RECONSTRUCTION CAPITAL II LIMITED

ANNUAL REPORT AND AUDITED FINANCIAL STATEMENTS

For the year ended 31 December 2017

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DIRECTORS AND COMPANY INFORMATION

Domicile and country of incorporation
Cayman Islands

Legal form
Limited Liability Company

Company number
HL-156549

Non-executive directors

Martin Derbyshire	*(appointed on 12 October 2017)*
Mihai Rădoi	
Dirk Van den Broeck	
Markus Winkler	*(resigned on 31 August 2017)*

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

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

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

Broker
finnCap Ltd *(from 18 November 2017)*
60 New Broad Street
London, EC2M 1JJ

Panmure Gordon (UK) Limited *(until 17 November 2017)*
One New Change
London, EC4M 9AF

DIRECTORS AND COMPANY INFORMATION (continued)

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

Independent Auditor
Grant Thornton (Cyprus) Ltd
41-49, Agiou Nicolaou St.
Nimeli Court
Block C
Egkomi 2408
PO Box 23907
1687 Nicosia
Cyprus

ADVISER'S REPORT
For the year ended 31 December 2017

During 2017, Reconstruction Capital II Limited ("RC2") issued 16,997,375 B shares at a nominal value of EUR1 per share as a bonus to existing ordinary shareholders, redeemable at the option of RC2, and subsequently redeemed all of those shares, thereby returning EUR17.0m to its shareholders using the bulk of the Albalact S.A. disposal proceeds which had been generated over the prior year. In addition, RC2 bought back 2.6m of its own shares for cancellation in 2017, at a further cost of EUR 0.4m. In total, EUR17.4m was returned to RC2's shareholders, and explains the bulk of the EUR17.9m fall in the overall NAV of RC2 over the year. Mainly due to the issuance and subsequent cancellation of the new class B Class shares, the NAV per ordinary share fell from EUR0.3670 to EUR0.2504 over the year.

In March, RC2 disposed of its stake in Top Factoring SRL and the related portfolio of non-performing loans held by RC2's wholly owned subsidiary, Glasro Holdings Ltd (together, the "Top Factoring Group"). The sale was completed in April. The total consideration received amounted to EUR12.8m, net of various closing adjustments. Glasro Holdings Limited distributed EUR7.5m of its exit proceeds to RC2 in the form of dividends and used EUR2.85m to make an investment in Telecredit IFN S.A., a Romanian non-banking financial institution that provides consumer loans to individuals. Glasro owns 80% of Telecredit, with the balance of 20% being owned by RC2's former partner in Top Factoring SRL and his family.

The disposal boosted RC2's cash reserves which had fallen to EUR1.1m after the redemption of the B shares. By the end of 2017, RC2 had cash and cash equivalents of approximately EUR6.4m whilst liabilities amounted to EUR0.4m, of which EUR0.15m represents outstanding B share redemptions and EUR0.28m represents sundry other liabilities.

Private Equity Programme

At the end of December, the investments held under the Private Equity Programme had a total fair value of EUR27.7m, which was significantly less than the 2016 valuation of EUR36.0m, primarily related to the Top Factoring Group's disposal. The results of the annual independent valuation process of its remaining private equity investments are presented in the table below:

	Valuations	
	2017	**2016**
	EUR	**EUR**
Policolor S.A.	20,600,000	20,640,000
Top Factoring Group	-	11,284,423
Telecredit IFN S.A.	2,664,000	-
Mamaia Hotel Resorts SRL	4,404,658	4,079,921
	27,668,658	**36,004,344**

ADVISER'S REPORT (continued)
For the year ended 31 December 2017

The private equity investments are held through two Cyprus-based wholly-owned subsidiaries, RC2 (Cyprus) Limited and Glasro Holdings Limited, which are not consolidated in the present financial statements, in accordance with IFRS. Consequently, the financial assets at fair value through profit or loss shown in the present financial statements, which amount to EUR30.1m, reflect the valuations of the underlying private equity holdings outlined in the above table, as well as the cash balances of EUR1.3m and EUR0.1m of sundry financial assets and liabilities of these intermediary holding companies, including shares held under the Trading Programme as summarised below.

Trading Programme

RC2 (Cyprus) Limited continued to sell down its residual listed equities portfolio held under the Trading Programme, generating cash proceeds of EUR0.08m over the year. At the end of 2017, the residual Trading Programme portfolio was worth EUR0.09m compared to EUR0.15m at the end of the prior year. All the investments held under the Trading Programme were in Romanian equities.

Economic Overview

Romania's GDP increased by 7% year-on-year in 2017, mainly triggered by higher private consumption. According to its latest forecast published in February, the EU Commission expects Romania's GDP growth to slow down to 4.5% in 2018, as rising inflation erodes disposable income, tempering domestic demand. Bulgaria's GDP is estimated to have grown by 3.6% in 2017, whilst the EU Commission forecasts it will grow by 3.7% in 2018, also based on strong domestic demand.

Events after the Reporting Period

At a general shareholder meeting on 21 February 2018, the investment objective of RC2 was changed so that it now aims to achieve capital appreciation and/or to generate investment income returns through the acquisition of real estate assets in Romania, including the development of such assets, and/or the acquisition of significant or controlling stakes in companies established in, or operating predominantly in Romania, primarily in the real estate sector. Any new private equity investments in companies operating in sectors other than real estate would be limited to 25% of RC2's total assets at the time of effecting the investment. However, RC2 may continue to make follow-on investments in existing portfolio companies without any such limitation. The same shareholder meeting decided that the next continuation vote will be held in 2023 and that RC2 can acquire 22% of the issued share capital of Reconstruction Capital Plc for EUR1.6m and 10% of the issued share capital of the Romanian Investment Fund Limited for EUR1.7m, two Romanian-focused investment funds whose main underlying asset is a 60% shareholding in Policolor S.A. in which RC2 already owns the balance of 40%. The main objective of the acquisition, which will give RC2 a further 15.36% indirect shareholding in Policolor S.A., is to provide RC2 with greater control over the exit process from this asset. Only a part of the above-mentioned acquisition has been settled to date, amounting to EUR1.2m, with the rest being delayed by technical settlement issues which are in the course of being resolved with the vendors.

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 entity 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 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 investee. The Adviser believes that the investment strategies under the Private Equity and Trading Programme can achieve returns which are different than the returns of the relevant market indices.

Investing Restrictions and Cross-Holdings

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

INVESTMENT POLICY (continued)

Change of Investment Objective and Policy of the Company

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

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 2017

The Directors present their annual report together with the audited financial statements of Reconstruction Capital II Limited (the "Company") for the year ended 31 December 2017.

Activities and Business Review
The Company's principal activity is holding and managing of investments in Romania and other countries in South-East Europe. A summary of the Company's business review for the year ended 31 December 2017 is contained within the Adviser's report.

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

Share Capital
Details of the Company's authorised and issued share capital as at 31 December 2017 are contained in note 16 of the financial statements.

Results and Dividends
The revenue for the year amounted to EUR1,161,897 (2016: EUR12,564,985) and the net loss for the year amounted to EUR458,040 (2016: net profit of EUR10,558,980).

In 2016, the Company benefitted from the increase in the value of Albalact S.A. upon its disposal, generating income of EUR6,975,518. The 2017 loss on financial assets at fair value of EUR10,981,533 should be netted off against interest income of EUR4,334,820, which increases the value of the loan to the subsidiary. Overall, the 2017 net reduction in financial assets at fair value of EUR6,157,103 reflects the sale of Top Factoring and of Glasro's non-performing loan portfolios in 2017, the latter generating dividend income of EUR7,619,610 for the Company. The financial expenses have fallen from EUR775,195 in 2016 to EUR188 in 2017 due to the conversion of the convertible loan notes in 2016.

The Directors do not recommend the payment of a dividend.

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

Directors and their Interests
The Directors of the Company during the year and their interests in the ordinary shares of the Company were as follows at 31 December 2017:

	Ordinary Shares	
	Number	**% of issued share capital**
Mihai Rădoi	1,037,500	0.72%
Dirk Van den Broeck	3,533,651	2.44%

REPORT OF THE DIRECTORS (continued)
For the year ended 31 December 2017

Board

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

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

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

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

Audit Related Responsibilities

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

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

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

Remuneration Responsibilities

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

The contracting parties themselves are responsible for paying their employees. The Board's policy is that the Directors' remuneration should be fair and reasonable in relation to the time commitment and responsibilities of the Directors. The Directors are not eligible for bonuses, pension benefits, share options or other benefits. Details of transactions with Directors are given in note 21 of the financial statements.

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

REPORT OF THE DIRECTORS (continued)
For the year ended 31 December 2017

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

Relationship with Shareholders
Shareholder relations are given high priority by the Board. The prime medium by which the Company communicates with shareholders is through the interim and annual report and financial statements which aim to provide shareholders with a full understanding of the Company's activities and its results. This information is supplemented by a 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 22 December 2016, the life of the Company was extended for two years until the end of 2018. At a general shareholder meeting on 21 February 2018, it was decided that the next continuation vote will be held in 2023.

The Company has made a loss during the year, which has increased the retained deficit of the Company to EUR75,741,961.

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

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

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

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

REPORT OF THE DIRECTORS (continued)
For the year ended 31 December 2017

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

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

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

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

On behalf of the Board

Dirk Van den Broeck
Chairman

June 2018

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

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of Reconstruction Capital II Limited (the "Company"), which are presented in pages 16 to 47 and comprise the statement of financial position as at 31 December 2017, the statements of comprehensive income, changes in equity, and cash flows for the year then ended, and the notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements give a true and fair view of the financial position of Reconstruction Capital II Limited as at 31 December 2017 and of its financial performance and its cash flows for the year then ended, in accordance with International Financial Reporting Standards (IFRSs).

Basis for Opinion

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

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

Key Audit Matters

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

Key audit matter	How the matter was addressed
Valuation and existence of unlisted investments designated at fair value through profit or loss The Company's investment objective is to achieve long term total return for shareholders primarily by investment in a diversified portfolio of unlisted equities in Romania. The investment portfolio as at 31 December 2017 amounted to €3,033,023 and is the main driver of the Company's performance. This area was assessed as one of the most significant risks of material misstatement due to the fact that unlisted investments do not have readily determinable prices and because of the degree of judgement exercised by management in determining the inputs used in the valuation models. The valuation methodology primarily used by the Company is based on discounted cash flow techniques making assumptions that are based on market conditions existing at the reporting dates. Unlisted investments are not safeguarded by an independent custodian. There is an existence risk that the Company may not have sufficient legal entitlement to these investments. Please refer to Notes 9, 10, 11 and 19.5 in the Financial Statements.	Our audit work included: • assessing whether the Company's accounting policy for the valuation of investments is in accordance with IFRSs and whether management has applied correctly its policy; • independently evaluating the key drivers used for valuing the unlisted equity portfolio. This process included an analysis of audited IFRS financial statements as well as budgets used in the preceding years for each investment to assess the reliability of management's budgeting procedures. Additionally, the projected business plans were evaluated to assess the reasonableness of the assumptions used. An in house valuation specialist was utilised to evaluate the methodology used by the external valuer and assess whether it was correctly applied. • assessing whether the financial statement disclosures, including fair value hierarchy information and sensitivity to key inputs, appropriately reflected the Company's exposure to financial instrument valuation risk in accordance with the requirements of the prevailing accounting standard and; • testing the existence and legal ownership of investments by confirming holdings to legal certificates of the Companies' Registrar and by confirmations signed by the subsidiary.

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

Valuation of the loan receivable designated at fair value through profit or loss

The Company has a loan receivable of €27,110,139 from one of its subsidiaries that represents 74% of the total assets.

This area was assessed as one of the most significant risks of material misstatement due to the fact that unlisted investments do not have readily determinable prices and because of the degree of judgement exercised by management in determining the inputs used in the valuation models. Furthermore, Management considers the net asset value of its subsidiary to be its fair value, since its underlying assets and liabilities are carried at fair value or regarded as an approximation of fair value.

Please refer to Note 11 and 19.5 in the Financial Statements.

Our audit work included:

- assessing whether the Company's accounting policy for the valuation of the loan receivable is in accordance with IFRSs and whether Management has applied correctly its policy.
- obtaining the audited financial statements of the subsidiary, prepared under IFRS, to confirm the outstanding balance, verify its net asset value and assess whether it reflects its fair value and also whether this basis is considered reasonable.
- independently evaluating the key drivers used for valuing the unlisted equity portfolio. This process included an analysis of audited IFRS financial statements as well as budgets used in the preceding years for each investment to assess the reliability of Management's budgeting procedures. Additionally, the projected business plans were evaluated to assess the reasonableness of the assumptions used. An in house valuation specialist was utilized to evaluate the methodology used by the external valuer and assess whether it was correctly applied.
- assessing whether the financial statement disclosures, including fair value hierarchy information and sensitivity to key inputs, appropriately reflected the Company's exposure to financial instrument valuation risk in accordance with the requirements of IFRSs.

Other Information

The Board of Directors is responsible for the other information. The other information comprises the information included in the annual report and audited financial statements but does not include the financial statements and our auditor's report thereon.

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

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

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

Responsibilities of the Board of Directors for the Financial Statements

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

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

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

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

Auditor's Responsibilities for the Audit of the Financial Statements

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

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

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Board of Directors.
- Conclude on the appropriateness of the Board of Directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves a true and fair view.

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

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

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

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

Other Matter

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

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

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

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

Nicosia, ... 2018

STATEMENT OF COMPREHENSIVE INCOME
For the year ended 31 December 2017

	Notes	2017 EUR	2016 EUR
Investment income			
Fair value (loss)/gain on financial assets at fair value through profit or loss	**19.5**	(10,981,533)	4,699,325
Recovery of previously written off receivable		189,000	-
Interest income	**11.2**	4,334,820	5,854,313
Dividend income	**4**	7,619,610	2,000,000
Other income		-	11,347
Net investment income		**1,161,897**	**12,564,985**
Expenses			
Operating expenses	**5**	(1,619,749)	(1,230,810)
Financial expenses	**6**	(188)	(775,195)
Total expenses		**(1,619,937)**	**(2,006,005)**
(Loss)/profit for the year		**(458,040)**	**10,558,980**
Other comprehensive income		-	-
Total comprehensive (loss)/income for the year attributable to owners		**(458,040)**	**10,558,980**
Earnings Per Share	**8**		
Basic and diluted earnings per share		(0.0031)	0.0971

The notes on pages 20 to 46 form an integral part of these financial statements.

STATEMENT OF FINANCIAL POSITION
As at 31 December 2017

	Notes	2017 EUR	2016 EUR
ASSETS			
Non-current assets			
Financial assets at fair value through profit or loss	**11**	30,143,162	36,300,265
Total non-current assets		**30,143,162**	**36,300,265**
Current assets			
Trade and other receivables	**12**	136,439	17,791
Cash and cash equivalents	**13**	6,439,763	18,004,241
Total current assets		**6,576,202**	**18,022,032**
TOTAL ASSETS		**36,719,364**	**54,322,297**
LIABILITIES			
Current liabilities			
Trade and other payables	**14**	430,510	138,006
Total current liabilities		**430,510**	**138,006**
TOTAL LIABILITIES		**430,510**	**138,006**
NET ASSETS		**36,288,854**	**54,184,291**
EQUITY AND RESERVES			
Share capital	**16**	1,449,460	1,476,223
Share premium		110,581,355	127,991,989
Retained deficit		(75,741,961)	(75,283,921)
TOTAL EQUITY		**36,288,854**	**54,184,291**
Net Asset Value per share			
Basic and diluted net asset value per share	**17**	0.2504	0.3670

The financial statements were approved by the Board of Directors and authorised for issue on June 2018.

Dirk Van den Broeck	Martin Derbyshire
Chairman	Director

The notes on pages 20 to 46 form an integral part of these financial statements.

STATEMENT OF CHANGES IN EQUITY
For the year ended 31 December 2017

	Share capital EUR	Share premium EUR	Equity component of loan notes EUR	Retained (deficit)/ earnings EUR	Total EUR
Balance at 1 January 2016	1,000,000	121,570,802	629,445	(85,842,901)	**37,357,346**
Profit for the year	-	-	-	10,558,980	**10,558,980**
Other comprehensive income	-	-	-	-	**-**
Total comprehensive income for the year	**-**	**-**	**-**	**10,558,980**	**10,558,980**
Conversion of convertible loan notes	626,145	9,711,114	(629,445)	-	**9,707,814**
Repurchase and cancellation of own shares	(149,922)	(3,289,927)	-	-	**(3,439,849)**
Transactions with owners	476,223	6,421,187	(629,445)	-	**6,267,965**
Balance at 31 December 2016	**1,476,223**	**127,991,989**	**-**	**(75,283,921)**	**54,184,291**
Loss for the year	-	-	-	(458,040)	**(458,040)**
Other comprehensive income	-	-	-	-	**-**
Total comprehensive loss for the year	**-**	**-**	**-**	**(458,040)**	**(458,040)**
Issue and redemption of B shares	-	(16,997,375)	-	-	**(16,997,375)**
Repurchase and cancellation of own shares	(26,763)	(413,259)	-	-	**(440,022)**
Transactions with owners	(26,763)	(17,410,634)	-	-	**(17,437,397)**
Balance at 31 December 2017	**1,449,460**	**110,581,355**	**-**	**(75,741,961)**	**36,288,854**

The notes on pages 20 to 46 form an integral part of these financial statements.

CASH FLOW STATEMENT
For the year ended 31 December 2017

	Note	2017 EUR	2016 EUR
Cash flows from operating activities			
(Loss)/profit for the year		(458,040)	10,558,980
Adjustments for:			
Fair value loss/(gain) on financial assets at fair value through profit or loss		10,981,533	(4,699,325)
Reversal of loan impairment		(189,000)	-
Interest income		(4,334,820)	(5,854,313)
Financial expenses		-	775,152
Dividend income		(7,619,610)	(2,000,000)
Net loss on foreign exchange		188	43
Net cash outflow before changes in working capital		**(1,619,749)**	**(1,219,463)**
Decrease in trade and other receivables		7,352	19,671
Increase in trade and other payables		138,108	14,945
Purchase of financial assets		(370,000)	(2,710)
Disposals and repayments of financial assets		63,000	20,410,000
Dividends received		7,500,000	2,000,000
Net cash generated by operating activities		**5,718,711**	**21,222,443**
Cash flows from financing activities			
Payments to purchase own shares		(440,022)	(3,439,849)
Redemptions of B shares		(16,842,979)	-
Loans received from subsidiaries		-	200,000
Repayment of loans from subsidiaries		-	(240,000)
Interest paid		-	(8,029)
Net cash flow generated from financing activities		**(17,283,001)**	**(3,487,878)**
Net increase in cash and cash equivalents before currency adjustment		**(11,564,290)**	**17,734,565**
Effects of exchange rate differences on cash and cash equivalents		(188)	(43)
Net increase in cash and cash equivalents after currency adjustment		**(11,564,478)**	**17,734,522**
Cash and cash equivalents at the beginning of the year		18,004,241	269,719
Cash and cash equivalents at the end of the year	**13**	**6,439,763**	**18,004,241**

The notes on pages 20 to 46 form an integral part of these financial statements.

NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 December 2017

1. Establishment

Reconstruction Capital II Limited (the "Company") was incorporated on 17 October 2005 in the Cayman Islands as a tax exempt company created to invest in private and listed equity and fixed income securities, including convertible and other mezzanine instruments, primarily in Romania, Bulgaria and Serbia. The Company was admitted to trading on AIM on 23 December 2005 and started trading on 27 January 2006. These financial statements show the results of the Company for the year ended 31 December 2017.

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) through its subsidiary, RC2 (Cyprus) Limited.

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

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

2. Principal accounting policies

2.1 Basis of preparation

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

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

NOTES TO THE FINANCIAL STATEMENTS (continued)
For the year ended 31 December 2017

2. Principal accounting policies (continued)

2.1 Basis of preparation (continued)

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

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

- IFRS 9 "Financial Instruments" (effective 1 January 2018)
- IFRS 14 "Regulatory Deferral Accounts" (effective 1 January 2016, not yet endorsed by the EU)
- IFRS 15 "Revenue from Contracts with Customers" (effective 1 January 2018)
- IFRS 16 "Leases" (effective 1 January 2019)
- IFRS 17 "Insurance Contracts" (effective 1 January 2021)
- IFRIC 22 "Foreign Currency Transactions and Advance Consideration" (effective 1 January 2018)
- IFRIC 23 "Uncertainty over Income Tax Treatments" (effective 1 January 2019)
- Annual Improvements to IFRS 2014-2016 Cycle (effective 1 January 2018)
- Annual Improvements to IFRS 2015-2017 Cycle (effective 1 January 2019)
- Amendment to IFRS 2 "Classification and Measurement of Share-based Payment Transactions" (effective 1 January 2018)
- Amendments to IFRS 4 "Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts" (effective 1 January 2018)
- Amendment to IFRS 9 "Prepayment Features with Negative Compensation" (effective 1 January 2019)
- Amendment to IFRS 10 and IAS 28 "Sale or Contribution of Assets between an Investor and its Associate or Joint Venture" (to be determined)
- Clarifications to IFRS 15 "Revenue from Contracts with Customers" (effective 1 January 2018)
- Amendment to IAS 19 "Plan Amendment, Curtailment or Settlement" (effective 1 January 2019)
- Amendment to IFRS 28 "Long-term Interests in Associates and Joint Ventures" (effective 1 January 2019)
- Amendment to IAS 40 "Transfers of Investment Property" (effective 1 January 2018)
- "Conceptual Framework for Financial Reporting (Revised)" (effective 1 January 2020)

2.2 Revenue recognition

Revenue is wholly attributable to the principal activities of the Company. 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.

NOTES TO THE FINANCIAL STATEMENTS (continued)
For the year ended 31 December 2017

2. Principal accounting policies (continued)

2.2 Revenue recognition (continued)

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 Non-consolidated subsidiaries

The Company has determined that the definition of an investment entity (as defined in IFRS 10) applies to the Company, as the following conditions exist:

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

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

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

2.4 Foreign currency translation

2.4 a) Functional and presentational currency

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

2.4 b) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in profit or loss.

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

NOTES TO THE FINANCIAL STATEMENTS (continued)
For the year ended 31 December 2017

2. Principal accounting policies (continued)

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) Financial assets at fair value through profit or loss

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

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

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

Realised and unrealised gains and losses arising from changes in the fair value of financial assets are recognised in profit or loss.

All purchases and sales of investment securities that require delivery within the time frame established by regulation or market convention ("regular way" purchases and sales) are recognised on the trade date, which is the date on which the Company commits to purchase or sell the asset.

2.6 b) Loans and receivables

These assets are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and which have not been designated at fair value through profit or loss, as explained above. 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 plus transaction costs and subsequently at amortised cost, using the effective interest method. Such receivables are as a result of services provided to third parties. Receivable balances are measured at their recoverable amount based on management's expectation on recovery of the asset. Loans and receivables are reported net of impairment allowances.

NOTES TO THE FINANCIAL STATEMENTS (continued)
For the year ended 31 December 2017

2. Principal accounting policies (continued)

2.6 Financial assets (continued)

2.6 b) Loans and receivables (continued)

An allowance 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 allowance is the difference between the carrying amount and the recoverable amount, being the present value of estimated future cash flows, discounted at the original effective interest rate. The carrying amount of the asset is reduced through the use of an allowance account, and the amount of the loss is recognised in profit or loss within 'Impairment on loans and receivables'. When a loan or receivable is uncollectible, it is written off against the allowance account for trade and other receivables. Subsequent recoveries of amounts previously written off are credited against 'Impairment on loans and receivables' in profit or loss.

2.7 Cash and cash equivalents

Cash and cash equivalents include cash at bank and short-term highly liquid investments. Cash equivalents are highly liquid investments with original maturities of three months or less.

2.8 Financial liabilities

Financial liabilities are classified according to the substance of the financial instrument's contractual obligations, rather than the financial instrument's legal form. The Company's accounting policies for its financial liabilities are as follows:

2.9 Trade and other payables

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

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

2.10 Equity

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

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

NOTES TO THE FINANCIAL STATEMENTS (continued)
For the year ended 31 December 2017

2. Principal accounting policies (continued)

2.11 Dividends

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

2.12 Share premium

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

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 2017 were as follows:

	2017	**2016**
	EUR	**EUR**
Financial assets at fair value through profit or loss (*note 11*)	30,143,162	36,300,265

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

(i) Functional currency

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

(ii) Fair value of financial instruments

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

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

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

NOTES TO THE FINANCIAL STATEMENTS (continued)
For the year ended 31 December 2017

3. Critical accounting estimates and assumptions (continued)

(ii) Fair value of financial instruments (continued)

Based on the adjusted net asset approach, Management has accepted the fair value estimations of unlisted equity investments as at 31 December 2017, which resulted in a fair value loss of EUR11.0m recognised in profit or loss (2016: gain of EUR4.7m) (note 19.5).

The fair value of unlisted equity securities held by the Company's subsidiaries has been determined by independent valuers using discounted cash flow analysis, which is based on the investee company's management business plans for the period 2018-2022. The inputs used in valuing these investments are not based on observable market data and require judgement, considering factors specific to the investment. The valuation methodology applied by the independent valuers is consistent with IFRS and International Valuation Standards ("IVS").

(iii) Investment entity status

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

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

As a result of this classification, the Company is required to account for subsidiaries at fair value through profit or loss, except for subsidiaries providing services that are related to the Company's investment activity, which are consolidated.

Management has assessed that all of its subsidiaries (note 9) should not be consolidated and therefore be accordingly measured at fair value through profit or loss for the purposes of the financial statements as at 31 December 2017 and 2016.

4. Dividend income

	2017 EUR	2016 EUR
Glasro Holdings Limited	7,619,610	2,000,000

NOTES TO THE FINANCIAL STATEMENTS (continued)
For the year ended 31 December 2017

5. Operating expenses

		2017 EUR	2016 EUR
Advisory fees	(note 21)	783,566	847,517
Legal and professional fees, including transaction fees		640,575	177,494
Administration and custodian fees		88,267	92,649
Directors' fees	(note 21)	60,525	65,000
Audit fees		22,775	23,688
Insurance premium		7,826	8,224
Bank charges		4,159	3,707
Other expenses		12,056	12,531
		1,619,749	1,230,810

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

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

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

The Base Net Asset Value is the greater of the Net Asset Value at the time of issue of the Shares and the highest Net Asset Value based on which a performance fee is paid in any prior calendar year ("Prior High Net Asset Value") plus an additional annually compounding hurdle rate of 8 per cent. The total performance fee for the year was EUR nil (2016: EUR nil).

Administrator and custodian fees
The current administrator and custodian, Sanne Fiduciary Services Limited, receives a variable monthly fee based on the Company's NAV, payable quarterly in arrears. An amount of EUR38,103 was outstanding at the year end (2016: EUR28,386).

NOTES TO THE FINANCIAL STATEMENTS (continued)
For the year ended 31 December 2017

5. Operating expenses (continued)

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

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

6. Financial expenses

	2017 EUR	2016 EUR
Interest expense	-	775,152
Net loss on foreign exchange	188	43
	188	775,195

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

	2017 EUR	2016 EUR
Effective interest on convertible loan notes	-	773,613
Loan from Glasro Holdings Limited	-	1,381
Loan from Policolor S.A.	-	158
	-	775,152

7. Income tax

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

NOTES TO THE FINANCIAL STATEMENTS (continued)
For the year ended 31 December 2017

8. Earnings per share

	2017 EUR	2016 EUR
Earnings		
Earnings for the purposes of basic earnings per share, being net profit attributable to ordinary shareholders of the Company	(458,040)	10,558,980
Number of shares		
Weighted average number of shares for the purposes of earnings per share	146,717,893	108,766,919
Basic and diluted earnings per share	**(0.0031)**	**0.0971**

There are no potentially dilutive instruments.

9. Subsidiaries

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

	Principal activity	Country of incorporation	Proportion of ownership interest 2017	2016
Holding company: Reconstruction Capital II Limited				
RC2 (Cyprus) Limited	Investment holding	Cyprus	100%	100%
Glasro Holdings Limited	Consumer loans	Cyprus	100%	100%
Holding company: RC2 (Cyprus) Limited				
Top Factoring S.R.L.	Receivables collection	Romania	0%	92%
Mamaia Resort Hotels S.R.L.	Hotel management	Romania	63%	63%
Klas DOO	Bakeries	Serbia	0%	52%
Holding company: Glasro Holdings Limited				
Telecredit IFN S.A.	Consumer loans	Romania	80%	0%

NOTES TO THE FINANCIAL STATEMENTS (continued)
For the year ended 31 December 2017

9. Subsidiaries (continued)

In April 2017, RC2 (Cyprus) Limited disposed of its holding in Top Factoring S.R.L. together with the non-performing loan book held by the Company's subsidiary, Glasro Holdings Limited. A condition of the disposal was the acquisition by Glasro Holdings Limited of a 74.5% interest in Telecredit IFN S.A. Also, Glasro Holdings Limited invested a further EUR150,000 in Telecredit IFN S.A. by way of a new issue of shares, which increased Glasro Holdings Limited's total shareholding in Telecredit IFN S.A. to 80%.

On 19 July 2017, RC2 (Cyprus) Limited sold its entire shareholding in Klass DOO of one share, representing 51.99% of Klass DOO's basic capital, for EUR5,199 in accordance with the Share Sale and Transfer and Loan Assignment Agreement.

10. Associates

The following associates of the Company are held through RC2 (Cyprus) Limited:

	Principal activity	Country of incorporation	Proportion of ownership interest 2017	Proportion of ownership interest 2016
Policolor S.A.	Paint and varnish manufacture	Romania	40%	40%

11. Financial assets at fair value through profit or loss

	2017 EUR	2016 EUR
Non-current investments		
Investments in subsidiaries	3,033,023	7,969,270
Loan receivable	27,110,139	28,330,995
	30,143,162	36,300,265

11.1 Investments in subsidiaries

	2017 EUR	2016 EUR
Cost	76,653,660	183,405,167
Net unrealised loss on investments	(73,620,637)	(175,435,897)
Fair value of non-current investments	3,033,023	7,969,270

NOTES TO THE FINANCIAL STATEMENTS (continued)
For the year ended 31 December 2017

11. Financial assets at fair value through profit or loss (continued)
11.1 Investments in subsidiaries (continued)

Included in investments in subsidiaries is an investment in RC2 (Cyprus) Limited, a wholly-owned subsidiary of the Company, with a fair value of EUR nil at the year end (2016: EUR nil).

During the year ended 31 December 2017, the Company reviewed the value of unlisted equity securities measured at fair value through profit or loss, resulting in a fair value loss of EUR11.1 million (2016: gain of EUR4.7 million).

11.2 Loan receivable at fair value through profit or loss

	2017 EUR	2016 EUR
Loan to unconsolidated subsidiary	27,110,139	28,330,995

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

	2017 EUR	2016 EUR
Changes in loan receivable		
Opening balance	28,330,995	41,158,753
Loan amounts granted	370,000	2,711
Loan repayments	-	(20,410,000)
Interest income	4,334,820	5,854,312
Fair value (loss)/gain on loan receivable	(5,925,676)	1,725,219
	27,110,139	28,330,995

The valuation of the loan is based on the adjusted net asset value of RC2 (Cyprus) Limited which is available to repay the loan principal and interest payable to the Company (note 19.5).

NOTES TO THE FINANCIAL STATEMENTS (continued)
For the year ended 31 December 2017

12. Trade and other receivables

		2017 EUR	2016 EUR
Trade and other receivables	(a)	126,000	478
Prepayments		10,439	17,313
		136,439	17,791

(a) On 24 July 2017, the Company entered into a settlement agreement in respect of the loans receivable from East Point Metals Limited, whereby the Company recevies a total of EUR189,000 as settlement of these loans. The Company received EUR63,000 on 28 July 2017. The balance of EUR126,000 was due by 31 August 2017 but is still outstanding at 31 December 2017.

13. Cash and cash equivalents

	2017 EUR	2016 EUR
Cash at bank	6,439,763	18,004,241

14. Trade and other payables

		2017 EUR	2016 EUR
Advisory fees	(note 21)	178,564	93,904
Directors' fees and expenses	(note 21)	2,192	-
Administration fees		38,103	28,386
Amounts payable in respect of B share redemptions		154,396	-
Other payables and accruals		57,255	15,716
		430,510	138,006

15. Reserves

Reserve	**Description and purpose**
Share premium	Amount subscribed for share capital in excess of par value, as reduced by bonus issues
Retained earnings/(deficit)	Cumulative net gains and losses recognised in the 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

NOTES TO THE FINANCIAL STATEMENTS (continued)
For the year ended 31 December 2017

16. Share capital

	2017 Number of shares	2017 EUR	2016 Number of shares	2016 EUR
Authorised				
Ordinary shares of EUR0.01 each	300,000,000	3,000,000	300,000,000	3,000,000
B shares of EUR1 each	17,000,000	17,000,000	-	-
Issued and fully paid				
Ordinary shares of EUR0.01 each	144,946,017	1,449,460	147,622,267	1,476,223

	2017 Number of shares	2017 EUR	2016 Number of shares	2016 EUR
Ordinary shares				
Share capital at 1 January	147,622,267	1,476,223	100,000,000	1,000,000
Share cancellations	(2,676,250)	(26,763)	(14,992,233)	(149,922)
Shares issued from convertible loan notes	-	-	62,614,500	626,145
	144,946,017	1,449,460	147,622,267	1,476,223
B shares				
Share capital at 1 January	-	-	-	-
Shares issued	16,997,375	16,997,375	-	-
Share redemptions	(16,997,375)	(16,997,375)	-	-
	-	-	-	-

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

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

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

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

NOTES TO THE FINANCIAL STATEMENTS (continued)
For the year ended 31 December 2017

17. Net Asset Value per share

	2017 EUR	2016 EUR
Net assets	36,288,854	54,184,291
Closing number of shares	144,946,017	147,622,267
Basic and diluted net asset value per share	0.2504	0.3670

There are no potentially dilutive instruments.

18. Financial assets and liabilities

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

	2017 EUR	2016 EUR
Financial assets at fair value through profit or loss		
Investments in subsidiaries	3,033,023	7,969,270
Loan receivable	27,110,139	28,330,995
	30,143,162	36,300,265
Financial assets at amortised cost		
Trade and other receivables	126,000	478
Cash and cash equivalents	6,439,763	18,004,241
	6,565,763	18,004,719
Financial liabilities at amortised cost		
Trade and other payables	430,510	138,006

19. Financial risk management

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

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

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

NOTES TO THE FINANCIAL STATEMENTS (continued)
For the year ended 31 December 2017

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

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

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

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

	2017 EUR	2016 EUR
Sector		
Consumer loans	3,033,023	7,969,270
Private equity investments	27,110,139	28,330,995
	30,143,162	36,300,265
Geographical analysis		
Consumer loans		
Romania	2,670,396	7,341,570
Cyprus	362,627	627,700
	3,033,023	7,969,270
Private equity investments		
Romania	25,102,524	28,187,223
Jersey	2,011,780	143,896
Cyprus	(4,165)	(124)
	27,110,139	28,330,995

Consumer loans have been allocated based on the location of the borrower. Private equity investments have been allocated based on the location of the issuer.

NOTES TO THE FINANCIAL STATEMENTS (continued)
For the year ended 31 December 2017

19. Financial risk management (continued)

19.1 Market risk (continued)

i. Interest rate risk

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

	2017 EUR	2016 EUR
Cash and cash equivalents	6,439,763	18,004,241
Consumer loans	3,033,023	7,969,270
	9,472,786	25,973,511

Should interest rates in relation to the Company's cash and cash equivalents have been lower by 25 basis points, with all other variables remaining constant, and the cash level remaining constant during the year, the decrease in post-tax profit/(loss) and equity attributable to holders of ordinary shares would amount to approximately EUR16,099 (2016: EUR45,011). These changes are considered to be reasonable in the opinion of the Directors, based on observations of current market conditions. An increase in interest rates would have an equal and opposite effect on the post-tax profit/(loss) and equity attributable to holders of ordinary shares.

ii. Price risk

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

19.2 Credit risk

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

	2017 EUR	2016 EUR
Financial assets at fair value through profit or loss	30,143,162	36,300,265
Trade and other receivables	126,000	478
Cash and cash equivalents	6,439,763	18,004,241
Financial guarantee contracts	-	10,000,000
	36,708,925	64,304,984

NOTES TO THE FINANCIAL STATEMENTS (continued)
For the year ended 31 December 2017

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

Trade and other receivables and cash and cash equivalents are classified as loans and receivables, therefore the total credit risk exposure from loans and receivables is EUR6,565,763 (2016: EUR18,004,719).

There are no trade and other receivables which are impaired, nor is there any reason to believe that the trade and other receivables balance of EUR126,000 (2016: EUR478), although past due as disclosed in note 12, will not be fully recovered.

The Company's cash and cash equivalents are held with regional and foreign banks and are diversified appropriately. The Moody's credit ratings of the banks where the Company held cash and cash equivalents was Aa3 (2016: Aa2).

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

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

19.3 Liquidity risk

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

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

NOTES TO THE FINANCIAL STATEMENTS (continued)
For the year ended 31 December 2017

19. Financial risk management (continued)

19.3 Liquidity risk (continued)

	Carrying amount EUR	Contractual cash flows EUR	Less than 1 month EUR	Less than 1 year EUR
31 December 2017				
Trade and other payables	430,510	430,510	409,055	21,455
31 December 2016				
Trade and other payables	138,006	138,006	124,506	13,500
Financial guarantee	10,000,000	10,000,000	-	10,000,000
	10,138,006	10,138,006	124,506	10,013,500

19.4 Capital management and procedures

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

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

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

	2017 EUR	2016 EUR
Equity	36,288,854	54,184,291
Cash and cash equivalents	(6,439,763)	(18,004,241)
Capital	29,849,091	36,180,050
Equity	36,288,854	54,184,291
Overall financing	36,288,854	54,184,291
Proportion of capital to overall financing	82%	67%

NOTES TO THE FINANCIAL STATEMENTS (continued)
For the year ended 31 December 2017

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

The Company has complied with its maximum level of gearing of 30% of gross assets, in accordance with the Company's Admission Document, with the current gearing level standing at 0% (2016: 0%) of gross assets.

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

19.5 Fair value information

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

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

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

Estimation of fair values - non-consolidated subsidiaries
The Company undertakes valuations of its investments in subsidiaries at fair value through profit or loss as at each financial reporting date. In 2017 the Company used an adjusted net asset approach to value its investments in subsidiaries at fair value through profit or loss. Estimates of the value of an entity can be developed using the adjusted net asset approach by adjusting the entity's statement of financial position to approximate current market values of its assets and liabilities. The adjusted net asset approach is a way of determining a value indication of an entity's assets and/or equity interest using one or more methods. The most common method within this approach is the Net Asset Value, Net Asset Value representing net equity of the entity after assets and liabilities have been adjusted to their fair values.

Glasro Holdings Limited
As at 31 December 2017, all significant assets included in the statement of financial position of Glasro Holdings Limited were recorded at fair value. The equity value of Glasro Holdings Limited amounted to EUR3,033,023.

As at 31 December 2017, if the net assets of Glasro Holdings Limited increased or decreased by 5%, the effect from the corresponding change on the fair value of the investment would be reflected as follows in the financial statements of the Company:

- 5% increase: increase in the Company's total assets of 0.41% or EUR151,651 and a decrease in the Company's post-tax loss of 33.11% or EUR151,651;
- 5% decrease: decrease in the Company's total assets of 0.41% or EUR151,651 and an increase in the Company's post-tax loss of 33.11% or EUR151,651.

NOTES TO THE FINANCIAL STATEMENTS (continued)
For the year ended 31 December 2017

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

Estimation of fair values - investments held through the Company's non-consolidated subsidiaries (continued)
RC2 (Cyprus) Limited
At 31 December 2017, the Company's investment in RC2 (Cyprus) Limited has a fair value of EUR nil. The loan receivable (see note 11.2) from RC2 (Cyprus) Limited has a fair value of EUR27,110,139, determined on an adjusted net value approach as explained in note 11.2.

As at 31 December 2017, if the net asset position of RC2 (Cyprus) Limited increased or decreased by 5%, the effect from the corresponding change on the fair value of the loan would be reflected as follows in the financial statements of the Company:

- 5% increase: increase in the Company's total assets of 3.69% or EUR1,355,507 and a decrease in the Company's post-tax loss of 295.94% or EUR1,355,507;
- 5% decrease: decrease in the Company's total assets of 3.69% or EUR1,355,507 and an increase in the Company's post-tax loss of 295.94% or EUR1,355,507.

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

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

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

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

Policolor S.A.
Policolor S.A. was valued by an independent valuer as at 31 December 2017. The major assumptions used in the valuation are as follows:

- weighted average cost of capital of 10%;
- EBITDA margin rate between 7.9% and 11.9%;
- revenue growth rate between 1.6% and 6.9%;
- long term growth rate of 1.6%.

NOTES TO THE FINANCIAL STATEMENTS (continued)
For the year ended 31 December 2017

19. Financial risk management (continued)

19.5 Fair value information (continued)

Estimation of fair values - investments held through the Company's non-consolidated subsidiaries (continued)
Policolor S.A. (continued)
Increase/(decrease) in the Company's net assets relative to changes in valuation assumptions:

	+0.5%	**-0.5%**
Weighted average cost of capital	(1,240,000)	1,440,000
	+5%	**-5%**
EBITDA margin rate	1,720,000	(1,720,000)
	+5%	**-5%**
Revenue growth rate	1,720,000	(1,720,000)
	+0.5%	**-0.5%**
Long term growth rate	1,000,000	(840,000)

Mamaia Resort Hotels S.R.L.
Mamaia Resort Hotels S.R.L. was valued by an independent valuer as at 31 December 2017. The major assumptions used in the valuation are as follows:
- weighted average cost of capital of 9.1%;
- EBITDA margin rate between 16.9% and 25%;
- revenue growth rate between 2.3% and 7.6%;
- long term growth rate of 1.6%.

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

	+0.5%	**-0.5%**
Weighted average cost of capital	(252,040)	289,846
	+5%	**-5%**
EBITDA margin rate	296,147	(296,147)
	+5%	**-5%**
Revenue growth rate	302,448	(302,448)
	+0.5%	**-0.5%**
Long term growth rate	214,234	(182,729)

Telecredit IFN S.A.
Telecredit IFN S.A. was valued by an independent valuer as at 31 December 2017. The major assumptions used in the valuation are as follows:
- cost of capital equity of 11.5%;
- EBITDA margin rate between 14.4% and 21.5%;
- revenue growth rate between 3% and 12%;
- long term growth rate of 1.6%.

NOTES TO THE FINANCIAL STATEMENTS (continued)
For the year ended 31 December 2017

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

Estimation of fair values - investments held through the Company's non-consolidated subsidiaries (continued)
Telecredit IFN S.A. (continued)
Increase/(decrease) in the Company's net assets relative to changes in valuation assumptions:

	+0.5%	**-0.5%**
Weighted average cost of capital	(128,000)	144,000
	+5%	**-5%**
EBITDA margin rate	152,000	(152,000)
	+5%	**-5%**
Revenue growth rate	113,418	(113,418)
	+0.5%	**-0.5%**
Long term growth rate	75,612	(63,010)

Fair value hierarchy
IFRS 13 defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. IFRS 13 establishes a three-tier fair value hierarchy that prioritises the inputs to valuation techniques to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (level 1 measurement) and lowest priority to unobservable inputs (level 3 measurement). The three levels of the fair value hierarchy under IFRS 7 are described below:

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

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

	2017	**2016**
Level 3	**EUR**	**EUR**
Investments in subsidiaries	3,033,023	7,969,270
Loan to subsidiary	27,110,139	28,330,995
	30,143,162	36,300,265

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

NOTES TO THE FINANCIAL STATEMENTS (continued)
For the year ended 31 December 2017

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

Fair value hierarchy (continued)

	2017 EUR	2016 EUR
Balance at 1 January	36,300,265	46,153,917
Total gains or losses for the year:		
Fair value (loss)/gain	(10,861,923)	4,699,325
Purchases and additions	4,704,820	5,857,023
Disposals and repayments	-	(20,410,000)
Balance at 31 December	30,143,162	36,300,265
Cumulative unrealised loss from assets still held at year end	(157,966,825)	(147,104,902)

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

20. Operating segments

According to its Admission Document, the Company's main objective is to generate returns for its shareholders through two primary routes: to achieve medium and long term capital appreciation through the investment in and subsequent disposal of significant or controlling stakes in companies, both listed and private (the Private Equity Programme), and to make portfolio investments in listed equities and fixed income securities (the Trading Programme) through its subsidiary, RC2 (Cyprus) Limited. On this basis, the Chief Operating Decision Maker, which is considered to be the Board of Directors, has identified its operating segments.

NOTES TO THE FINANCIAL STATEMENTS (continued)
For the year ended 31 December 2017

20. Operating segments (continued)

Reportable segments

The Directors have identified a single operating segment based on the Company's current operations, as noted above.

31 December 2017	Unlisted private equity programme EUR	Other items EUR	Total per financial statements EUR
Reportable segment total assets	30,143,162	6,576,202	36,719,364
Reportable segment profit/(loss) before tax	972,897	(1,430,937)	(458,040)
Reportable segment total liabilities	-	(430,510)	(430,510)
Fair value loss on financial assets at FVTPL	(10,981,533)	-	(10,981,533)
Recovery of previously written off receivable	189,000	-	189,000
Interest income	4,334,820	-	4,334,820
Dividends	7,619,610	-	7,619,610
Financial expenses	-	(188)	(188)
Operating expenses	-	(1,619,749)	(1,619,749)
31 December 2016			
Reportable segment total assets	36,300,265	18,022,032	54,322,297
Reportable segment profit/(loss) before tax	12,564,985	(2,006,005)	10,558,980
Reportable segment total liabilities	-	(138,006)	(138,006)
Fair value gain on financial assets at FVTPL	4,699,325	-	4,699,325
Interest income	5,854,313	-	5,854,313
Dividends	2,000,000	-	2,000,000
Other income	11,347	-	11,347
Financial expenses	-	(775,195)	(775,195)
Operating expenses	-	(1,230,810)	(1,230,810)

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

NOTES TO THE FINANCIAL STATEMENTS (continued)
For the year ended 31 December 2017

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.

21.1 Key management compensation

	2017 EUR	2016 EUR
Advisory fees	783,566	847,517
Directors' fees	60,525	65,000
	844,091	912,517

a. Advisory fees (note 5)

New Europe Capital SRL was the Adviser to the Company during the year. The advisory fees are accrued and are payable monthly in arrears. Total advisory fees for the year amounted to EUR783,566 (2016: EUR847,517). Total fees outstanding as at 31 December 2017 were EUR178,564 (2016: EUR93,904).

There were no performance fees paid or payable in respect of 2017 (2016: nil).

Advisory fees which are unpaid for over a month attract an interest of 10% (2015: 10%) on the entire balance. No interest was charged during the year (2016: nil).

b. Directors' fees (note 5)

		2017 EUR	2016 EUR
Martin Derbyshire	*(appointed on 12 October 2017)*	2,192	-
Mihai Rădoi		20,000	20,000
Dirk Van den Broeck		25,000	25,000
Markus Winkler	*(resigned on 31 August 2017)*	13,333	20,000
		60,525	65,000

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

	2017 EUR	2016 EUR
Advisory fees	178,564	93,904
Directors' fees and expenses	2,192	-
	180,756	93,904

NOTES TO THE FINANCIAL STATEMENTS (continued)
For the year ended 31 December 2017

21. Related party transactions (continued)

21.3 Related parties' interests

	2017		2016	
Ordinary shares	**Number**	**% of issued share capital**	**Number**	**% of issued share capital**
Held by directors				
Dirk Van den Broeck	3,533,651	2.44%	3,533,651	2.39%
Mihai Rădoi	1,037,500	0.72%	1,037,500	0.70%
Held by other related parties				
Ion Florescu and related parties *	81,391,311	56.15%	81,862,859	55.45%

* As at 31 December 2017 a number of 38,559,007 of the Company's shares were held by Ion Florescu and 42,832,304 shares were owned by Portadrix Investments Limited, which is wholly-owned by The Florescu Family Trust.

21.4 Interest expense on loans payable to related parties

	2017 EUR	2016 EUR
Policolor S.A. (associate)	-	158
Glasro Holdings Limited (subsidiary)	-	1,381
	-	1,539

21.5 Dividend income from subsidiaries (note 4)

	2017 EUR	2016 EUR
Glasro Holdings Limited	7,619,610	2,000,000

21.6 Loan to unconsolidated subsidiary

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

21.7 Pledges and guarantees

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

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

NOTES TO THE FINANCIAL STATEMENTS (continued)
For the year ended 31 December 2017

21. Related party transactions (continued)

21.7 Pledges and guarantees (continued)

The guarantee was released on 20 April 2017.

21.8 Ultimate controlling party

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

22. Events after the reporting period

At a general shareholder meeting on 21 February 2018, the investment objective of RC2 was changed so that it now aims to achieve capital appreciation and/or to generate investment income returns through the acquisition of real estate assets in Romania, including the development of such assets, and/or the acquisition of significant or controlling stakes in companies established in, or operating predominantly in Romania, primarily in the real estate sector. Any new private equity investment in companies operating in sectors other than real estate is limited to 25% of RC2's total assets at the time of effecting the investment. However, RC2 may continue to make follow-on investments in existing portfolio companies without any such limitation. The same shareholder meeting decided that the next continuation vote will be held in 2023 and that RC2 can acquire 22% of the issued share capital of Reconstruction Capital Plc for EUR1.6m and 10% of the issued share capital of the Romanian Investment Fund Limited for EUR1.7m, two Romanian-focused investment funds whose main underlying asset is a 60% shareholding in Policolor S.A. in which RC2 already owns the balance of 40%. The main objective of the acquisition, which will give RC2 a further 15.36% indirect shareholding in Policolor S.A., is to provide RC2 with greater control over the exit process from this asset.
Only a part of the above-mentioned acquisition has been settled to date, amounting to EUR1.2m, with the rest being delayed by technical settlement issues which are in the course of being resolved with the vendors.