

24 November 2016

**Arricano Real Estate plc**  
("Arricano" or the "Company")

**Acquisition and Notice of General Meeting**

Arricano (AIM: ARO) announces that it has conditionally agreed to acquire Filgate Credit Enterprises Limited ("Filgate") from Weather Empire, a company, which is beneficially owned by Hillar Teder, the Company's founder who controls 55.45% of the Company's Ordinary Shares.

The Acquisition is conditional, *inter alia*, on the passing of the Resolution at the General Meeting. Whilst the Company is not required to obtain shareholder approval under the AIM Rules or company law for the Acquisition, as a matter of best practice, the Board has undertaken to obtain Independent Shareholder (i.e. the Company's Shareholders excluding Hillar Teder and entities he controls) approval.

The Resolution for approval by Independent Shareholders of the Acquisition is set out in the circular to Shareholders containing full details of the Acquisition and the Notice of General Meeting (the "Circular"). The Circular and an accompanying Form of Proxy and Form of Instruction (for holders of Depositary Interests) will be posted to Shareholders shortly. The General Meeting will be held at the Company's registered office, Office 1002, 10th floor, Nicolaou Pentadromos Centre, Thessalonikis Street, 3025 Limassol, Cyprus at 10.00a.m. (GMT) on 14 December 2016.

A copy of the Circular will be made available today on the Company's website at [www.arricano.com](http://www.arricano.com).

Capitalised terms used but not otherwise defined in this announcement bear the meanings ascribed to them in the Circular.

**Background to and reasons for the Acquisition**

Weather Empire owes Arricano US\$39.8m (being a loan principal of US\$30.0m plus accrued interest of US\$9.8m) in respect of a loan which was originally made in 2011 (the "Weather Empire Loan"). Weather Empire is 100% owned by Hillar Teder.

The final results of Arricano for the year ended 31 December 2014, announced on 26 June 2015, stated that management had fully impaired the Weather Empire Loan and considered it to be irrecoverable; accordingly the book value of the Weather Empire Loan in Arricano's report and accounts for the years ended 31 December 2014 and 2015 is nil. In addition, the Company stated that it was in discussions with Weather Empire regarding the settlement of the Weather Empire Loan, which may take the form of a transfer of assets to the Company.

As an alternative to pursuit of repayment of the Weather Empire Loan by Arricano, Weather Empire and Arricano have agreed that 49% of Weather Empire's shareholding in Filgate be transferred to Arricano in settlement of the Weather Empire Loan. Assuming the return of the Sky Mall asset, a property complex located in Kyiv, Ukraine ("Sky Mall") to the legal control of Arricano, Weather Empire and Arricano have also entered into the

Call Option Agreement detailed below, exercisable at Arricano's sole discretion to acquire the remaining 51% of Filgate for US\$1.

Weather Empire's only asset is its 100% holding of Filgate and its only liability is the loan from Arricano.

### **Filgate**

Filgate is an investment vehicle of Hillar Teder; its balance sheet comprises a series of inter-company loan balances with other Hillar Teder owned companies. As at 31 October 2016, it had total assets of US\$130.2m, total liabilities of US\$261.7m and negative equity of US\$(131.5)m. Filgate has no employees or material commercial agreements.

As at 31 October 2016, the accounts of Filgate showed a loss of approximately \$24.6m largely due to interest expenses on short and long term loans which will not be acquired under the Acquisition due to the Assignment Agreement detailed below.

On completion of the Acquisition, US\$216.0m of the liabilities in Filgate (the "Filgate Liabilities") comprising loan principal amounts of approximately \$134.0m, and accrued interest of approximately US\$82.0m, will be transferred under the Assignment Agreement detailed below for the benefit of Arricano leaving liabilities of US\$45.7m which will remain in Filgate (comprising loans owed to Arricano and Assofit, of approximately US\$10.2 m and US\$35.5m respectively). The total assets of approximately US\$130.2m will remain in Filgate; on this basis, Filgate's net assets at 31 October 2016, adjusted on a pro forma basis to reflect the Assignment Agreement, are estimated to be approximately US\$84.5m.

Of Filgate's total assets of approximately US\$130.2m, the most significant single asset is an amount of approximately US\$119m due from Prizma Beta (the "Filgate Loan"). Filgate believes that the Filgate Loan has been illegally assigned to a third party and the assignment is being challenged by Filgate. Filgate believes that it has lawful grounds to reverse the assignment of the Filgate Loan.

### **Assofit and Prizma Beta**

Assofit was a joint venture company registered in Cyprus owned 49.97% by the Company and 50.03% by Stockman Interhold S.A. ("Stockman"). Initially Assofit owned 100% of Prizma Beta, which was owner of 100% of Sky Mall. The primary purpose of the joint venture is to develop and promote Sky Mall.

Arricano and Stockman entered into a call option agreement and a shareholders' agreement in relation to Assofit. As described in the Company's Admission Document, in 2011 the Company effectively lost control over Assofit and since then there has been a series of legal and arbitral proceedings brought by both parties to the joint venture.

In September 2014, Assofit transferred the shares of Prizma Beta to Financial and Investment Solutions BV, a company registered in the Netherlands, despite the fact that an interim receiver was appointed to Assofit at that time with the responsibility of collecting and safeguarding Assofit's assets.

Further in September 2014, Joint-Stock Bank Pivdennyi PJSC, Ukraine, which had an outstanding mortgage loan due from Prizma Beta of maximum amount up to US\$32m, exercised its right to recover the loan granted by means of repossession of ownership

rights to Sky Mall which were pledged to secure this loan in September 2014. Management of the Group believes that these transfers are illegal.

### **Recent Litigation**

The Board believes that the transactions detailed above in relation to Assofit and Prizma Beta are illegal and is currently pursuing litigation in respect of these transactions. As at the date of this circular, the shares of Prizma Beta and ownership rights for Sky Mall have not been recovered by Arricano.

On 11 May 2016, the Company announced that the LCIA issued a further award in the arbitration between Arricano and Stockman concerning the ownership of Assofit. Among other things, the tribunal made the following findings: that Stockman is in breach of the call option agreement and has taken steps deliberately to dissipate and misappropriate Assofit's assets, including the shares of Prizma Beta, Sky Mall and the right to repayment of the Filgate Loan. As a result, the tribunal has ordered Stockman to transfer, or procure the transfer of, the Option Shares to Arricano within 30 days of the award. Upon registration of the transfer, Arricano shall pay to Stockman the Option Price minus damages, which when netted out brings the balance to nil. In the event that Stockman does not transfer, or procure the transfer of the Option Shares, Arricano may elect instead to claim damages in lieu of the share transfer.

Currently, Filgate, acting as claimant, and Arricano, acting as a third party, are challenging, *inter alia*, the transfer of the Filgate Loan before the Kyiv Economic Court of Appeal in Ukraine.

### **Current Outlook**

The Independent Directors believe that there is very limited likelihood in the near term of receiving a repayment of US\$39.8m in cash for the Weather Empire Loan from Weather Empire. The Independent Directors also believe that there is a higher chance of Arricano regaining control of Sky Mall and, in conjunction with this, of Filgate being repaid its loan of US\$119m to Prizma Beta.

Supporting this belief, the tribunal ordered Stockman to transfer, or procure the transfer of, the option shares to Arricano within 30 days of the award (the "Seventh Award"). On 7 July 2016, Arricano announced that Stockman had not transferred or procured the transfer of the option shares and Arricano was further considering its options in relation to this matter with its legal advisers. As previously announced, in the event that Stockman did not transfer, or procure the transfer of the Option Shares, Arricano may elect to claim damages in lieu of the share transfer.

On 2 June 2016, Stockman brought a challenge to the Seventh Award in the High Court of England and Wales.

On 30 August 2016, Arricano announced that in its latest award (the "Eighth Award"), the tribunal awarded costs of approximately US\$0.9m to be paid by Stockman to Arricano.

For the reasons set out above, the commercial assessment of the Independent Directors is that the current value of the potential upside from owning 49 per cent or more of the Filgate Shares is greater than the current value of the Weather Empire Loan.

In addition, the Independent Directors believe that the Transaction will significantly enhance and improve Arricano's involvement in and chances of success in respect of

litigation in relation to the legality of the transfer of Sky Mall, Prizma Beta and the Filgate Loan to entities outside of Arricano's control. The most recent progress of Arricano's legal team in reinstatement of its rights to the shares of Assofit has proven the reliability of Arricano's legal strategy. Currently, Arricano's legal team is not able to fully participate in Filgate's court proceedings relating to the challenges of the unlawful assignment of the Filgate Loan. Immediately following the Acquisition, the Directors believe that Arricano will have lawful grounds to join the legal proceedings as a joint claimant.

### Details of the Acquisition

Arricano has entered into the following agreements in relation to the Acquisition:

- (i) a sale and purchase agreement with Weather Empire to initially acquire 49% of the equity of Filgate for consideration of approximately US\$40m (the "**Sale & Purchase Agreement**");
- (ii) a set-off agreement with Weather Empire where both parties agree that the parties intend to settle the existing Weather Empire Loan of approximately US\$40m owed to Arricano by means of applying the consideration, which Arricano owes to Weather Empire for the Filgate shares under the Sale & Purchase Agreement ("**Set-Off Agreement**");
- (iii) an assignment agreement under which the rights to the Filgate Liabilities owed to Ekspert Kapital OÜ ("**Ekspert Kapital**") (a company controlled by Hillar Teder) are assigned from Ekspert Kapital for nominal consideration to Lacecap Limited (a wholly owned subsidiary of Arricano) for the ultimate benefit of Arricano (the "**Assignment Agreement**"); and
- (iv) a five year call option with Weather Empire to acquire the remaining 51% of Filgate for nominal consideration, which is exercisable at Arricano's sole discretion, upon the return of Sky Mall to the legal control of Arricano (the "**Call Option Agreement**").

The Sale & Purchase Agreement contains certain warranties given by Weather Empire and Filgate to the Company, including in relation to Weather Empire having good title to the Filgate Shares, the accuracy of Filgate's financial statements, Filgate having good title to the properties and assets which are the subject of the agreement and that the business of Filgate has been conducted in the ordinary course from the period from the last unaudited financial statements.

Weather Empire has also indemnified the Company against all losses arising out of any breach of the agreement (including any warranty) by Weather Empire and/or Filgate. The Company also has the right to require Weather Empire to re-purchase all the Filgate Shares (or any part of the Filgate Shares as may be requested by the Company), if there is a breach of the representations and warranties in the Sale & Purchase Agreement in certain limited circumstances.

Accordingly the financial effect of the Acquisition on Arricano would be as follows:

- (i) If the Call Option is not exercised (i.e. if Arricano does not regain its interest in Sky Mall) then Arricano would have agreed to set off its right to a receivable with a book value of nil in exchange for a 49% interest in Filgate with a value of nil (without the return of Sky Mall to Prizma Beta, Filgate's equity would have no value and would be fully provided against in Arricano's accounts).

- (ii) If the Call Option is exercised (i.e. if Arricano regains its interest in Sky Mall), then Arricano would have agreed to set off its right to a receivable with a book value of nil in exchange for a 100% interest in Filgate with a pro forma book value of up to US\$84.5m (this value will depend on Prizma Beta's ability to repay the loan amount due to Filgate).

Following and subject to the passing of the Resolution, each of the Sale & Purchase Agreement, Set-Off Agreement, Assignment Agreement and Call Option Agreement shall become unconditional in all respects, with the effect that Arricano will then own 49% of the Filgate Shares.

The Call Option Agreement to take Arricano's holding in Filgate to 100% is only exercisable assuming the return of Sky Mall to the legal control of Arricano and at Arricano's sole discretion.

### **Related Party Transaction and Substantial Transaction**

Weather Empire and Ekspert Kapital are controlled by Hillar Teder who holds 55.45% of the issued ordinary share capital of the Company and, therefore, is a "related party" of the Company under the AIM Rules. Consequently, the Acquisition is considered to be a "related party transaction" under AIM Rule 13 as well as a "substantial transaction" under AIM Rule 12.

The Independent Directors of the Company (Rupert Cottrell, Philip Scales and Michael Zampelas) who are not related parties under the AIM Rules for the purposes of the Acquisition, having consulted with the Company's nominated adviser, consider that the terms of the Acquisition are fair and reasonable insofar as the Company's Shareholders are concerned.

### **Recommendation**

The Independent Directors believe that the proposed Acquisition is in the best interests of the Company and its Shareholders. Accordingly, the Independent Directors recommend that Independent Shareholders vote in favour of the Resolution.

### **EXPECTED TIMETABLE OF PRINCIPAL EVENTS**

Posting of circular	23 November 2016
Latest time and date for receipt of Forms of Instruction	10.00 a.m. on 9 December 2016
Latest time and date for receipt of Forms of Proxy	10.00 a.m. on 12 December 2016
General Meeting	10.00 a.m. on 14 December 2016

For further information, please contact:

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Certain information contained in this announcement would have been deemed inside information for the purposes of Article 7 of Regulation (EU) No 596/2014 until the release of this announcement.