross margins) used to assess whether the segments are 'similar';
- The reconciliation of segment assets to total assets is only required to be disclosed if the reconciliation is reported to the chief operating decision maker, similar to the required disclosure for segment liabilities.

IAS 16 'Property, Plant and Equipment' and IAS 38 'Intangible Assets' which are applied retrospectively and clarify that the asset may be revalued by reference to observable data on either the gross or the net carrying amount. In addition, the accumulated depreciation or amortisation is the difference between the gross and carrying amounts of the asset.

IAS 24 'Related Party Disclosures' which is applied retrospectively and clarifies that a management entity (an entity that provides key management personnel services) is a related party subject to the related party disclosures. In addition an entity that uses a management entity is required to disclose the expenses incurred for management services.

IFRS 13 'Fair Value Measurement' which is applied prospectively and clarifies that the portfolio exception in IFRS 13 can be applied not only to financial assets and financial liabilities, but also to other contracts within the scope of IFRS 9 (or IAS 39, as applicable).

IFRS 15 'Revenue from Contracts with Customers' which was issued in May 2014 and establishes a new five-step model that will apply to revenue arising from contracts with customers. Under IFRS 15 revenue is recognised at an amount that reflects the consideration to which an entity expected to be entitled in exchange for transferring goods or services to a customer. The principles in IFRS 15 provide a more structured approach to measuring and recognising revenue.

**2. Principal accounting policies** *(Continued)*

**2.1 Basis of preparation** *(Continued)*

The new revenue standard is applicable to all entities and will supersede all current revenue recognition requirements under IFRS. Either a full or modified retrospective application is required for annual periods beginning on or after 1 January 2017 with early adoption permitted. The Company is currently assessing the impact of IFRS 15 and plans to adopt the new standard on the required effective date.

Amendments to IFRS 11, 'Joint Arrangements: accounting for Acquisitions of Interests' which require that a joint operator accounting for the acquisition of an interest in a joint operation, in which the activity of the joint operation constitutes a business must apply the relevant IFRS 3 principles for business combinations accounting. The amendments also clarify that a previously held interest in a joint operation is not remeasured on the acquisition of an additional interest in the same joint operation while joint control is retained. In addition, a scope exclusion has been added to IFRS 11 to specific that the amendments do not apply when the parties sharing joint control, including the reporting entity, are under common control of the same ultimate controlling party.

The amendments apply to both the acquisition of the initial interest in a joint operation and the acquisition of any additional interests in the same joint operation and are prospectively effective for annual period beginning on or after 1 January 2016, with early adoption permitted. These amendments are not expected to have any impact on the Company.

**2.2 Revenue recognition**

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

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

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

**2.3 Basis of consolidation**

**2.3 a) Subsidiaries**

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

## 2. Principal accounting policies *(Continued)*

### 2.3 Basis of consolidation *(Continued)*

**2.3 a) Subsidiaries** *(Continued)*
Subsidiaries are fully consolidated from the date on which control is transferred to the Company. They are deconsolidated from the date that control ceases.

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

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

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

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

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

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

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

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

## 2. Principal accounting policies *(Continued)*

### 2.3 Basis of consolidation *(Continued)*

### 2.3 c) Investments in associates

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

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

### 2.4 Foreign currency translation

### 2.4 a) Functional and presentational currency

Items included in the financial statements of each of the Company’s entities are measured using the currency of the primary economic environment in which the entity operates ('the functional currency'). The consolidated financial statements are presented in Euros, which is the Company’s functional currency and the Company’s presentation 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 or valuation where items are re-measured. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the profit and loss.

Foreign exchange gains and losses that relate to borrowings and cash and cash equivalents are presented in the profit and loss within 'operating expenses’. All other foreign exchange gains and losses are presented in the profit and loss within financial items.

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

## 2. Principal accounting policies *(Continued)*

### 2.4 Foreign currency translation *(Continued)*

### 2.4 c) Group companies

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

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

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

### 2.5 Operating Segments

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

### 2.6 Financial Assets

The 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) Investments at fair value through profit or loss

Investments consist of principally listed and unlisted securities and are initially recognised at fair value, excluding transaction costs which are expensed in profit and loss.

The investments designated at fair value through profit or loss are designated as such as the portfolio is managed and performance evaluated on a fair value basis in accordance with the 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 investments are recognised in profit and loss as they arise.

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. Principal accounting policies *(Continued)*

### 2.6 b) Loans and receivables

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

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

### 2.7 Cash and cash equivalents

Cash and cash equivalents include cash in bank and short-term highly liquid investments. Highly liquid investments readily convertible to known amounts of cash which are in a currency different from the functional currency are included in the Statement of Financial Position at the presentation currency using the exchange rate at the reporting date.

### 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 policy for each category is as follows:

### 2.8 a) Trade payables

Trade payables are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Accounts payable 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 payables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.

### 2.8 b) Borrowings

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

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

## 2. Principal accounting policies *(Continued)*

### 2.8 b) Borrowings *(Continued)*

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

### 2.8 c) Convertible loan notes

Convertible loan notes are classified as compound instruments as they have both equity and liability characteristics. The amount of the liability and equity components are determined on initial recognition and are not subsequently altered.

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

### 2.9 IFRS 13 fair value measurement hierarchy

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

- Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities, that the 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;
- Level 3: unobservable inputs for the asset or liability (see Note 22 for measurement basis for unobservable inputs);

### 2.10 Equity

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

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

### 2.11 Taxation

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

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

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

## 2. Principal accounting policies *(Continued)*

### 2.12 Dividends

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

### 2.13 Leased assets

Operating lease rental expenses are charged to profit and loss on a straight line basis over the term of the lease.

### 2.14 Property, plant and equipment

Items of property, plant and equipment are recognised at cost.

Provision for depreciation is made so as to write off the cost of non-current assets less residual value over the useful lives of the assets concerned.

The depreciation rates used by the Company are:

| | | |
|---|---|---|
| Computer hardware and software | - | 33% per annum straight line |
| Office equipment | - | 33% per annum straight line |

The non-current assets are reviewed for impairment annually. Whenever the carrying amount of an asset exceeds its recoverable amount, an impairment loss is recognised in profit and loss. The recoverable amount is the higher of an asset’s fair value less costs of disposal and value in use. The fair value less costs of disposal is the amount obtainable from the sale of an asset in an arm’s length transaction while value in use is the present value of estimated future cash flows expected to arise from the continuing use of an asset and from its disposal at the end of its useful life. Recoverable amounts are estimated for individual assets or, if it is not possible, for the cash-generating unit. Reversal of impairment losses recognised in prior years is recorded when there is an indication that the conditions leading to the impairment losses recognised for the asset no longer exist or have decreased. The reversal is recorded in income. Useful life is the length of time over which a depreciable asset is expected to be useable.

### 2.15 a) Pensions

New Europe Capital Limited, a subsidiary, makes payments to a pension scheme for an employee. The assets of the scheme are held separately from those of the company. The annual contributions payable are charged to the profit and loss.

### 2.15 b) Employee benefits

Wages, salaries, paid annual leave and sick leave and bonuses are recognized as staff costs and accrued when the associated services are rendered by the employees of New Europe Capital Limited.

### 2.16 Share Premium

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

## 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 2014 were as follows:

| | **31-Dec-14 EUR** | **31-Dec-13 EUR** |
|---|---|---|
| Unlisted equity securities *(Note 12)* | 34,345,899 | 32,216,437 |
| Loans receivable *(Note 13)* | 1,409,796 | 3,215,156 |

### 3 a) 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 balance sheet date.

The fair value of unlisted equity securities has been determined by independent valuers using DCF analysis. The DCF analysis is based on the investee company's management business plans for the period 2015-2019. The valuation methodology applied by the independent valuers is consistent with International Financial Reporting Standards (IFRSs) and International Valuation Standards (IVS).

The critical assumptions applied in the valuations are noted in Note 12 and Note 22.

Based on the reports of independent valuers, management has accepted the fair value estimations of unlisted equity investments at 31 December 2014 and consequently the amount of EUR 2.1 million was written up in the profit and loss (2013: EUR 4.9 million written off) (Note 12).

*(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 at fair value through profit or loss, except for subsidiaries providing services that are related to the Company's investment activity, which are consolidated. These subsidiaries are RC2 (Cyprus) Limited, Georok Holdings Limited and New Europe Capital Limited.

## 3. Critical accounting estimates and assumptions (continued)

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

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

| **2014** | **2013** |
|---|---|
| Top Factoring SRL | Top Factoring SRL |
| Glasro Holdings Limited | Glasro Holdings Limited |
| Mamaia Resort Hotels SRL | Mamaia Resort Hotels SRL |
| East Point Holdings Limited | East Point Holdings Limited |
| Klas DOO | Klas DOO |

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

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

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

*(v) Consolidation of New Europe Capital Limited*
The Company holds 7.5% of the economic interests of New Europe Capital Limited based on the entire issued share capital. However as the Company holds 60% of the voting rights of the Company, the Board of Directors considers that the Company has control of New Europe Capital Limited and the entity has therefore been consolidated (see Note 10 for further information).

## 4. Dividend income

| | **31-Dec-14** | **31-Dec-13** |
|---|---|---|
| | **EUR** | **EUR** |
| Glasro Holdings Limited | 1,523,080 | 1,385,011 |
| S.C. Comelf SA | 4,031 | 4,552 |
| S.C. Albalact SA | - | 396,982 |
| | 1,527,111 | 1,786,545 |

## 5. Operating expenses

| | 31-Dec-14 | 31-Dec-13 |
|---|---|---|
| | **EUR** | **EUR** |
| Investment management and advisory fees (Note 21) | 486,487 | 810,378 |
| General administrative expenses incurred wholly and exclusively by the Company's subsidiary New Europe Capital Limited | 338,459 | 178,634 |
| Fees in respect of the issuance of convertible loan notes | 215,223 | - |
| Legal and professional fees | 180,099 | 259,183 |
| Administration and custodian fees | 70,331 | 207,123 |
| Directors' fees | 66,716 | 157,041 |
| Audit fees | 27,229 | 68,403 |
| Insurance premium | 9,125 | 10,036 |
| Consultancy fees | 7,500 | 7,907 |
| Bank charges | 3,418 | 5,291 |
| Depreciation (Note 9) | 2,588 | 3,315 |
| Rental of assets – operating leases | - | 14,133 |
| Foreign exchange expense | (1,899) | 2,805 |
| | **1,405,276** | **1,724,249** |

**Investment management and advisory fees**

New Europe Capital Limited, a subsidiary and the Investment Manager, and New Europe Capital SRL and New Europe Capital DOO, the Investment Advisers, received a management and advisory fee equivalent to 2.25% per annum of the average monthly net asset value of the Company, which is accrued and invoiced on a monthly basis.

The Company reimburses the Investment Manager and Investment Advisers in respect of their out-of-pocket expenses (including reasonable travel expenses) incurred in connection with the performance of their duties.

The investment management and advisory fees are divided between the Investment Manager and Investment Advisers according to the Investment Management and Investment Advisory Agreements. The amount included in the consolidated statement of comprehensive income is EUR 486,487 (2013: EUR 810,378). Please see Note 21 for full details.

The Investment Manager and Investment Advisers are 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) which is payable annually in arrears (pro rata for partial periods).

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 performance fee is divided between the Investment Manager and Investment Advisers pro rata to the respective allocation between the Company's respective Trading and Private Equity investment programmes. The total performance fee included in profit and loss is nil (2013: nil).

**Administrator and Custodian fees**

The current administrator and custodian, Sanne Fiduciary Services Limited, receives a variable monthly fee based on the Group's NAV, payable quarterly in arrears (2013: fixed monthly fee, payable quarterly in arrears). The administration and custodian fee included in the profit and loss is EUR 70,331 (2013: EUR 207,123). An amount of EUR 18,373 was outstanding at the year-end (2013: EUR 52,460).

## 5. Operating expenditure *(Continued)*

**Directors' fees**
The Directors are considered to be key management personnel of the Company. The remuneration of each Director is detailed in the table below:

| | 2014 | 2013 |
|---|---|---|
| | EUR | EUR |
| Howard I. Golden (resigned 15 February 2015) | 30,000 | 40,000 |
| Ion Alexander Florescu (resigned 29 August 2014) | - | 30,000 |
| Markus Winkler | 20,000 | 30,000 |
| Dirk Van den Broeck | 20,000 | 30,000 |
| Mihai Radoi (appointed 30 September 2014) | 6,667 | - |
| Robert Petch (resigned 26 November 2013)* | (9,951) | 27,041 |
| | **66,716** | **157,041** |

*In 2014, Mr Petch waived his entitlement to EUR 9,951, being director's fees owed to him at the time of his resignation in 2013.

In addition, the Directors were entitled to be reimbursed for their reasonable out of pocket expenses incurred in discharging their duties as Directors. During the current and prior years, the Directors did not benefit from long term incentive schemes or post-employment benefits and no directors made gains from exercising share options. Mr Florescu also received remuneration from New Europe Capital Limited of EUR 64,489, which included EUR 22,726 of pension benefits (2013: EUR 69,841, which included EUR 24,045 of pension benefits).

## 6. Financial expenses

| | 31-Dec-14 | 31-Dec-13 |
|---|---|---|
| | EUR | EUR |
| Interest expense | 889,739 | 994,901 |
| | **889,739** | **994,901** |

During the years ended 31 December, the Company incurred interest on the following loans:

| | 31-Dec-14 | 31-Dec-13 |
|---|---|---|
| | EUR | EUR |
| Loan from Mr Florescu | 393,000 | - |
| Loan from Northview Investment Fund Limited | 179,257 | 544,400 |
| Effective interest on convertible loan notes | 156,411 | - |
| Investment management and advisory fee interest (Note 21) | 117,001 | 279,654 |
| Loan from Directors of the Company | 41,770 | 168,957 |
| Loan from S.C. Policolor SA | 2,300 | 1,890 |
| | **889,739** | **994,901** |

**Investment management and advisory fee interest**
On 31 October 2011, the Directors of the Company resolved to accrue interest at a rate of 10% per annum on all outstanding investment management and advisory fees outstanding for more than one month. The interest charge included in the P&L relating to overdue investment management and advisory fees is EUR 117,001 (2013: 279,654).

## 7. Income tax expense

| | 31-Dec-14 | 31-Dec-13 |
|---|---:|---:|
| | **EUR** | **EUR** |
| Current tax on profit for the year | 14,310 | 9,903 |
| Withholding tax | 403 | 450 |
| **Tax on profit on ordinary activities** | **14,713** | **10,353** |

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

| | 31-Dec-14 | 31-Dec-13 |
|---|---:|---:|
| | **EUR** | **EUR** |
| Profit/(loss) before taxation | 4,225,051 | (6,426,070) |
| Expected tax charge based on the standard rate of corporation tax in the Cayman Islands of 0% | - | - |
| *Effect of:* | | |
| Foreign tax - UK Corporation tax | 14,713 | 9,586 |
| Foreign tax - Romanian Corporation tax | - | 767 |
| **Tax on profit on ordinary activities** | **14,713** | **10,353** |

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

RC2 (Cyprus) Limited and Georok Holdings Limited are all incorporated in Cyprus and are subject to Cyprus tax rate of 12.5%. A tax charge of EUR nil has been recognised for the financial year in respect of both RC2 (Cyprus) Limited and Georok Holdings Limited (2013: nil and nil respectively).

RC2 (Cyprus) Imobiliara SRL, is incorporated in Romania and is subject to Romanian corporation tax at 16%. A tax charge of nil has been recognised for the financial period up until its liquidation (2013: EUR 767).

The UK corporation tax charge relates to New Europe Capital Limited and is based on the profit for the year and has taken into account taxation deferred. The tax charge is liable and payable in the United Kingdom in accordance with United Kingdom tax laws.

## 8. Tax on components of other comprehensive income

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

## 9. Property, plant and equipment

| | Office Equipment | Computer hardware and software | Total |
|---|---|---|---|
| **Year ended 31 December 2013** | | | |
| Opening net book amount | **12,836** | **622** | **13,458** |
| Additions | 500 | - | 500 |
| Depreciation charge | (2,887) | (428) | (3,315) |
| Translation differences | (322) | (16) | (338) |
| **Closing net book amount** | **10,127** | **178** | **10,305** |
| **At 31 December 2013** | | | |
| Cost | 17,115 | 27,949 | 45,064 |
| Accumulated depreciation | (7,095) | (28,476) | (35,571) |
| **Net book amount** | **10,127** | **178** | **10,305** |
| **Year ended 31 December 2014** | | | |
| Opening net book amount | **10,127** | **178** | **10,305** |
| Additions | - | 2,058 | 2,058 |
| Depreciation charge | (1,838) | (750) | (2,588) |
| Translation differences | 730 | 13 | 743 |
| **Closing net book amount** | **9,019** | **1,499** | **10,518** |
| **At 31 December 2014** | | | |
| Cost | 18,348 | 32,020 | 50,369 |
| Additions | - | 2,058 | 2,058 |
| Accumulated depreciation | (9,329) | (32,579) | (41,908) |
| **Net book amount** | **9,019** | **1,499** | **10,518** |

## 10. Subsidiaries

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

| | **Country of incorporation** | **Proportion of ownership interest** |
|---|---|---|
| RC2 (Cyprus) Limited | Cyprus | 100% |
| Georok Holdings Limited (dormant company) | Cyprus | 100% |
| New Europe Capital Limited | Great Britain | 7.5% |

New Europe Capital Limited has issued a class of share capital that does not have voting rights. Consequently, the voting power held by Reconstruction Capital II Limited is 60% but its economic interest is 7.5%. As a result, the non-controlling interests hold 40% of the voting power with an economic interest of 92.5%.

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

The Company also held a 99% ownership interest in RC2 (Cyprus) Imobiliara SRL, a dormant company, incorporated in Romania. The entity was liquidated on 6 June 2014 and was no longer consolidated as part of the Group.

The following subsidiaries of Reconstruction Capital II Limited are exempt from consolidation under the requirements of amendments to IFRS 10, IFRS 12 and IAS 27 on consolidation for investment entities:

| | **Registered Office** | **Proportion of ownership interest 31-Dec-14** | **Proportion of ownership interest 31-Dec-13** |
|---|---|---|---|
| Top Factoring SRL | Romania | 92% | 92% |
| Glasro Holdings Limited | Cyprus | 92% | 92% |
| Mamaia Resort Hotels SRL | Romania | 63% | 63% |
| East Point Holdings Limited | Cyprus | 43% | 63% |
| Klas DOO | Serbia | 52% | 11% |

## 11. Associates

The following entities are classified as associates of Reconstruction Capital II Limited as at 31 December:

| | **Registered Office** | **Net equity as at 31-Dec-14** | **Results as at year ended 31-Dec-14** | **Net equity as at 31-Dec-13** | **Results as at year ended 31-Dec-13** |
|---|---|---|---|---|---|
| | | **EUR (000's)** | **EUR (000's)** | **EUR (000's)** | **EUR (000's)** |
| S.C. Policolor SA | Romania | 40,155 | (1,211) | 45,109 | (1,279) |
| S.C. Albalact SA | Romania | 16,220 | 194 | 16,394 | 1,110 |

S.C. Policolor SA operates in the paints and coatings industry in Romania. The Company's portion of ownership as at 31 December 2014 was 40% (2013: 40%)

S.C. Albalact SA operates in the dairy industry in Romania. The Company's portion of ownership as at 31 December 2014 was 25% (2013: 25%).

## 12. Financial assets at fair value through profit or loss

| | 31-Dec-14 | 31-Dec-13 |
|---|---|---|
| **Non-current investments** | **EUR** | **EUR** |
| Unlisted equity securities | 34,345,899 | 32,216,437 |
| Listed equity securities | 9,739,389 | 5,767,520 |
| | **44,085,288** | **37,983,957** |
| Cost | 94,086,476 | 92,775,514 |
| Unrealised (loss)/gain on investments | (50,001,188) | (54,791,557) |
| **Fair value of the non-current investments** | **44,085,288** | **37,983,957** |
| **Current investments** | | |
| Listed equity securities | 342,696 | 369,656 |
| Total financial assets at fair value through profit or loss | **342,696** | **369,656** |
| Cost | 7,555,228 | 7,555,228 |
| Unrealised loss on investments | (7,212,532) | (7,185,572) |
| **Fair value of the current investments** | **342,696** | **369,656** |

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

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

During 2014, the Company increased its shareholding in Klas DOO by exchanging part of its shareholder loans for an additional 40.2% equity stake, increasing its overall stake to 52% (see Note 13).

During the year ended 31 December 2014, based on the reports of independent valuers, the Company reviewed the carrying value of unlisted equity securities held at fair value in the profit or loss account resulting in a profit on revaluation of EUR 2.1 million (2013: loss of EUR 4.9 million) (see Note 3).

## 13. Loans receivable

| | 31-Dec-14 | 31-Dec-13 |
|---|---|---|
| | **EUR** | **EUR** |
| Loans to unconsolidated subsidiaries and related entities (Note 21) | 1,409,796 | 3,215,156 |
| **Total Loans** | **1,409,796** | **3,215,156** |
| Amount due for settlement within 12 months | - | 3,215,156 |
| Amount due for settlement after 12 months | 1,409,796 | - |

**13. Loans receivable** *(continued)*

The principal features of the Company's loan receivables from subsidiaries and related parties are as follows:

a. Loans to Klas DOO were assigned to the Company during 2011 in order to finance its working capital needs in the total sum of EUR 2,210,000 (2013: EUR 2,210,000). The loans bear interest of 9% (2013: 9%). All interest is repayable on maturity.

   During the year ended 31 December 2014, an amount of EUR 1,310,962 of loan principal and accrued interest receivable from Klas DOO was exchanged for an additional 40.2% of the company's equity.

   A total of EUR 1,409,796 was outstanding at 31 December 2014, all of which has been classified as due to be settled after 12 months (2013: EUR 2,621,924 classified as due to be settled within 12 months).

   The fair value of the loans receivable from Klas DOO are estimated to equal their carrying value as at 31 December 2014.

b. Loans to Mamaia Resort Hotels SRL were granted during 2009 and 2011 in order to finance its working capital needs, in the total sum of EUR 465,753. The loans bear interest of 6.5% (2013: 6.5%). All interest was repayable on maturity.

   During the year ended 31 December 2014, the loans together with accrued interest were fully repaid (2013: EUR 593,232 and classified as due to be settled within 12 months).

c. Loans to East Point Metals Limited were granted during 2012 in order to finance its working capital needs, in the total sum of EUR 1,764,000. The loans bear interest of 9% (2013: 9%). All interest is repayable on maturity.

   A total of EUR 2,858,460 was outstanding at 31 December 2014 (2013: EUR 2,858,460).However the fair value of the loans receivable from East Point Metals Limited had been judged to be impaired by 100% as at 31 December 2013 and the impairment was judged to be appropriate to carry forward as at 31 December 2014. As a result, the total amount receivable from East Point Metals Limited was impaired by EUR 2,858,460, with the loan being valued at nil with no impairment expense being incurred during the year (2013: the total amount receivable from East Point Metals Limited was impaired by EUR 1,915,317, with the loan being valued at nil and with a charge of EUR 1,915,317 being incurred during the year).

## 14. Trade and other receivables

| | 31-Dec-14 | 31-Dec-13 |
|---|---|---|
| | EUR | EUR |
| Trade and other receivables | 236,769 | 287,669 |
| Prepayments | 39,505 | 78,190 |
| | **276,274** | **365,859** |

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

## 15. Trade and other payables

| | 31-Dec-14 | 31-Dec-13 |
|---|---|---|
| | EUR | EUR |
| Trade payables | 26,379 | 86,455 |
| Investment management and advisory fees and interest | 521,915 | 3,703,758 |
| Directors' fees | 50,070 | 436,521 |
| Payables and accruals wholly and exclusively payable by the Company's subsidiary New Europe Capital Limited | 112,813 | 415,891 |
| Administration fees | 18,374 | 52,460 |
| Other payables and accruals | 117,643 | 31,465 |
| | **847,194** | **4,726,550** |

All trade payables are classed as financial liabilities measured at amortised cost under IAS 39. The book value approximates fair value.

## 16. Borrowings

| | 31-Dec-14 | 31-Dec-13 |
|---|---|---|
| | EUR | EUR |
| **Secured and unsecured borrowing at amortised cost** | | |
| Loans from directors | - | 717,818 |
| Loans from shareholders | - | 3,546,455 |
| Convertible loan notes | 7,976,965 | - |
| Loan from other related parties | 44,190 | 41,890 |
| **Total borrowings** | **8,021,155** | **4,306,163** |
| Amount due for settlement within 12 months | 44,190 | 4,306,163 |
| Amount due for settlement in 2 – 5 years | 7,976,965 | - |

**16. Borrowings** *(Continued)*

The Company has the following related party loans:

a. Secured convertible notes were issued on 31 October 2014 in the sum of EUR 8,450,000. The secured convertible loan notes bear interest of 10% and both interest and principal shall be repayable at 30 October 2017, should no conversion take place. The secured convertible loan noteholders have the right to convert on the basis of 7.41 new ordinary shares for every EUR 1.00 of outstanding amount of principal of secured convertible loan note. The Company also has the option to partially repay or fully repay the secured convertible loan notes at any time, with at least 45 days prior written notice. No early repayment penalties shall apply unless the repayment occurs prior to the date falling 6 months after the issue date in which case the repayment shall include interest accrued during the period.

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

   A total of EUR 8,606,411 was outstanding at 31 December 2014, of which EUR 629,446 was classified as equity. The loan portion of the convertible loan notes had been classified as due to be settled between 2 and 5 years (2013: nil).

   The fair value of the loan payable to the secured convertible loan noteholders was estimated to equal its carrying value as at 31 December 2014.

b. An unsecured loan of EUR 40,000 was provided by Policolor SA, a portfolio company on 12 February 2013. The terms of the loan included an interest rate accruing at 5.75% and shall be repayable by 31 December 2014. All interest is repayable either at the request of the lender or upon maturity.

   A total of EUR 44,190 was outstanding at 31 December 2014 and classified as due to be settled within 12 months (2013: EUR 41,890 and classified as due to be settled between 2 and 5 years). The loan has been subsequently renewed for one year, falling due for repayment on 31 December 2015.

   The fair value of the loan payable to the Policolor SA was estimated to equal its carrying value as at 31 December 2014.

c. An unsecured bridging loan from certain directors of the Company had been granted on 29 September 2011 in the sum of EUR 950,000, of which EUR 400,000 has been repaid in prior years. The remaining balance of EUR 550,000 plus accrued interest was repaid in full in June 2014. The loan has a 1% arrangement fee and bears interest of 8% if repaid within 6 months, 9% if repaid within 9 months or 10% if repaid after 9 months, or an interest rate of the same effective rate as the loan provided by Northview Investment Fund Limited (for the period up to repayment: 18%) (2013: 18%) if repaid after 12 months. All interest was repayable on maturity on 30 September 2012, but was repaid in full in June 2014.

   A total of nil was outstanding at 31 December 2014 (2013: EUR 717,818 and classified as due to be settled within 12 months).

**16. Borrowings** *(Continued)*

d. A secured loan of EUR 3,000,000 had been provided by Northview Investment Fund Limited, a shareholder in the Company. The terms of the loan include a 2% arrangement fee and an interest rate accruing on each drawdown amount from the date of drawdown of 14% if repaid within 6 months, 16% if repaid within 12 months, and 18% if repaid within 18 months. All interest was repayable on maturity, in April 2014. Security was held over the following assets, registered in the name of the Company or its subsidiaries:

- 52.67% of the share capital of East Point Holdings Limited;
- 92.3077% of the share capital of Top Factoring SRL;
- 63.0137% of the share capital of Mamaia Resort Hotels SRL; and
- 40% of the share capital of Policolor SA.

In accordance with the terms of the loan, the loan principal and accrued interest was settled in full in April 2014.

A total of nil was outstanding at 31 December 2014 (2013: EUR 3,546,455, all of which was classified as due to be settled within 12 months).

**17. Exchange Rates**

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

| **Currency** | **31-Dec-14** | **31-Dec-13** |
|---|---|---|
| GBP | 1.2886 | 1.2020 |
| USD | 0.8264 | 0.6038 |
| RON | 0.2230 | 0.2240 |

**18. Net Asset Value (excluding non-controlling interest)**

| | **31-Dec-14** | **31-Dec-13** |
|---|---|---|
| | **EUR** | **EUR** |
| Net assets(excluding non-controlling interest) | 37,745,015 | 32,872,361 |
| Number of shares (undiluted) | 100,000,000 | 100,000,000 |
| Net Asset Value per share (undiluted) | 0.3775 | 0.3287 |

| | **31-Dec-14** | **31-Dec-13** |
|---|---|---|
| | **EUR** | **EUR** |
| Net assets(excluding non-controlling interest) | 37,745,015 | 32,872,361 |
| Adjustments for: | | |
| Convertible loan notes | 7,820,554 | - |
| Convertible loan notes accrued interest | 156,411 | - |
| Net assets (adjusted) | 45,721,980 | 32,872,361 |
| Number of shares (undiluted) | 162,614,500 | 100,000,000 |
| Net Asset Value per share (diluted) | 0.2812 | 0.3287 |

## 19. Commitments under operating leases

As at 31 December 2014, the Company had no annual commitments under non-cancellable operating leases (2013: EUR 14,133).

## 20. Pledges and guarantees

During the year ended 31 December 2014, the Company had provided a pledge to Northview Investment Fund Limited, a shareholder in the Company, in relation to a secured loan provided to the Company in the amount of EUR 3,000,000. Security for this loan was held over the following assets, registered in the name of the Company or its subsidiaries:

- 52.67% of the share capital of East Point Holdings Limited;
- 92.3077% of the share capital of Top Factoring SRL;
- 63.0137% of the share capital of Mamaia Resort Hotels SRL; and
- 40% of the share capital of Policolor SA.

During the year ended 31 December 2014, the pledge was fully released following the repayment of the loan to Northview Investment Fund Limited.

The Company also provided a pledge to Mr Florescu, a shareholder in the Company, a director of New Europe Capital Limited and New Europe Capital SRL, which were the Investment Manager and one of the Investment Advisers to the Company, respectively and a former director of the Company, in relation to a secured loan provided to the Company in the amount of EUR 6,750,000. Security for this loan was held over the totality of shares, registered in the name of the Company or its subsidiaries, in the following assets:

- Policolor SA
- Top Factoring SRL
- Mamaia Resort Hotels SRL
- Albalact SA
- Glasro Holdings Limited

During the year ended 31 December 2014, the pledge was fully released following the repayment of the loan to Mr Florescu.

The Company provided a further pledge in respect of convertible loan notes issued in the amount of EUR 8,450,000. Security was held over the totality of shares registered in the name of the Company in the following assets:

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

Please refer to Note 16(c) for further details in respect of the above mentioned loans.

The Company also provided a pledge to Raiffeisen Bank SA in relation to a secured loan provided to Glasro Holdings Limited, a subsidiary of the Company, in the maximum amount of EUR 8,000,000 (2013: EUR 6,000,000), of which EUR 5,445,293 had been drawn down as at 31 December 2014 (2013: EUR 5,178,385). Security for this loan was held over the following assets, registered in the name of the Company or its subsidiaries:

- 166,100,478 shares in S.C. Albalact SA
- 17,701,300 shares in S.C. Turbomecanica SA

## 21. Related-party transactions

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

Mr Florescu is a director of New Europe Capital Limited and New Europe Capital SRL, which were the Investment Manager and one of the Investment Advisers to the Company, respectively. Total management and advisory fees for the period amounted to EUR 654,510 (2013: EUR 1,025,795). Total fees outstanding as at 31 December 2014 were EUR 347,164 (2013: EUR 3,165,647).

| **Investment management and advisory fees** | **31-Dec-14** | **31-Dec-13** |
|---|---|---|
| | **EUR** | **EUR** |
| New Europe Capital Limited * | 168,023 | 215,417 |
| New Europe Capital SRL** | 465,174 | 625,278 |
| New Europe Capital DOO** | 21,313 | 185,100 |
| | **654,510** | **1,025,795** |

| **Outstanding Amounts** | **31-Dec-14** | **31-Dec-13** |
|---|---|---|
| | **EUR** | **EUR** |
| New Europe Capital Limited * | 44,765 | 460,328 |
| New Europe Capital SRL** | 119,845 | 2,132,609 |
| New Europe Capital DOO** | 182,554 | 1,124,451 |
| | **347,164** | **3,717,388** |

The investment management and advisory fees are accrued and are payable monthly in arrears. There were no performance fees paid or payable in respect of 2014 (2013: nil).

Investment management and advisory fees which are unpaid for over a month attract an interest of 10% (2013: 10%) on the entire balance (please refer to Note 5).

| **Interest charged on outstanding amounts** | **31-Dec-14** | **31-Dec-13** |
|---|---|---|
| | **EUR** | **EUR** |
| New Europe Capital Limited * | 13,142 | 40,281 |
| New Europe Capital SRL** | 87,106 | 170,473 |
| New Europe Capital DOO** | 29,895 | 109,181 |
| | **130,143** | **319,935** |

* New Europe Capital Limited is part of the Company and so these amounts are eliminated on consolidation.
** New Europe Capital SRL and New Europe Capital DOO are related to the Company through the common beneficial interest of a former Director.

| **Dividend income** | **31-Dec-14** | **31-Dec-13** |
|---|---|---|
| | **EUR** | **EUR** |
| Glasro Holdings Limited | 1,523,080 | 1,385,011 |
| S.C. Comelf SA | 4,031 | 396,982 |
| | 1,527,111 | 1,781,993 |

For details on dividend income, please refer to Note 4.

**21. Related-party transactions** *(Continued)*

| **Directors' fees** | **2014** | **2013** |
|---|---|---|
| | **EUR** | **EUR** |
| Howard I. Golden (resigned 15 February 2015) | 30,000 | 40,000 |
| Ion Alexander Florescu (resigned 29 August 2014) | - | 30,000 |
| Markus Winkler | 20,000 | 30,000 |
| Dirk Van den Broeck | 20,000 | 30,000 |
| Mihai Radoi (appointed 30 September 2014) | 6,667 | - |
| Robert Petch (resigned 26 November 2013) | (9,951) | 27,041 |
| | **66,716** | **157,041** |

For details on directors' fees, please refer to Note 5.

| **Loans receivable from related parties** | **31-Dec-14** | **31-Dec-13** |
|---|---|---|
| | **EUR** | **EUR** |
| Loans to subsidiaries and related entities | 1,409,796 | 3,215,156 |
| | 1,409,796 | 3,215,156 |

For details on the loans receivable from related parties, please refer to Note 13.

| **Trade and other payables to related parties** | **31-Dec-14** | **31-Dec-13** |
|---|---|---|
| | **EUR** | **EUR** |
| Investment management and advisory fees | 302,399 | 3,717,388 |
| Interest on investment management and advisory fees | 219,516 | 279,654 |
| Directors fees | 50,070 | 447,041 |
| | 571,985 | 4,444,083 |

For details on the trade and other payables to related parties, please refer to Note 15.

| **Loans payable to related parties** | **31-Dec-14** | **31-Dec-13** |
|---|---|---|
| | **EUR** | **EUR** |
| Loans from directors | - | 717,818 |
| Loans from shareholders | - | 3,546,455 |
| Loans from subsidiaries | 44,190 | 41,890 |
| | 44,190 | 4,306,163 |

For details on the loans payable to related parties, please refer to Note 16.

A secured loan of EUR 6,750,000 was provided by Mr Florescu, a beneficial shareholder in the Company, a director of New Europe Capital Limited and New Europe Capital SRL, which were the Investment Manager and one of the Investment Advisers to the Company, respectively and a former director of the Company, on 31 March 2014. The terms of the loan include an interest rate accruing at 12% and it was repayable by 31 July 2014. All interest is repayable upon maturity. The maturity of the loan was subsequently extended to 31 October 2014. Security was held over the totality of shares, registered in the name of the Company or its subsidiaries, in the following assets:

- Policolor SA
- Top Factoring SRL
- Mamaia Resort Hotels SRL
- Albalact SA
- Glasro Holdings Limited

In accordance with the terms of the loan, the loan principal and accrued interest was settled during the year. A total of nil was outstanding at 31 December 2014 (2013: nil).

## 22. Financial Instruments

**Risk management objectives and policies**

The Company is exposed to a variety of financial risks which result from both its operating and investing activities. The Company's risk management is coordinated by its investment team which manages the assets to achieve the investment objectives. The most significant financial risks to which the Company is exposed are set out below.

**Credit risk**

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

| | 31-Dec-14 | 31-Dec-13 |
|---|---|---|
| | EUR | EUR |
| Loan receivables | 1,409,796 | 6,073,616 |
| Trade and other receivables | 236,769 | 287,669 |
| Cash and cash equivalents | 768,606 | 350,142 |
| | 2,415,171 | 6,711,427 |

Trade receivables, loans receivable and cash are classified as loans and receivables so the total credit risk exposure to loans and receivables is EUR 2,415,171 (2013: EUR 6,789,617).

The loan receivable amount of EUR 1,409,796 (2013: EUR 6,073,616) includes loans and accrued interest in the total amount of EUR 2,858,460 to East Point Metals Limited which had been impaired by 100% as at 31 December 2014.

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

There are no trade and other receivable amounts past due or impaired, nor is there any reason to believe that the trade and other receivables balance of EUR 236,769 (2013: EUR 287,669) will not be fully recovered.

The Company's cash is held with regional and foreign banks and is diversified appropriately. The rating of the banks where the Company held cash and cash equivalents, are shown below..

**Cash and cash equivalents**

| Rating | Rating Agency | 31-Dec-14 | 31-Dec-13 |
|---|---|---|---|
| | | EUR | EUR |
| Aa3 | Moody's | 596,406 | 270,729 |
| Baa1 | Moody's | 122,139 | 31,613 |
| Ba2 | Moody's | 50,061 | 47,800 |
| | | 768,606 | 350,142 |

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

## 22. Financial Instruments *(Continued)*

### Market risk

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

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

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

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

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

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

| **Markets** | **31-Dec-14** | **31-Dec-13** |
|---|---|---|
| RASDAQ | 10,082,085 | 6,137,176 |
| | 10,082,085 | 6,137,176 |

| **Sector** | **31-Dec-14** | **31-Dec-13** |
|---|---|---|
| Paint | 20,560,000 | 19,760,000 |
| Receivables collection | 8,312,511 | 8,959,408 |
| Dairy | 9,738,389 | 5,767,520 |
| Leisure | 2,821,898 | 2,819,929 |
| Food manufacturing | 2,651,490 | 677,100 |
| | 44,085,288 | 37,983,957 |

| **Country** | **31-Dec-14** | **31-Dec-13** |
|---|---|---|
| Romania | 41,433,798 | 37,306,857 |
| Serbia | 2,651,490 | 677,100 |
| | 44,085,288 | 37,983,957 |

## 22. Financial Instruments *(Continued)*

**Foreign currency risks**
The Company holds assets denominated in GBP, USD and RON. Accordingly, a change in the value of the RON relative to the Euro will result in corresponding change in the Euro value of the Company's assets denominated in RON. There is a greater likelihood of currency devaluation, imposition of more severe foreign currency exchange controls, a lack of availability of or access to foreign currency and pronounced currency exchange rate fluctuations occurring in Romania in relation to the RON than in Western Europe in relation to major Western European currencies.

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

| *All amounts stated in Euro* **31-Dec-14** | **Monetary Assets** | **Monetary liabilities** | **Net exposure** |
|---|---|---|---|
| GBP | 278,991 | (115,024) | 163,967 |
| USD | 1,321 | - | 1,321 |
| RON | 10,090,250 | - | 10,090,250 |
| | **10,370,562** | **(115,024)** | **10,255,538** |

| *All amounts stated in Euro* **31-Dec-13** | **Monetary Assets** | **Monetary liabilities** | **Net exposure** |
|---|---|---|---|
| GBP | 385,763 | (520,586) | (134,823) |
| USD | 808 | - | 808 |
| RON | 260,878 | - | 260,878 |
| | **647,449** | **(88,247)** | **126,863** |

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

| **31-Dec-14** | **EUR** | **31-Dec-13** | **EUR** |
|---|---|---|---|
| GBP | 8,198 | GBP | 14,876 |
| USD | 66 | USD | 40 |
| RON | 17,543 | RON | 13,044 |
| | **25,807** | | **27,960** |

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

**22. Financial Instruments** *(Continued)*

**Liquidity risk**

***Cash Flows***

Liquidity risk is that the Company might be unable to meet its obligations. The Company manages its liquidity needs through the ability to borrow in the short term from shareholders and the cash inflows of dividends from marketable securities.

The table below sets out the Company's contractual undiscounted cash flows. Balances due within 12 months equal their carrying balances, as the impact of discounting is not significant.

| 31-Dec-14 | Less than 1 month EUR | Less than 1 year EUR | 1 – 2 years EUR | 2 - 5 years EUR | No stated maturity EUR |
|---|---|---|---|---|---|
| Trade and other payables | 846,834 | - | - | - | 360 |
| Current loans and borrowings | - | 46,490 | - | - | - |
| Non-current loans and borrowings | - | - | - | 10,987,315 | - |
| | **846,834** | **46,490** | **-** | **10,987,315** | **360** |

| 31-Dec-13 | Less than 1 month EUR | Less than 1 year EUR | 1 – 2 years EUR | 2 – 5 years EUR | No stated maturity EUR |
|---|---|---|---|---|---|
| Accrued expenses | 4,639,735 | - | - | - | 360 |
| Trade and other payables | 86,455 | - | - | - | - |
| Current loans and borrowings | - | 4,487,720 | - | - | - |
| Non-current loans and borrowings | - | - | - | - | - |
| | **4,726,190** | **4,487,720** | **-** | **-** | **360** |

**Interest rate risk**

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

| 31-Dec-14 | Interest Bearing Fixed EUR | Floating EUR | Non-interest bearing EUR |
|---|---|---|---|
| Loans receivable – current | 1,105,000 | - | 304,796 |
| Trade and other receivables | - | - | 276,274 |
| Cash and cash equivalents | 40,000 | 719,328 | 9,278 |
| **Total current assets** | 1,145,000 | 719,328 | 590,348 |
| | | | |
| Trade and other payables | - | - | 849,405 |
| Loans and borrowings - current | 40,000 | - | 4,190 |
| Loans and borrowings – non-current | 7,820,554 | - | 156,411 |
| **Total liabilities** | 7,860,554 | - | 1,010,006 |
| **Total interest sensitivity gap** | **(6,715,554)** | **719,328** | **(419,658)** |

**22. Financial Instruments** *(Continued)*

**Interest rate risk** *(Continued)*

| 31-Dec-13 | Interest Bearing Fixed EUR | Floating EUR | Non-interest bearing EUR |
|---|---|---|---|
| Loans receivable – current | 2,675,753 | - | 539,403 |
| Trade and other receivables | - | - | 365,859 |
| Cash and cash equivalents | - | 324,512 | 25,630 |
| **Total current assets** | 2,675,753 | 324,512 | 930,892 |
| | | | |
| Trade and other payables | - | - | 4,726,550 |
| Loans and borrowings - current | 3,980,611 | - | 325,552 |
| **Total liabilities** | 3,980,611 | - | 5,052,102 |
| **Total interest sensitivity gap** | **(1,304,858)** | **324,512** | **(4,121,210)** |

Should interest rates have been lower by 25 basis points with all other variables remaining constant, and the cash level remained constant during the year, the decrease in post-tax profit/loss and equity attributable to holders of ordinary shares would amount to approximately EUR 1,798 (2013: EUR 811).These changes are considered to be reasonably possible based on observations of current market conditions in the opinion of the Directors. An increase in interest rates would have an equal and opposite effect on the post-tax profit or loss and equity attributable to holders of ordinary shares.

Should fixed interest rate loans have been based on the average 1 month EURIBOR rate during 2013, being 0.131% (2013: 0.129%) plus a margin of 0.25% (2013: 0.25%), with all other variables remaining constant, and the cash level remained constant during the year, the decrease in post-tax loss and equity attributable to holders of ordinary shares would amount to a loss of approximately EUR 810,376 (2013: loss of EUR 550,107).

**Price risk**

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

| | 31-Dec-14 | | 31-Dec-13 | |
|---|---|---|---|---|
| **Investment assets** | **EUR** | **Percentage of Net Assets** | **EUR** | **Percentage of Net Assets** |
| Listed equity investments | 10,082,085 | 27% | 6,137,176 | 18% |

As at 31 December, if the BET-EUR (Bucharest Stock Exchange Trading index) rose or fell by 5%, being the movement considered to be reasonably possible based on observations of current market conditions in the opinion of the Directors, and the listed equity and debt investments reacted in the same way, the increase or decrease respectively in post-tax profit/loss would be 11.92% or EUR 504,104 (2013: 4.77% or EUR 306,859).

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

## 22. Financial Instruments *(Continued)*

**Price risk** *(continued)*

| Sector | 31-Dec-14 | 31-Dec-13 |
|---|---|---|
| Dairy | 9,739,389 | 5,767,520 |
| Industrial | 342,696 | 369,656 |
| | 10,082,085 | 6,137,176 |

The exposure to price risk of unlisted equity investments are presented in section “Fair Value Information”

**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 maximize 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 policy is for profits from realisations from the investment portfolio to lead to a reduction in liabilities and the return of capital to shareholders.

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

The amounts managed as capital by the Company for the reporting periods under review are summarized as follows:

| | 31-Dec-14 | 31-Dec-13 |
|---|---|---|
| Total equity | 38,022,618 | 33,260,570 |
| Cash and cash equivalents | (768,606) | (350,142) |
| Capital | 37,254,012 | 32,910,428 |
| | | |
| Total equity | 38,022,618 | 33,260,570 |
| Borrowings | 8,021,155 | 4,306,163 |
| Overall financing | 46,043,773 | 37,566,733 |
| | | |
| Capital to overall financing ratio | 81% | 88% |

The Group has complied with its maximum level of gearing of 30% of gross assets, in accordance with the Company’s Admission Document, with the current gearing level standing at 19% (2013: 12%) of gross assets.

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

**22. Financial Instruments** *(Continued)*

### Fair Value Information

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

The carrying amounts of all the Company's financial assets and financial liabilities at the year-end date approximated their fair value.

*Estimation of fair values*

The major methods and assumptions used in estimating the fair values of financial instruments were disclosed in Note 3 of the Significant accounting policies section. As the major methods and assumptions in estimated the fair value are subjective, management have conducted a sensitivity analysis on key areas based on the investment Advisers' reasonable expectations. For fair values of investments classified as level 3 (see below), the following assumptions apply:

<u>Policolor SA</u>

Policolor SA was valued by an independent valuer as at 31 December 2014. The major assumptions used in the valuation are as follows:

- Weighted average cost of capital of10.2%
- A terminal value rate of 1.5%
- Revenue growth of between 5% - 10%
- EBITDA margin of between 0.2% and 9.3%

As at 31 December 2014, if the projected revenue growth of Policolor SA rose or fell by 5% the effect from the corresponding change in the fair value of the investment would be reflected as follows in the consolidated financial statements of the Company:

- 5% rise: increase in the Company's total assets by 3.41% or EUR 1,600,000 and an increase in the Company's post-tax profit by 37.83% or EUR 1,600,000;
- 5% decrease: decrease in the Company's total assets by 3.41% or EUR 1,600,000and a decrease in the Company's post-tax profit by 37.83% or EUR 1,600,000;

<u>Klas DOO</u>

Klas DOO was valued by an independent valuer as at 31 December 2014. The major assumptions used in the valuation are as follows:

- Discount rate of 9.0%
- A terminal growth rate of 1.0%
- Revenue growth of between 6.4% and 16.47%
- EBITDA margin of between (4.7%) and 14.1%

As at 31 December 2014, if the weighted average cost of capital of Klas DOO increased or decreased by 0.5% the effect from the corresponding change on the fair value of the Company would be reflected as follows in the consolidated financial statements of the Company:

- 0.5% increase: decrease in the Company's total assets by 0.57% or EUR 265,149 and a decrease in the Company's post-tax profit by 6.27% or EUR 265,149;
- 0.5% decrease: increase in the Company's total assets by 0.57% or EUR 265,149 and an increase in the Company's post-tax profit by 6.27% or EUR 265,149;

**22. Financial Instruments** *(Continued)*

**Fair Value Information** *(Continued)*

Mamaia Resort Hotels SRL

Mamaia Resort Hotels SRL was valued by an independent valuer as at 31 December 2014. The major assumptions used in the valuation are as follows:

- Weighted average cost of capital of 9.4%
- A perpetual growth rate of 2%
- Revenue growth of between 3% - 7%
- EBITDA margin between 16.7% and 28.6%

As at 31 December 2014, if the projected revenue growth of Mamaia Resort Hotels SRL rose or fell by 1% the effect from the corresponding change on the fair value of the investment would be reflected as follows in the consolidated financial statements of the Company:

- 1% rise: increase in the Company's total assets by 0.38% or EUR 178,682 and an increase in the Company's post-tax profit by 4.18% or EUR176,682;
- 1% decrease: decrease in the Company's total assets by 0.38% or EUR176,682 and a decrease in the Company's post-tax profit by4.18% or EUR 176,682;

Top Factoring SRL

Top Factoring SRL was valued by an independent valuer as at 31 December 2014. The major assumptions used in the valuation are as follows:

- Weighted average cost of capital of 8.3%
- Terminal value shrinkage of 1.5%
- Revenue (shrinkage)/growth of between (15.6%) and 22.1%
- EBITDA margin between 8.9% and 12.6%

As at 31 December 2014, if the projected revenue growth of Top Factoring SRL rose or fell by 5% the effect from the corresponding change on the fair value of the investment would be reflected as follows in the consolidated financial statements of the Company:

- 5% rise: increase in the Company's total assets by 0.94% or EUR 442,276 and an increase in the Company's post-tax profit by 10.46% or EUR 442,276;
- 5% decrease: decrease in the Company's total assets by 3.98% or EUR 1,868,365 and a decrease in the Company's post-tax profit by 44.17% or EUR 1,868,365.

Glasro Holdings Limited

Glasro Holdings Limited was valued by an independent valuer as at 31 December 2014. The major assumptions used in the valuation are as follows:

- Weighted average cost of capital of 11.6%
- Revenue shrinkage of between 11.7% and 1.9%
- EBITDA margin of between 30% and 41%
- Terminal value shrinkage of 1.5%

As at 31 December 2014, if the projected revenue growth of Glasro Holdings Limited rose or fell by 5% the effect from the corresponding change on the fair value of the investment would be reflected as follows in the consolidated financial statements of the Company:

- 5% rise: increase in the Company's total assets by 2.28% or EUR 1,069,360 and an increase in the Company's post-tax profit by 25.28% or EUR 1,069,360;
- 5% decrease: decrease in the Company's total assets by 0.27% or EUR 126,208 and a decrease in the Company's post-tax profit by 2.98% or EUR 126,208.

## 22. Financial Instruments *(Continued)*

### Fair Value Information *(Continued)*

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

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

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

**As at 31 December 2014**

| **Assets** | **Total EUR** | **Level 1 EUR** | **Level 3 EUR** |
|---|---|---|---|
| Equity investments | **44,427,984** | 10,082,085 | 34,345,899 |
| **Total** | **44,427,984** | 10,082,085 | 34,345,899 |

**As at 31 December 2013**

| **Assets** | **Total EUR** | **Level 1 EUR** | **Level 3 EUR** |
|---|---|---|---|
| Equity investments | **38,353,613** | 6,137,176 | 32,216,437 |
| **Total** | **38,353,613** | 6,137,176 | 32,216,437 |

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

| | **2014 EUR** | **2013 EUR** |
|---|---|---|
| **Beginning balance 1 January** | 32,216,437 | 37,086,401 |
| Total gains or losses (realised/unrealised): | | |
| Investment income | 818,500 | (4,869,964) |
| Purchase and issuances | 1,310,962 | - |
| **Ending balance 31 December** | **34,345,899** | **32,216,437** |
| Unrealised profit/(loss) in earnings from | | |
| assets still held at year end | 4,747,123 | (4,139,530) |

## 23. Operating segments

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

**Reportable segments**

The "All other" column includes New Europe Capital Limited and other items which the Chief Operating Decision Maker does not consider to be operating segments.

| | Listed Private Equity Programme **31-Dec-14** **EUR** | Unlisted Private Equity Programme **31-Dec-14** **EUR** | Trading Programme **31-Dec-14** **EUR** | All Other **31-Dec-14** **EUR** | Total **31-Dec-14** **EUR** |
|---|---|---|---|---|---|
| Reportable segment total assets | 9,739,389 | 34,345,899 | 342,696 | 2,465,194 | **46,893,178** |
| Reportable segmental profit/(loss) (before tax) | 4,068,524 | 2,446,527 | (21,107) | (2,283,606) | **4,210,338** |
| Reportable segment liabilities | - | - | - | (8,870,560) | **(8,870,560)** |

| | Listed Private Equity Programme **31-Dec-14** **EUR** | Unlisted Private Equity Programme **31-Dec-14** **EUR** | Trading Programme **31-Dec-14** **EUR** | All Other **31-Dec-14** **EUR** | **Total** **31-Dec-14** **EUR** |
|---|---|---|---|---|---|
| Gains on investments at FVTPL | 4,068,524 | 818,501 | (21,107) | (118,795) | **4,747,123** |
| Interest revenue | - | 104,949 | - | - | - |
| Depreciation and impairment | - | - | - | (2,588) | **(2,588)** |
| Dividends | - | 1,523,080 | 4,031 | - | **1,527,111** |
| Income tax expense | - | - | - | (14,713) | **(14,713)** |
| Other income | - | - | - | 140,883 | **140,883** |

| | Listed Private Equity Programme **31-Dec-13** **EUR** | Unlisted Private Equity Programme **31-Dec-13** **EUR** | Trading Programme **31-Dec-13** **EUR** | All Other **31-Dec-13** **EUR** | Total **31-Dec-13** **EUR** |
|---|---|---|---|---|---|
| Reportable segment total assets | 5,767,520 | 32,216,437 | 369,656 | 3,941,462 | **42,295,075** |
| Reportable segmental profit/(loss) (before tax) | 846,307 | (4,866,059) | (119,778) | (2,207,459) | **(6,436,423)** |
| Reportable segment liabilities | - | - | - | (9,034,505) | **(9,034,505)** |

## 23. Operating segments *(Continued)*

**Reportable segments** *(Continued)*

| | Listed Private Equity Programme **31-Dec-13** | Unlisted Private Equity Programme **31-Dec-13** | Trading Programme **31-Dec-13** | All Other **31-Dec-13** | **Total 31-Dec-13** |
|---|---|---|---|---|---|
| | **EUR** | **EUR** | **EUR** | **EUR** | **EUR** |
| Gains on investments at FVTPL | 846,307 | (4,869,964) | (115,873) | - | **(4,139,530)** |
| Interest revenue | - | - | - | 449,689 | **449,689** |
| Depreciation and impairment | - | - | - | (3,315) | **(3,315)** |
| Dividends | 396,982 | 1,385,011 | 4,552 | - | **1,786,545** |
| Income tax expense | - | - | - | (10,353) | **(10,353)** |
| Other income | - | - | - | 111,693 | **111,693** |

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

| | **Romania 31-Dec-14** | **Serbia 31-Dec-14** | **Other 31-Dec-14** | **Total 31-Dec-14** |
|---|---|---|---|---|
| | **EUR** | **EUR** | **EUR** | **EUR** |
| ***Revenues*** | | | | |
| Total investment income/(loss) | 4,188,018 | 663,428 | (104,323) | **4,747,123** |
| Interest income | 5,451 | 99,100 | 398 | **104,949** |
| Dividend income | 1,527,111 | - | - | **1,527,111** |
| Other income | - | - | 140,883 | **140,883** |
| | **5,720,580** | **762,528** | **36,958** | **6,520,066** |
| ***Total assets*** | | | | |
| Financial assets at FVTPL | 41,433,798 | 2,651,490 | - | 44,085,288 |
| Property, plant and equipment | - | - | 10,518 | 10,518 |
| Loans receivable – non-current | - | 1,409,796 | - | 1,409,796 |
| **Non-current assets** | **41,433,798** | **4,061,286** | **10,518** | **45,505,602** |
| Financial assets at FVTPL | 342,696 | - | - | 342,696 |
| Trade and other receivables | - | - | 276,274 | 276,747 |
| Cash and cash equivalents | - | - | 768,606 | 768,606 |
| **Total Assets** | **41,776,494** | **4,061,286** | **1,055,398** | **46,893,178** |

**23. Operating segments** *(Continued)*

**Reportable segments** *(Continued)*

| | **Romania 31-Dec-13 EUR** | **Serbia 31-Dec-13 EUR** | **Other 31-Dec-13 EUR** | **Total 31-Dec-13 EUR** |
|---|---|---|---|---|
| ***Revenues*** | | | | |
| Total investment loss | 1,765,370 | (5,904,900) | - | **(4,139,530)** |
| Interest income | 32,774 | 415,075 | 1,840 | **449,689** |
| Dividend income | 1,786,545 | - | - | **1,786,545** |
| Other income | - | - | 111,693 | **111,693** |
| | **3,584,689** | **(5,489,825)** | **113,533** | **(1,791,603)** |
| ***Total assets*** | | | | |
| Financial assets at FVTPL | 37,306,857 | 677,100 | - | 37,983,957 |
| Property, plant and equipment | - | - | 10,305 | 10,305 |
| **Non-current assets** | **37,306,857** | **677,100** | **10,305** | **37,994,262** |
| Financial assets at FVTPL | 369,656 | - | - | 369,656 |
| Trade and other receivables | - | - | 365,859 | 365,859 |
| Loans receivable | 593,232 | 2,621,924 | - | 3,215,156 |
| Cash and cash equivalents | - | - | 350,142 | 350,142 |
| **Total Assets** | **38,269,745** | **3,299,024** | **726,306** | **42,295,075** |

**24. Reserves**

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

**25. Share Capital**

| | Authorised | | Authorised | |
|---|---|---|---|---|
| | **2014 Number** | **2014 EUR** | **2013 Number** | **2013 EUR** |
| *Ordinary shares of EUR 0.01 each* | 300,000,000 | 3,000,000 | 300,000,000 | 3,000,000 |

| | Issued and fully paid | | Issued and fully paid | |
|---|---|---|---|---|
| | **2014 Number** | **2014 EUR** | **2013 Number** | **2013 EUR** |
| *Ordinary shares of EUR 0.01 each* | | | | |
| At beginning of the year | 100,000,000 | 1,000,000 | 100,000,000 | 1,000,000 |
| | 100,000,000 | 1,000,000 | 100,000,000 | 1,000,000 |

## 26. Earnings per share

| **Earnings** | **31-Dec-14** | **31-Dec-13** |
|---|---|---|
| Earnings for the purposes of basic & diluted earnings per share being net profit/(loss) attributable to equity owners of the Company | **4,241,776** | **(6,459,070)** |
| **Number of shares** | | |
| Weighted average number of shares for the purposes of basic and undiluted EPS | 100,000,000 | 100,000,000 |
| **Basic and undiluted EPS** | **0.0424** | **(0.0646)** |
| Weighted average number of shares based on full conversion of loan notes with a value of EUR 8.45m at a rate of 7.41 new ordinary shares for EUR 1 of convertible loan note principal | 62,614.500 | - |
| Weighted average number of shares for the purposes of fully diluted EPS | 162,614,500 | 100,000,000 |
| **Fully diluted EPS** | **0.0261** | **(0.0646)** |

## 27. Events after the reporting period

The directors have performed a subsequent events review from 1 January 2015 through to the date that the consolidated financial statements were authorised for issuance, and report the following subsequent events:

- On 28 January 2015, the Company announced the resignation of the Chairman of the Board, Mr Howard Golden, with effect from 15 February 2015.
- Effective 1 January 2015, New Europe Capital DOO (the Serbia based investment Adviser) and New Europe Capital Limited (the UK based investment manager) ceased to work for the Company. The Company continues to be advised by its Romania-based Adviser, New Europe Capital SRL.