RNS Number : 3263D

Arricano Real Estate PLC

26 April 2017

Arricano Real Estate plc

("Arricano" or the "Company" or, together with its subsidiaries, the "Group")

Final Results for the 12 months ended 31 December 2016

Arricano is one of the leading real estate developers and operators of shopping centres in Ukraine. Today, Arricano owns and operates five completed shopping centres comprising 147,800 sqm of gross leasable area, a 49.9% shareholding in Assofit and land for a further three sites under development.

Highlights

· Recurring revenues increased by 13.3% to USD23.1 million (2015: USD20.4 million)

· Operating profit increased to USD43.8 million (2015: USD18.9 million), both figures including revaluation gains and adjustments to operating expenses explained below

· Total fair valuation of the Company's portfolio was USD175.7 million as at 31 December 2016 (2015: USD160.3 million)

· Overall occupancy rates for 2016 increased to 98.3% from 96.2% in 2015

· As at 31 December 2016, the Company's borrowings at project level remain conservative with a loan to investment property value ratio of 28.5%, compared to 37.4% in 2015

· Net asset value USD24.2 million (2015: USD3.1 million)

Rupert Cottrell, Chairman of Arricano, commented: "Following on from our half-year report in September 2016, the market in Ukraine has continued to show signs of improvement and the Company’s trading performance reflects this. There remain many challenges ahead for the country and the economy but there is now evidence of consistent improvement and a growing expectation of continued progress."

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.

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Chairman's Statement

It is a pleasure to report on Arricano's trading performance in 2016, which shows the Company performing well and increasing recurring revenues by 13.3% from the prior year to USD23.1 million. This is a clear indicator of the Company's ability to operate successfully in what has been an improving but still highly challenging market environment.

Arricano has adapted well to the unexpected political and economic events over the last three years. Where necessary the Company has supported tenants financially and worked ceaselessly to ensure every shopping centre maximises its appeal to consumers. Interestingly, since 2015, Arricano has increased the number of visitors to its shopping centres and last year, 38 million people visited Arricano shopping centres. This approach has created a new base for the business and the trading performance for 2016 shows that the business is stable and able to grow from here.

Demand from both tenants for retail space and from consumers to visit the shopping centres is at the heart of the Company's success. Occupancy across the portfolio has improved to 98.3%, up from 96.2% at 31 December 2015, demonstrating Arricano's ability to attract new and keep existing tenants. In 2016, the Company signed 179 new lease agreements relating to 23,404 sqm of retail space and increasing the total number of tenants across the portfolio to 750. Particularly noteworthy is the occupancy level of the Prospect Shopping Mall in Kyiv which only opened in September 2014 and is now 97.6% let.

As at 31 December 2016, Arricano had 147,800 sqm of completed assets spread across five completed shopping centres ("SECs"). In addition, the Company also owns title rights for 14 ha. of development land divided into three specific sites which are at varying stages of development. These are in Lukianivka and Petrivka (both Kyiv), as well as Rozumovska (Odessa).

The commencement date for construction of a new SEC in Rozumovska, Odessa is yet to be decided. The Odessa Mall is intended to include a major hypermarket, shops and shopping galleries, leisure and entertainment areas, with a gross leasable area of 38,000 sqm.

Regarding the 49,9% shareholding in Assofit Holdings Limited ("Assofit"), a holding company, which held the Sky Mall shopping centre, the Company continues to pursue Stockman Interhold S.A. ("Stockman") concerning the ownership of Assofit and in August 2016 announced a further award had been issued by The London Court of International Arbitration. The tribunal awarded costs of approximately USD0.9 million to be paid by Stockman to Arricano. Arricano continues to consider its options in relation to this matter with its legal advisers.

Arricano currently has 112 employees and it is their efforts which are behind the improved trading performance for 2016 and on behalf of the Board I would like to thank them all, for their hard work and commitment to the business. Again on behalf of the Board I would like to thank Raul Parusk, a Non Executive Director who stepped down from this position with effect from 1 February 2017.

Arricano's long-term strategy remains unchanged in that we are focused on developing and investing in the portfolio of shopping centres under the Company's control. The political and economic environment in Ukraine is improving and there is increasing investor appetite to be in a position to benefit alongside a further recovery in the economy. In 2017, the Company will continue to focus on maintaining the portfolio and developing new space.

Rupert Cottrell

Chairman

25 April 2017

Chief Executive Officer's Report

Introduction

The increases in revenue, profitability, asset valuations and occupancy all demonstrate that 2016 was a successful year for Arricano and a reflection of the hard work that has gone into stabilising the business and developing and implementing strategies to operate in the new political and economic environment.

As a consequence, we are working successfully to ensure our shopping centres remain the leaders in their respective markets and provides consumers with an environment to enjoy a retail and leisure experience combined. Achieving this balance is key to Arricano's success and is under constant scrutiny from the management team in terms of fine tuning the mix of retail outlets on offer in each centre and marketing the centres successfully to consumers.

Results

Recurring revenues for the period were USD23.1 million (2015: USD20.4 million). As a result, the Net Operating Income ("NOI") from the operating properties was USD21 million compared to USD20.2 million in 2015.

Profit before tax was USD29.2 million (2015: loss of USD16.3 million). This increase was achieved through a combination of improved recurring revenues and an increase in the valuation of the Company's property portfolio and decrease in operating expenses.

The portfolio of assets was externally and independently valued as at 31 December 2016 by Expandia LLC, part of the CBRE Affiliate Network. The portfolio was valued at USD175.7 million (31 December 2015: USD160.3 million), the increase in the value of the portfolio was primarily driven by the increase in rental income and the improved stability of the Hryvna.

Bank debt at the year-end was USD 50.1 million (2015: USD 60.1 million), with the majority of borrowings at the project level at an average interest rate of 10.8%. Loans mature between 2017 and 2020 and the Company's loan to investment property value ratio is 28.5%. In addition, there was USD5 million of cash and cash equivalents as at 31 December 2016.

The Market

The market remains challenging but our business has adapted well to operate successfully in the environment we are now in. The increases in revenue from our tenant base suggest we have turned the corner in terms of rebasing the business and we can now work towards maintaining incremental growth across the business.

Our twin focus has been on strengthening our relationship with our tenants and increasing the appeal of our shopping centres. We believe we have set a new standard in Ukraine for our level of involvement with tenants in our centres through supporting their businesses whilst simultaneously further enhancing the overall retail offer of the shopping centres. We have provided free training courses for retail staff focused on developing customer service skills and sales techniques, this was an innovative offer from a lessor and was very positively received by tenants. Collaboration such as this, we believe deepens the relationship between Arricano and tenants, increasing the likelihood of long-term partnerships forming.

Increasing the appeal of the shopping centres is the other key focus for the business. In 2016, Arricano continued to invest in optimising the open spaces in the shopping centres and in creating social spaces with extended food courts, family areas and comfort zones, thereby changing the customer experience of the shopping centres to being a balance between a retail and social experience.

Working with the media has increased and we have generated useful publicity directly for the shopping centres both independently and in conjunction with existing tenants. Social media and internet shopping are growing in importance in Ukraine, we are increasingly active in both areas and are continuing to evolve our strategies to match consumer activity levels.

This approach, coupled with an increased operational efficiency has improved the consumer experience and has helped to maintain visitor numbers to the centres. In 2016 38 million people visited the shopping centres.

The Company’s ability to attract new tenants was clearly demonstrated in 2016 with the signing of 179 new leases covering 23,404 sqm of retail space. This increased the total number of tenants across all five shopping centres to 750. Well known incoming tenants include LC Waikiki, Jysk, New Balance, Citrus, Kari and Crocs.

In terms of the new developments, the Company is progressing projects in Odessa and Lukyanivka, Kyiv.

Currently, the Company is focused on development of the Lukyanivka project. In 2016, construction continued using internal financing, in 2017 we plan to attract external creditors for this project and develop it more actively.

Outlook

Arricano continues to outperform the market in the context of the wider environment, as shown by the increase in occupancy to 98.3% and the increase of NOI by 4%, both excellent achievements. The asset and tenant base of the business is strong and we continue to work hard to further strengthen it through focusing on the Customer Experience of our tenants and of all visitors to our shopping centres. Following the 'Innovation' year of 2015, and a 'Service' year in 2016 Arricano is declaring 2017 to be a 'Customer Experience' year. The Company's management team believes that in a new Experience Economy, increases in loyalty of B2C and B2B customers will lead to significant increases in revenues. The focus on Customer Experience will involve significant research and analysis activities which will be followed by fine tuning of the product and tenant mix. We will also continue to support tenants in increasing their turnover, while B2C clients will experience changes in the product and service offering in each mall aimed at increasing frequency of visits and length of stay in Arricano's shopping centres. We know that in time Ukraine will recover and at that point Arricano will be able to reap the reward of its continued investment in the existing and future portfolio.

Mykhailo Merkulov

Chief Executive Officer

25 April 2017

Operating Portfolio

In the following section we have provided an overview of each asset in the completed portfolio.

Sun Gallery (Kryvyi Rih)

Sun Gallery, opened in 2008, is one of the largest shopping malls in Kryvyi Rih. It is located at 30-richchia Peremohy Square, in the Saksahanskyi district in the northeastern part of Kryvyi Rih. It has easy access by car and has good public transport links. The primary shopping centre catchment area includes almost the whole territory of the Saksahanskyi district and part of the Pokrovskyy district. The secondary area covers the Dovhyntsivskyi district.

The shopping centre is on two levels, spanning a total GLA of approximately 34,740 sq. m. There are approximately 139 tenants, including children's entertainment zone, a food court with restaurants and cafes and a bowling alley. Two fashion-anchor tenants were added: LC Waikiki (fashion) and Jysk (home goods) both stores opened in 2017.

Key statistics

- GLA - c. 34,740 sqm
- Vacancy rate as at 31 December 2016 – 0.2 per cent.
- Average monthly rental rate - USD10.0 /sqm as at 31 December 2016
- Average Monthly Visitors 2016 - 0.4 million
- Bank debt at 31 December 2016 - USD8.5 million
- Valuation at 31 December 2016 – USD18.1 million

City Mall (Zaporizhzhia)

City Mall is one of the largest shopping centres in Zaporizhzhia with a total GLA of approximately 21,480 sq. m. on a single level. The shopping centre is located on the Dnipro river approximately 3km from Zaporizhzhia city centre, between two densely populated areas of Zaporizhzhia in the Alexandrovskyy administrative district (1b Zaporizska street), with convenient accessibility by public and private transport.

City Mall comprises a gallery with approximately 95 international and local tenants, including a food court with 11 restaurants, a children's entertainment zone and parking which is shared with DIY superstore Epicenter. City Mall's anchor tenants are the hypermarket Auchan, which is the largest in the city, and the electronics store Comfy. During 2016, 25 new contracts were signed bringing new brands to the City Mall, including brands that were previously unavailable in the region. After a third successive year of nil vacancy rates, weaker tenants were replaced with stronger ones such as LC Waikiki, New Balance, Crocs and Monton.

Key statistics

- GLA - c. 21,480 sqm
- Vacancy rate as at 31 December 2016 - 0.0 per cent.
- Average monthly rental rate - USD22.37 /sqm as at 31 December 2016
- Average Monthly Visitors 2016 - 0.5 million
- Bank debt at 31 December 2016 - USD8.5 million
- Valuation at 31 December 2016 - USD21.4 million

South Gallery (Simferopol)

The site is located in the north of Simferopol, about five minutes' driving distance from one of the city's major crossroads, Moskovska Square. The site is linked to the city centre and residential areas east of the city by one of the main thoroughfares of Simferopol. The primary shopping centre catchment area includes northern parts of the Kyivskyi and Zaliznychnyi districts. The secondary area covers almost the whole city, except for its very southern parts.

South Gallery shopping centre (Phases I and II) is situated on a land plot with a total area of 10.2 ha. Phase I of the shopping centre tenants include Auchan (international hypermarket chain), with a small gallery. With the completion of Phase II in February 2014 the mall is now a regional destination shopping centre with a total GLA of 36,690 sq. m.

During 2016, 30 new lease contracts were signed, while Detskiy Mir (children’s department store) increased in size to 1085 sq. m. The South gallery has also upgraded its food-court and the centre is negotiating collaborations with several international brands.

Key statistics

- GLA - 36,690 sqm

- Vacancy rate as at 31 December 2016 - 3.9 per cent.
- Average monthly rental rate - USD13.75 /sqm as at 31 December 2016
- Average Monthly Visitors (2016) - 0.7 million
- Bank debt at 31 December 2016 - USDNil
- Valuation at 31 December 2016 – USD35.4 million

RayON (Kyiv)

The RayON shopping centre was opened to the public in August 2012. The shopping centre is located in the north east of Kyiv along the left bank of the Dnipro river, with satisfactory transportation links.

The shopping centre has a GLA of approximately 24,250 sq. m. on two levels, with approximately 860 parking spaces. The concept for RayON is a district shopping centre, which focuses on food, clothing and convenience products. The shopping centre is anchored by a Silpo foods supermarket, one of the biggest supermarket chains in Ukraine and a member of the Fozzy group. Electronics supermarket Comfy also operates within the shopping centre.

RayON has several restaurants and a children's entertainment zone to complement the retail facilities. RayON is located in the middle of the Desnjanski district, one of the most densely populated areas in Kyiv, with an estimated catchment area of approximately 170,000.

Rayon completed the refurbishment of its food court in January 2017 and the installation of baby-rooms in the centre has produced very positive feedback from customers with young children. In November “Boomer” (Cinema) opened two additional halls, while the entertainment zone for kids “Game Park” increased to 770 sq. m.

Key statistics

- GLA - c. 24,250 sqm
- Vacancy rate as at 31 December 2016 - 1.35 per cent.
- Average monthly rental rate - USD13.10 /sqm as at 31 December 2016
- Average Monthly Visitors 2016 - 0.5 million
- Bank debt at 31 December 2016 – USD17.7 million
- Valuation at 31 December 2016 – USD27.2million

Prospect (Kyiv)

SEC Prospect is located directly on the inner ring road of Kyiv on the left bank of the Dnipro river in the Desnianskyi administrative district, with good automobile accessibility and public transport links. The area is already recognised as a popular shopping destination, located close to a large open-air market and a bazaar-style shopping centre (SC Darinok).

The SEC consists of a two-storey retail and leisure complex with a total gross building area of approximately 61,872 sqm (excluding roof and surface parking and excluding the hypermarket building referred to below) and a GLA of approximately 30,650 sq. m. and parking. The centre opened at the end of 2014.

2016 saw the introduction of 17 small sales areas alongside free training sessions for shop personnel. Openings including “UAMade” and “Kids Republic” were introduced to the centre while there are ongoing negotiations with international brands planning their expansion into Ukraine.

Key statistics

- GLA - c. 30,650 sqm
- Vacancy rate as at 31 December 2016 – 2.4 per cent.
- Average monthly rental rate - USD9.44 /sqm as at 31 December 2016
- Average Monthly Visitors (2016) - 1.1 million
- Bank debt at 31 December 2016 – USD15.7 million
- Valuation at 31 December 2016 - USD29.8 million

Development Properties

Lukianivka (Kyiv)

The Lukianivka development property is located on the right bank of Kyiv in the Shevchenkivskyi administrative district. The land plot has a total area of 4.14 hectares. The Group is planning to construct its flagship shopping centre in the central business district of Kyiv, with a more upmarket vision in terms of the concept and tenant mix. The Lukianivka development property allows for the construction of a multi-use complex, consisting of a shopping and leisure centre including, inter alia, a hypermarket, shops and shopping galleries, a leisure and entertainment area, a food court restaurants and a service area. The property would also have two underground parking levels and one seven-storey residential building, construction of which will continue after completion of the shopping centre. It is expected that the GLA of the shopping and entertainment centre would be approximately 47,000 sq. m. The Group obtained the relevant construction permit in June 2013.

Land plot:	4.14 hectares
Title:	Leasehold title plus title to several buildings (historical landmarks) on the site
Development:	Retail, leisure and entertainment centre
Gross construction area (GBA):	c.78,000 sqm for the shopping centre (plus c.38,500 sqm GBA for parking)
Gross leasable area (GLA):	c.47,000 sqm

Parking spaces:	To include roof parking and underground parking
Type:	City shopping centre (pocket hypermarket anchored) with residential
Actual construction start date:	Q4 2013
Forecast opening date:	Q4 2018

Rozumovska (Odesa)

The Black Sea port of Odesa is Ukraine's fourth largest city, with over one million inhabitants, and is a popular leisure destination. The Rozumovska development property is located partly on the façade of Rozumovska Street close to its intersection with Balkovska Street, in the Malynovskyi administrative district of Odesa, in close proximity to public transportation links.

The site is located opposite the city's main bus station. Rozumovska Street connects directly to the highway to Kyiv.

The Group has signed a lease agreement for the land plot with a total area of 4.5 hectares. The Rozumovska development property is expected to be a three-storey shopping and entertainment centre with a sufficient number of parking spaces to accommodate customer demand. The target GLA is approximately 38,000 sq. m., including a hypermarket, shops and shopping galleries, a leisure and entertainment area, a food court restaurants and a service area. The preliminary design concept of the project has been completed and the developer is currently applying for the relevant consents and permits, given current market conditions.

Land plot:	4.5 hectares
Location:	Odesa
Title:	Leasehold
Development:	retail, leisure and entertainment centre
Gross construction area (GBA):	To be defined
Gross leasable area (GLA):	38,000 sqm
Parking spaces:	1,400
Type:	Regional mall (hypermarket anchored)
Expected construction start date:	to be defined
Forecast opening date:	to be defined

Petrivka (Kyiv)

The Petrivka development property is located on the right bank of the Dnipro river in Kyiv, in the Obolonskyi administrative district. The site has an area of 5.4 ha. The Group is currently considering the best use of the site, which could include both residential and retail use.

Investment

Sky Mall (Kyiv)

Sky Mall is one of the largest shopping centres in Kyiv, built to an award-winning design by the international architectural firm Chapman Taylor. It is home to top-quality brands, which include TopShop and Marks & Spencer, and anchored by the hypermarket Auchan, Comfy and stores of the Inditex Group. The first phase of the shopping centre (hypermarket) opened in 2007 and the second phase of the development opened in August 2010. It is located in the Dniprovskyi district of Kyiv on Vatutina Avenue, on the left bank of the Dnipro River. The shopping centre has good motor vehicle access and public transport links.

The GLA of the current operating centre (Phases I and II) is approximately 68,000 sq. m, with approximately 1,880 parking spaces. The shopping centre spans three levels with a cinema, children's and entertainment zone, food court, hypermarket and gallery shops.

The Company currently owns only 49.9 per cent. of Assofit Holding Limited, which earlier acted as the holding company of the Sky Mall Shopping and Entertainment Centre. Taking into consideration that the holding was stripped of its main asset in 2014, Arricano is taking all possible legal measures to return the property and acquire the remaining interests from the other party.

Key statistics

- Arricano ownership - 49.97 per cent in Assofit.
- GLA - c. 68,000 sqm

Finance Report

The Company's revenue mainly consists of rental income from the portfolio of the completed properties. During the year ended 31 December 2016 the Company's rental income amounted to USD23.1 million (2015: USD20.4 million).

The total fair valuation of the Company's portfolio was USD175.7 million as at 31 December 2016 (2015: USD160.3 million). This increase reverses the previous year’s fall in portfolio value. The main reasons for increase of fair value of the Company's portfolio were successful rotations of lessees, increase in rental rates and billing currency exchange rates.

The Company’s continued focus on managing the reduction of the cost base has led to operating expenses during the period of USD4.5 million, compared to USD15.6 million in the previous year.

As a result of the above, profit from operating activities has increased by 132% to USD43.8 million (2015: USD18.9 million).

Despite the devaluation of the Hryvnia, foreign exchange losses on monetary items that form part of the net investment in the foreign operation, net of tax effect were USD28.4 million (2015: USD80.8 million) due to devaluation Ukrainian national currency.

Finance expenses in 2016 decreased by USD18.4 million due to decrease in foreign exchange losses and partially due to decrease in loans portfolio, while finance income rose by USD2.1 million, a 226% increase (2015 USD0.9 million).

The Company's net profit for the year ended 31 December 2016 was USD23.5 million (2015: USD20.4 million net loss). This turnaround was due to the USD11.5 million increase in the property valuation, in addition to the USD11 million reduction in operating expenses and the USD18.4 million fall in finance costs all contributing towards this improved figure

Net Asset Value as at 31 December 2016 was USD24.2 million (2015: USD3.1 million), resulting in an Adjusted Net Asset Value per share of USD0.23 (2015: USD0.03). The increase in NAV was driven primarily by the growth in the Company’s property valuation as well as positive cash flows.

Total assets, as at 31 December 2016, amounted to USD187.1 million (2015: USD173.2 million), an increase of 8% from the previous year. This mainly related to the increase in investment property value, as well as the cash and cash equivalents.

Cash balances as at 31 December 2016 including cash equivalents and current deposits amounted to USD4.95 million (2015: USD3.3 million).

During the year ended 31 December 2016, PrJSC Livobereazhzhiainvest signed amendments to the loan agreements with PJSC “Bank “St.Petersburg” stipulating a decrease in the amount of loan principal payable in 2016 by USD2.4 million. Moreover, the loan payable to the EBRD by PrJSC Grandinvest was transferred to PrJSC UkrPanGroup for an amount of USD3.8million, that allowed to optimize Group’s cash flows. Upon reassignment, the loan principal in amount of USD1.2 million was settled by the Group.

As at 31 December 2016, the Company had USD101 million of outstanding borrowings.

Arricano Real Estate PLC
Consolidated financial statements as at and for the year ended 31 December 2016
Consolidated statement of financial position as at 31 December 2016

(in thousands of USD)	Note	**31 December 2016**	31 December 2015
Assets			
Non-current assets			
Investment property	*4*	**175,663**	160,310
Long-term VAT recoverable	*6*	**1,215**	3,364
Property and equipment		**214**	230
Intangible assets		**38**	36
Total non-current assets		**177,130**	163,940
Current assets			
Trade and other receivables	*7*	**1,162**	890
Loans receivable	*5*	**305**	347
Prepayments made and other assets		**901**	955
VAT recoverable	*6*	**1,067**	1,086
Assets classified as held for sale	*8*	**1,590**	1,804
Restricted deposits		-	800
Cash and cash equivalents	*9*	**4,953**	3,349
Total current assets		**9,978**	9,231
Total assets		**187,108**	173,171

(in thousands of USD)	*Note*	**31 December 2016**	31 December 2015
Equity and Liabilities			
Equity	*10*		
Share capital		**67**	67
Share premium		**183,727**	183,727
Non-reciprocal shareholders contribution		**59,713**	59,713
Accumulated deficit		**(24,973)**	(48,466)
Other reserves		**(61,983)**	(61,983)
Foreign currency translation differences		**(132,371)**	(130,008)
Total equity		**24,180**	3,050
Non-current liabilities			
Long-term borrowings	*12*	**36,845**	38,501
Advances received	*15*	**325**	556
Finance lease liability	*13*	**6,855**	9,933
Trade and other payables	*14*	**4,628**	3,988

Other long-term liabilities	*16*	**98**	80
Deferred tax liability	*21*	**3,530**	2,806
Total non-current liabilities		**52,281**	55,864
Current liabilities			
Short-term borrowings	*12*	**64,239**	66,385
Trade and other payables	*14*	**15,759**	20,291
Taxes payable		**1,106**	676
Advances received	*15*	**4,425**	4,539
Current portion of finance lease liability	*13*	**2**	4
Other liabilities	*16*	**25,116**	22,362
Total current liabilities		**110,647**	114,257
Total liabilities		**162,928**	170,121
Total equity and liabilities		**187,108**	173,171

These consolidated financial statements were approved by management on 25 April 2017 and were signed on its behalf by:

Michael Zampelas *Director*	Mikhail Merkulov *Director*

The consolidated statement of financial position is to be read in conjunction with the notes to, and forming part of, the consolidated financial statements.

Arricano Real Estate PLC
Consolidated financial statements as at and for the year ended 31 December 2016
Consolidated statement of profit or loss and other comprehensive income for the year ended 31 December 2016

(in thousands of USD, except for earnings per share)	*Note*	**2016**	2015
Revenue	*17*	**23,090**	20,383
Other income		**56**	204
Gain on revaluation of investment property	*4(a)*	**27,928**	16,396
Goods, raw materials and services used	*18*	**(837)**	(785)
Operating expenses	*19*	**(4,545)**	(15,572)
Salary costs		**(1,384)**	(1,297)
Salary related charges		**(343)**	(343)
Depreciation and amortisation		**(122)**	(118)
Profit from operating activities		**43,843**	18,868
Finance income	*20*	**3,095**	949

Finance costs	*20*	**(17,706)**	(36,088)
Profit/(Loss) before income tax		**29,232**	(16,271)
Income tax expense	*21*	**(5,739)**	(4,108)
Net profit/(loss) for the year		**23,493**	(20,379)
Items that will be reclassified to profit or loss:			
Foreign exchange losses on monetary items that form part of net investment in the foreign operation, net of tax effect		**(28,356)**	(80,745)
Foreign currency translation differences		**25,993**	42,520
Total items that will be reclassified to profit or loss		**(2,363)**	(38,225)
Other comprehensive loss		**(2,363)**	(38,225)
Total comprehensive profit/(loss) for the year		**21,130**	(58,604)
Weighted average number of shares (in shares)	*11*	**103,270,637**	103,270,637
Basic and diluted gain/(loss) per share, USD	*11*	**0.22749**	(0.19734)

The consolidated statement of profit or loss and other comprehensive income is to be read in conjunction with the notes to, and forming part of, the consolidated financial statements.

Arricano Real Estate PLC
Consolidated financial statements as at and for the year ended 31 December 2016
Consolidated statement of cash flows for the year ended 31 December 2016

(in thousands of USD)	*Note*	**2016**	2015
Cash flows from operating activities			
Profit/(loss) before income tax		**29,232**	(16,271)
Adjustments for:			
Finance income	*20*	**(3,095)**	(949)
Finance costs, excluding foreign exchange loss	*20*	**13,620**	16,913
Gain on revaluation of investment property	*4(a)*	**(27,928)**	(16,396)
Gain on disposal of assets classified as held for sale		-	(49)
Depreciation and amortisation		**122**	118
Unrealised foreign exchange loss		**4,089**	18,714
VAT recoverable written-off		-	426
Allowance for bad debts	*19*	**5**	10,617
Operating cash flows before changes in working capital		**16,045**	13,123
Change in trade and other receivables		**(413)**	(221)
Change in prepayments made and other assets		**(69)**	(638)
Change in finance lease liability		**56**	-

Change in VAT recoverable		**1,721**	1,365
Change in taxes payable		**497**	530
Change in trade and other payables		**(939)**	(343)
Change in advances received		**309**	290
Change in other liabilities		**830**	(13)
Income tax paid		**(866)**	(522)
Interest paid		**(6,480)**	(6,219)
Cash flows from operating activities		**10,691**	7,352
Cash flows from investing activities			
Acquisition of investment property, excluding capitalised borrowing costs, and settlements of payables due to constructors		**(1,341)**	(10,078)
Acquisition of property and equipment		**(187)**	(223)
Loans repaid		**-**	9
Change in VAT recoverable		**-**	(152)
Placement of the restricted deposit		**-**	(1,471)
Repayment of the restricted deposit		**800**	2,865
Interest received		**257**	318
Cash flows used in investing activities		**(471)**	(8,732)

(in thousands of USD)	*Note*	**2016**	2015
Cash flows from financing activities			
Proceeds from borrowings, net of transaction costs		**1,860**	34,936
Repayment of borrowings		**(9,309)**	(30,183)
Finance lease payments		**(612)**	(532)
Cash flows (used in) from financing activities		**(8,061)**	4,221
Net increase in cash and cash equivalents		**2,159**	2,841
Cash and cash equivalents at 1 January		**3,349**	832
Effect of movements in exchange rates on cash and cash equivalents		**(555)**	(324)
Cash and cash equivalents at 31 December	*9*	**4,953**	3,349

Non-cash movements

During the year ended 31 December 2016, acquisition and disposal of a land plot held on leasehold of USD 954 thousand and USD 1,173 thousand, respectively, occurred through finance lease (2015: acquisition of investment property of USD 1,925 thousand).

The consolidated statement of cash flows is to be read in conjunction with the notes to, and forming part of, the consolidated financial statements.

Consolidated statement of changes in equity as at and for the year ended 31 December 2016

	Attributable to equity holders of the parent						
(in thousands of USD)	**Share capital**	**Share premium**	**Non-reciprocal shareholders contribution**	**Accumulated deficit**	**Other reserves**	**Foreign currency translation differences**	**Total**
Balances at 1 January 2015	67	183,727	59,713	(28,087)	(61,983)	(91,783)	61,654
Total comprehensive profit/(loss) for the year							
Net loss for the year	-	-	-	(20,379)	-	-	(20,379)
Foreign exchange losses on monetary items that form part of net investment in the foreign operation, net of tax effect	-	-	-	-	-	(80,745)	(80,745)
Foreign currency translation differences	-	-	-	-	-	42,520	42,520
Total other comprehensive loss for the year	-	-	-	-	-	(38,225)	(38,225)
Total comprehensive loss for the year	-	-	-	(20,379)	-	(38,225)	(58,604)
Balances at 31 December 2015	67	183,727	59,713	(48,466)	(61,983)	(130,008)	3,050

The consolidated statement of changes in equity is to be read in conjunction with the notes to, and forming part of, the consolidated financial statements.

Consolidated statement of changes in equity as at and for the year ended 31 December 2016 (continued)

	Attributable to equity holders of the parent						
(in thousands of USD)	**Share capital**	**Share premium**	**Non-reciprocal shareholders contribution**	**Accumulated deficit**	**Other reserves**	**Foreign currency translation differences**	**Total**
Balances at 1 January 2016	**67**	**183,727**	**59,713**	**(48,466)**	**(61,983)**	**(130,008)**	**3,050**
Total comprehensive profit/(loss) for the year							
Net profit for the year	-	-	-	**23,493**	-	-	**23,493**
Foreign exchange losses on monetary items that form part of net investment in the foreign operation, net of tax effect	-	-	-	-	-	**(28,356)**	**(28,356)**
Foreign currency translation differences	-	-	-	-	-	**25,993**	**25,993**
Total other comprehensive loss for the year	-	-	-	-	-	**(2,363)**	**(2,363)**
Total comprehensive profit for the year	-	-	-	**23,493**	-	**(2,363)**	**21,130**
Balances at 31 December 2016	**67**	**183,727**	**59,713**	**(24,973)**	**(61,983)**	**(132,371)**	**24,180**

The consolidated statement of changes in equity is to be read in conjunction with the notes to, and forming part of, the consolidated financial statements.

1 Background

(a) Organisation and operations

Arricano Real Estate PLC (Arricano, the Company or the Parent Company) is a public company that was incorporated in Cyprus and is listed on the AIM Market of the London Stock Exchange. The Parent Company's registered address is office 1002, 10th floor, Nicolaou Pentadromos Centre, Thessalonikis Street, 3025 Limassol, Cyprus. Arricano and its subsidiaries are referred to as the Group, and their principal place of business is in Ukraine.

The main activities of the Group are investing in the development of new properties in Ukraine and leasing them out. As at 31 December 2016, the Group operates five shopping centres in Kyiv, Simferopol, Zaporizhzhya and Kryvyi Rig with a total leasable area of over 147,800 square meters and is in the process of development of two new investment projects in Kyiv and Odesa, with one more project to be consequently developed.

The average number of employees employed by the Group during the year is 112 (2015: 121).

(b) Ukrainian business environment

Ukraine's political and economic situation has deteriorated significantly since 2014. Following political and social unrest, which started in November 2013, in March 2014 various events in Crimea led to the annexation of the Republic of Crimea by the Russian Federation, which was not recognised by Ukraine and many other countries. This event resulted in a significant deterioration of the relationship between Ukraine and the Russian Federation. Following the instability in Crimea, regional tensions have spread to the Eastern regions of Ukraine, primarily Donetsk and Lugansk regions. In May 2014, protests in those regions escalated into military clashes and armed conflict between supporters of the self-declared republics of the Donetsk and Lugansk regions and the Ukrainian forces, which continued through the date of these consolidated financial statements. As a result of this conflict, part of the Donetsk and Lugansk regions remains under control of the self-proclaimed republics, and Ukrainian authorities are not currently able to fully enforce Ukrainian laws on this territory.

Unrest in Donetsk and Lugansk does not affect the flow of current business of the Group.

Political and social unrest combined with the military conflict in the Donetsk and Lugansk regions has deepened the ongoing economic crisis, caused a fall in the country's gross domestic product and foreign trade, deterioration in state finances, depletion of the National Bank of Ukraine's foreign currency reserves, significant devaluation of the national currency and a further downgrading of the Ukrainian sovereign debt credit ratings. Following the devaluation of the national currency, the National Bank of Ukraine introduced certain administrative restrictions on currency conversion transactions, which among others included restrictions on purchases of foreign currency by individuals and companies, the requirement to convert large part of foreign currency proceeds to local currency, restrictions on payment of dividends abroad, a ban on early repayment of foreign loans and restrictions on cash withdrawals from banks. These events had a negative effect on Ukrainian companies and banks, significantly limiting their ability to obtain financing on domestic and international markets.

The final resolution and the effects of the political and economic crisis are difficult to predict but may have further severe effects on the Ukrainian economy.

As at 31 December 2016, the carrying value of the Group's investment property located in Simferopol, the administrative centre of the Republic of Crimea, amounted to USD 35,400 thousand (2015: USD 28,500 thousand). The ultimate effect of these developments in the Republic of Crimea on the Group's ability to continue operations in this region, to realise its related assets and to maintain and secure its ownership rights cannot yet be determined.

Whilst management believes it is taking appropriate measures to support the sustainability of the Group's business in the current circumstances, a continuation of the current unstable business environment could further negatively affect the Group's results and financial position in a manner not currently determinable. These consolidated financial statements reflect management's current assessment of the impact of the Ukrainian business environment on the operations and the financial position of the Group. The future business environment may differ from management's assessment.

(c) Cyprus business environment

According to the Cyprus Statistical Service, economic growth for 2016 was estimated at the level of 2,8% compared to 2015. Even though the financial services sector showed negative growth, there has been an increase in the Gross Domestic Product which is mainly attributed to the hotels, construction, manufacturing and the wholesale and retail trade sectors. The economic growth was mainly driven by the increase in private consumption, which benefited from the reduction in unemployment and the consequent increase in disposable income. The growth was also supported by the slower pace of reductions in public spending and the increase in investments. On 17 March 2017 the credit rating of the country rose from BB to BB +.

Despite the significant steps towards economic recovery, a degree of uncertainty still exists, as certain issues remain to be resolved, such as the high index of non-performing loans, the high unemployment and the implementation of privatization and reforms of the public services sector.

The current economic environment of Cyprus is not expected to have a significant impact on the operations of the Group as the Group does not hold significant funds in Cypriot financial institutions.

On the basis of the evaluation performed, the Group's management has concluded that no additional provisions or impairment charges are necessary. The Group's management believes that it is taking all the necessary measures to maintain the viability of the Group and the development of its business in the current business and economic environment.

2 Basis of preparation

(a) Statement of compliance

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRSs") as adopted by the European Union (EU).

(b) Basis of measurement

The consolidated financial statements have been prepared under the historical cost basis except for investment property, which is carried at fair value.

(c) Functional and presentation currency

The functional currency of Arricano Real Estate PLC is the US dollar (USD). The majority of Group entities are located in Ukraine and have the Ukrainian Hryvnia (UAH) as their functional currency, except for Voyazh-Krym LLC, which has the Russian Rouble (RUB) as its functional currency starting from 1 May 2014, following the changes in the Ukrainian business environment described in note 1(b). The Group entities located in Cyprus, Estonia and Isle of Man have the US dollar as their functional currency, since substantially all transactions and balances of these entities are denominated in US dollar. The Group entity located in the Russian Federation, Green City LLC, has the Russian Rouble (RUB) as its functional currency, since substantially all transactions and balances of this entity are denominated in the Russian Rouble.

For the benefits of principal users, the management chose to present the consolidated financial statements in USD, rounded to the nearest thousand.

In translating the consolidated financial statements into USD the Group follows a translation policy in accordance with International Financial Reporting Standard IAS 21 *The Effects of Changes in Foreign Exchange Rates* and the following rates are used:

- Historical rates: for the equity accounts except for net profit or loss and other comprehensive income (loss) for the year.
- Year-end rate: for all assets and liabilities.
- Rates at the dates of transactions: for the statement of profit or loss and other comprehensive income and for capital transactions.

UAH and RUB are not freely convertible currencies outside Ukraine and the Russian Federation, and, accordingly, any conversion of UAH and RUB amounts into USD should not be construed as a representation that UAH and RUB amounts have been, could be, or will be in the future, convertible into USD at the exchange rate shown, or any other exchange rate.

The principal USD exchange rates used in the preparation of these consolidated financial statements are as follows.

Year-end USD exchange rates as at 31 December are as follows:

Currency	**2016**	2015
UAH	**27.19**	24.00
RUB	**60.66**	72.88

Average USD exchange rates for the years ended 31 December are as follows:

Currency	**2016**	2015
UAH	**25.59**	21.81
RUB	**66.83**	60.59

As at the date of these consolidated financial statements are authorised for issue, 25 April 2017, the exchange rate is UAH 26,67 to USD 1.00 and RUB 56,08 to USD 1.00.

(d) Use of judgments, estimates and assumptions

The preparation of consolidated financial statements in conformity with IFRSs as adopted by the EU requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses and the disclosure of contingent assets and liabilities. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimates are revised and in any future periods affected.

In particular, information about significant areas of estimation uncertainty and critical judgments in applying accounting policies that have the most significant effect on the amounts recognised in the consolidated financial statements and have significant risk of resulting in a material adjustment within the next financial year are included in the following notes:

- note 2(c) – determination of functional currency,
- note 4 – valuation of investment property,
- note 5 – valuation of loans receivable and investment in Filgate Credit Enterprises Limited,
- note 7 – valuation of trade and other receivables,
- note 8(a) – classification of assets held for sale,
- note 23(d)(i) – legal case in respect of Assofit Holdings Limited and valuation of related available-for-sale financial asset.

(e) Going concern

As at 31 December 2016, the Group's current liabilities exceed current assets by USD 100,669 thousand. In addition, the Group has not complied with several loan covenants under the existing loan agreements (refer to note 12), which, as per the terms of the relevant loan agreement, gives the lender a right to demand immediate repayment of the loans in the amount of USD 17,650 thousand. There is a risk that the Group will not fulfill these covenants till 1 July 2017, and this will give the lender a right to demand immediate repayment of the loans amounting to USD 17,650 thousand after that date. These conditions indicate the existence of a material uncertainty that may cast significant doubt about the Group's ability to continue as a going concern.

At the same time, the Group has positive equity of USD 24,180 thousand as at 31 December 2016, generated net profit of USD 23,493 thousand and positive cash flows from operating activities amounting to USD 10,691 thousand for the year then ended.

Management is undertaking the following measures in order to ensure the Group's continued operation on a going concern basis:

- The Group has financial support from the ultimate controlling party. Based on representations received in writing from entities under common control, management believes that the Group will not be required to settle the outstanding loans, accrued interest and other payables to related parties in the amount of USD 66,955 thousand plus any accruing interest during the year ending 31 December 2017.

- In April 2017, the Group has received a waiver from PJSC "Bank "St.Petersburg" waiving the breaches of covenants valid until July 2018. Accordingly, management believes that PJSC "Bank "St.Petersburg" will not demand early repayment of the loans amounting to USD 17,650 thousand with contractual maturity in 2017-2020 presented as short-term liability as at 31 December 2016.

- The Group will be able to draw on existing facilities granted from entities under common control, should this be required for operational and other needs of the Group.

- During the year ended 31 December 2016, management was able to conclude a number of new tenancy agreements and increase occupancy rate of its shopping centres. Besides, the Group managed to gradually increase its rental rates during the year for existing tenants. In accordance with the budget approved for 2017, the Group plans to increase its operating income during the next year.

- In August 2016, the major constructor of the Group postponed the settlement of outstanding balance of USD 2,155 thousand from 15 August 2016 to 15 August 2019.

Management believes that the measures that it undertakes, as described above, will allow the Group to maintain the positive working capital and operate on a going concern basis in the foreseeable future.

These consolidated financial statements are prepared on a going concern basis, which contemplates the realisation of assets and the settlement of liabilities in the normal course of business.

(f) Measurement of fair values

A number of the Group's accounting policies and disclosures require the measurement of fair values, for both financial and non-financial assets and liabilities.

When measuring the fair value of an asset or a liability, the Group uses market observable data as far as possible. Fair values are categorised into different levels in a fair value hierarchy based on the inputs used in the valuation techniques as follows:

- *Level 1*: quoted prices (unadjusted) in active markets for identical assets or liabilities.
- *Level 2*: inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).
- *Level 3*: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

If the inputs used to measure the fair value of an asset or a liability might be categorised in different levels of the fair value hierarchy, then the fair value measurement is categorised in its entirety in the same level of the fair value hierarchy as the lowest level input that is significant to the entire measurement.

The Group recognises transfers between levels of the fair value hierarchy at the end of the reporting period during which the change has occurred.

Further information about the assumptions made in measuring fair values is included in the following notes:

- Note 4 – investment property; and
- Note 22(e)(iii) – fair values.

3 Significant accounting policies

The accounting policies set out below are applied consistently to all periods presented in these consolidated financial statements, and have been applied consistently by Group entities.

(a) Basis of consolidation

***(i)* Business combinations**

Business combinations are accounted for using the acquisition method as at the acquisition date, which is the date on which control is transferred to the Group.

The Group measures goodwill at the acquisition date as:

- The fair value of the consideration transferred; plus
- The recognised amount of any non-controlling interests in the acquiree; plus
- If the business combination is achieved in stages, the fair value of the pre-existing equity interest in the acquiree; less
- The net recognised amount (generally fair value) of the identifiable assets acquired and liabilities assumed.

When the excess is negative, a bargain purchase gain is recognised immediately in profit or loss.

The consideration transferred does not include amounts related to the settlement of pre-existing relationships. Such amounts are generally recognised in profit or loss.

Transaction costs, other than those associated with the issue of debt or equity securities that the Group incurs in connection with a business combination, are expensed as incurred.

Any contingent consideration payable is recognised at fair value at the acquisition date. If an obligation to pay contingent consideration that meets the definition of a financial instrument is classified as equity, then it is not remeasured and settlement is accounted for within equity. Otherwise, other contingent consideration is remeasured at fair value at each reporting date and subsequent changes in the fair value of the contingent consideration are recognised in profit or loss.

When the acquisition of subsidiaries does not represent a business, it is accounted for as an acquisition of a group of assets and liabilities. The cost of the acquisition is allocated to the assets and liabilities acquired based on their relative fair values, and no goodwill or deferred tax is recognised.

(ii) Subsidiaries

Subsidiaries are entities controlled by the Group. The Group controls an entity when it is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases. The accounting policies of subsidiaries have been changed when necessary to align them with the policies adopted by the Group. Losses applicable to the non-controlling interests in a subsidiary are allocated to the non-controlling interests even if doing so causes the non-controlling interests to have a deficit balance.

Consolidated entities as at 31 December are as follows:

Name	**Country of incorporation**	**Cost**		**% of ownership**	
(in thousands of USD, except for % of ownership)		**2016**	2015	**2016**	2015
Praxifin Holdings Limited	Cyprus	**3**	3	**100.00%**	100.00%
U.A. Terra Property Management Limited	Cyprus	**3**	3	**100.00%**	100.00%
Museo Holdings Limited	Cyprus	**3**	3	**100.00%**	100.00%
Sunloop Co Limited	Cyprus	**3**	3	**100.00%**	100.00%
Lacecap Limited	Isle of Man	**3**	3	**100.00%**	100.00%
Beta Property Management Limited	Cyprus	**3**	3	**100.00%**	100.00%
Voyazh-Krym LLC	Ukraine	**363**	363	**100.00%**	100.00%
PrJSC Livoberezhzhiainvest	Ukraine	**69**	69	**100.00%**	100.00%
PrJSC Grandinvest	Ukraine	**69**	69	**100.00%**	100.00%
Arricano Property Management LLC	Ukraine	**5**	5	**100.00%**	100.00%
PrJSC UkrPanGroup	Ukraine	**59**	59	**100.00%**	100.00%
Prizma Alfa LLC	Ukraine	**4**	4	**100.00%**	100.00%
Arricano Development LLC	Ukraine	**9**	9	**100.00%**	100.00%
Prizma Development LLC	Ukraine	**4**	4	**100.00%**	100.00%
Arricano Real Estate LLC	Ukraine	**-**	-	**100.00%**	100.00%
Twible Holdings Limited	Cyprus	**-**	-	**100.00%**	100.00%
Gelida Holding Limited	Cyprus	**-**	-	**100.00%**	100.00%
Sapete Holdings Limited	Cyprus	**-**	-	**100.00%**	100.00%
Wayfield Limited	Cyprus	**-**	-	**100.00%**	100.00%
Comfort Market Luks LLC	Ukraine	**40,666**	40,666	**100.00%**	100.00%
Mezokred Holding LLC	Ukraine	**8,109**	8,109	**100.00%**	100.00%

Vektor Capital LLC	Ukraine	**11,441**	11,441	**100.00%**	100.00%
Budkhol LLC	Ukraine	**31,300**	31,300	**100.00%**	100.00%
Budkholinvest LLC	Ukraine	**-**	-	**100.00%**	100.00%
Green City LLC	Russian Federation	**-**	-	**100.00%**	0.00%
RRE Development Services OU	Estonia	**-**	-	**100.00%**	0.00%
Crimsonville Investments Limited	Cyprus	**-**	-	**-**	100.00%

On 29 April 2016, the Group's subsidiary U.A. Terra Property Management Limited acquired Green City LLC, the company incorporated in the Russian Federation, from the entity under common control for the purpose of facilitating operations and cash flow management of the investment property.

On 5 October 2016, the Parent Company acquired RRE Development Services OU, a company incorporated in Estonia, for the purpose of facilitating of management activities.

These acquisitions were accounted for as an acquisition of assets and liabilities as they do not meet the definition of a business according to IFRS 3 *Business Combinations*.

No significant identifiable assets were acquired and no significant liabilities were assumed upon these acquisitions. Consideration transferred is also not significant. As part of the above acquisitions, the rights to receive certain loans of the acquired subsidiaries payable to entities under common control were reassigned to the Group for a nominal amount of USD 1 per each loan assignment. Accordingly, as at the date of each acquisition the relative fair value of these loans receivable is considered to be nil.

During the year ended 31 December 2016, the Group liquidated its subsidiary Crimsonville Investments Limited, a company incorporated in Cyprus. As at 31 December 2015, this subsidiary was dormant and had no significant assets or liabilities.

(iii) Interests in equity-accounted investees

The Group's interests in equity-accounted investees comprise interests in associates.

Associates are those entities in which the Group has significant influence, but not control or joint control, over the financial and operating policies. Significant influence is presumed to exist when the Group holds between 20% and 50% of the voting power of another entity.

Interest in associates is accounted for using the equity method and is recognised initially at cost. The cost of the investment includes transaction costs.

The consolidated financial statements include the Group's share of the profit or loss and other comprehensive income of equity accounted investees from the date that significant influence commences until the date that significant influence ceases.

When the Group's share of losses exceeds its interest in an equity-accounted investee, the carrying amount of that interest including any long-term investments, is reduced to zero, and the recognition of further losses is discontinued, except to the extent that the Group has an obligation or has made payments on behalf of the investee.

The listing of associates as at 31 December is as follows:

Name	**Country of incorporation**	**% of ownership**	
		2016	2015
Filgate Credit Enterprises Limited	Cyprus	**49.00%**	–

On 14 December 2016, the Parent Company acquired non-controlling interest (49% of corporate rights) of Filgate Credit Enterprises Limited from the company under common control incorporated in Cyprus, in exchange for loan receivable from Weather Empire Limited (refer to note 5). As part of the above acquisition, the rights to receive certain loans payable by Filgate Credit Enterprises Limited to entities under common control in amount of USD 215,891 thousand were reassigned to the Group for a nominal amount of USD 1. The fair value of these loans receivable is considered to be nil at the date of reassignment (refer to note 5).

In addition, a call share option agreement was concluded granting an option to the Parent Company to purchase the remaining 51% of the corporate rights of Filgate Credit Enterprises Limited within 5 years from the effective date. Exercise of the call option depends on certain criteria and occurrence of certain conditions, and, as at the date of these consolidated financial statements the call option was not excercised by the Group. . Thus, the rights under the call option agreement were not taken into consideration upon recognition of investment in Filgate Credit Enterprises Limited and determination of the investment's classification.

***(iv)* Transactions with entities under common control**

Acquisitions from entities under common control

Business combinations arising from transfers of interests in entities that are under the control of the shareholder that controls the Group are accounted for using book value accounting. Any result from the acquisition is recognised directly in equity.

Disposals to entities under common control

Disposals of interests in subsidiaries to entities that are under the control of the shareholder that controls the Group are accounted for using book value accounting. Any result from the disposal is recognised directly in equity.

***(v)* Loss of control**

Upon the loss of control, the Group derecognises the carrying amounts of the assets and liabilities of the subsidiary, any non-controlling interests and the other components of equity related to the subsidiary. Any surplus or deficit arising on the loss of control is recognised in profit or loss. If the Group retains any interest in the previous subsidiary, then such interest is measured at fair value at the date that control is lost. Subsequently it is accounted for as an equity-accounted investee or as an available-for-sale financial asset depending on the level of influence retained.

***(vi)* Transactions eliminated on consolidation**

Intra-group balances, and any unrealised income and expenses arising from intra-group transactions, are eliminated in preparing these consolidated financial statements. Unrealised gains arising from transactions with equity accounted investees are eliminated against the investment to the extent of the Group's interest in the investee. Unrealised losses are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment.

(b) Foreign currency transactions and operations

***(i)* Foreign currency transactions**

Transactions in foreign currencies are translated to the respective functional currencies of Group entities at exchange rates at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at the reporting date are retranslated to the functional currency at the exchange rates as at that date. The foreign currency gain or loss on monetary items is the difference between amortised cost in the functional currency at the beginning of the period, adjusted for effective interest and payments during the period, and the amortised cost in foreign currency translated at the exchange rate at the end of the reporting period.

Non-monetary assets and liabilities that are measured at fair value in a foreign currency are translated to the functional currency at the exchange rate at the date that the fair value was determined. Non-monetary items in a foreign currency that are measured based on historical cost are translated using the exchange rate at the date of the transaction.

Foreign currency differences arising on retranslation are recognised in profit or loss, except for differences arising on the retranslation of available-for-sale equity instruments which are recognised in other comprehensive income.

Foreign currency transactions of Group entities located in Ukraine

In preparation of these consolidated financial statements for the retranslation of the operations and balances of Group entities located in Ukraine denominated in foreign currencies, management applied the National Bank of Ukraine's (NBU) official rates. Management believes that application of these rates substantially serves comparability purposes.

(ii) Foreign operations

The assets and liabilities of foreign operations, including goodwill and fair value adjustments arising on acquisition, are translated to USD at exchange rates at the reporting date. The income and expenses of foreign operations are translated to USD at exchange rates at the dates of the transactions.

Foreign currency differences are recognised in other comprehensive income, and presented in the foreign currency translation reserve in equity. However, if the operation is a non-wholly-owned subsidiary, then the relevant proportionate share of the translation difference is allocated to the non-controlling interests. When a foreign operation is disposed of, such that control, significant influence or joint control is lost, the cumulative amount in the translation reserve related to that foreign operation is reclassified to profit or loss as part of the gain or loss on disposal. When the Group disposes of only part of its interest in a subsidiary that includes a foreign operation while retaining control, the relevant proportion of the cumulative amount is reattributed to non-controlling interests. When the Group disposes of only part of its investment in an associate or joint venture that includes a foreign operation while retaining significant influence or joint control, the relevant proportion of the cumulative amount is reclassified to profit or loss.

When the settlement of a monetary item receivable from or payable to a foreign operation is neither planned nor likely in the foreseeable future, foreign exchange gains and losses arising from such a monetary item are considered to form part of a net investment in a foreign operation and are recognised in other comprehensive income, and presented in the foreign currency translation difference reserve in equity.

(c) Financial instruments

The Group classifies non-derivative financial assets into the following categories: loans and receivables and available-for-sale financial assets.

The Group classifies non-derivative financial liabilities into the other financial liabilities category.

(i) Non-derivative financial assets and financial liabilities – recognition and derecognition

The Group initially recognises loans and receivables on the date that they are originated. All other financial assets and financial liabilities are recognised initially on the trade date at which the Group becomes a party to the contractual provisions of the instrument.

The Group derecognises a financial asset when the contractual rights to the cash flows from the asset expire, or it transfers the rights to receive the contractual cash flows on the financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred. Any interest in transferred financial assets that is created or retained by the Group is recognised as a separate asset or liability.

The Group derecognises a financial liability when its contractual obligations are discharged or cancelled or expire.

Financial assets and liabilities are offset and the net amount presented in the statement of financial position when, and only when, the Group has a legal right to offset the amounts and intends either to settle on a net basis or to realise the asset and settle the liability simultaneously. The Group currently has a legally enforceable right to set off if that right is not contingent on a future event and enforceable both in the normal course of business and in the event of default, insolvency or bankruptcy of the Group and all counterparties.

(ii) Non-derivative financial assets and financial liabilities – measurement

Loans and receivables

Loans and receivables are a category of financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are recognised initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition loans and receivables are measured at amortised cost using the effective interest method, less any impairment losses.

Loans and receivables comprise the following classes of financial assets: trade and other receivables as presented in note 7, loans receivable as presented in note 5, restricted deposits and cash and cash equivalents as presented in note 9.

Cash and cash equivalents

Cash and cash equivalents comprise cash balances, call deposits and highly liquid investments with maturities of three months or less from the acquisition date that are subject to insignificant risk of changes in their fair value.

Available-for-sale financial assets

Available-for-sale financial assets are non-derivative financial assets that are designated as available-for-sale or are not classified in any of the other categories of financial assets. Such assets are recognised initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition, they are measured at fair value and changes therein, other than impairment losses (refer to note 3(i)*(i)*), are recognised in other comprehensive income and presented within equity in the fair value reserve. When an investment is derecognised or impaired, the cumulative gain or loss in equity is reclassified to profit or loss. Unquoted equity instruments whose fair value cannot be reliably measured are carried at cost.

Available-for-sale financial assets comprise equity securities.

(iii) **Non-derivative financial liabilities - measurement**

The Group classifies non-derivative financial liabilities into the other financial liabilities category. Such financial liabilities are recognised initially at fair value less any directly attributable transaction costs. Subsequent to initial recognition, these financial liabilities are measured at amortised cost using the effective interest method.

Other financial liabilities comprise loans and borrowings as presented in note 12, finance lease liability as presented in note 13, trade and other payables as presented in note 14 and other liabilities as presented in note 16.

(iv) **Capital and reserves**

Share capital

Ordinary shares are classified as equity. Incremental costs directly attributable to issue of ordinary shares are recognised as a deduction from equity, net of any tax effects.

Share premium

Share premium reserves include amounts that were created due to the issue of share capital at a value price greater than the nominal.

Non-reciprocal shareholders contribution

Non-reciprocal shareholders contribution reserve includes contributions made by the shareholders directly in the reserves. The shareholders do not have any rights to these contributions which are distributable at the discretion of the Board of Directors, subject to the shareholders' approval.

Retained earnings (accumulated deficit)

Retained earnings (accumulated deficit) include accumulated profits and losses incurred by the Group.

Other reserves

Other reserves comprise the effect of acquisition and disposal of subsidiaries under common control, change in non-controlling interest in these subsidiaries, and the effect of forfeiture of shares.

Foreign currency translation differences

Foreign currency translation differences comprise foreign currency differences arising from the translation of the financial statements of foreign operations and foreign exchange gains and losses from monetary items that form part of the net investment in the foreign operation.

(d) Investment properties

Investment properties are those that are held either to earn rental income or for capital appreciation or for both, but not for sale in the ordinary course of business, use in production or supply of goods or services or for administrative purposes.

Investment properties principally comprise freehold land, leasehold land and investment properties held for rental income earning or future redevelopment.

Leasehold of land under operating lease is classified and accounted for as an investment property when the definition of investment property is met. Under investment property accounting, the right to use the land is measured at fair value and the obligation to pay rentals is accounted for as a finance lease.

(i) **Initial measurement and recognition**

Investment properties are measured initially at cost, including related acquisition costs. Cost includes expenditure that is directly attributable to the acquisition of the investment property. The cost of self-constructed investment property includes the cost of materials and direct labour, any other costs directly attributable to bringing the investment property to a working condition for their intended use and capitalised borrowing costs.

If the Group uses part of the property for its own use, and part to earn rentals or for capital appreciation, and the portions can be sold or leased out separately, they are accounted for separately. Therefore the part that is rented out is investment property. If the portions cannot be sold or leased out separately, the property is investment property only if the company-occupied portion is insignificant.

(ii) **Subsequent measurement**

Subsequent to initial recognition investment properties are stated at fair value. Any gain or loss arising from a change in fair value is included in profit or loss in the period in which it arises.

When the Group begins to redevelop an existing investment property for continued future use as investment property, the property remains an investment property, which is measured at fair value, and is not reclassified to property and equipment during the redevelopment.

When the use of a property changes such that it is reclassified as property, plant and equipment, its fair value at the date of reclassification becomes its cost for subsequent accounting.

Investment properties are derecognised on disposal or when they are permanently withdrawn from use and no future economic benefits are expected from their disposal. The gain or loss on disposal is calculated as the difference between the net disposal proceeds and the carrying amount of the asset and is recognised as gain or loss in profit or loss.

It is the Group's policy that an external, independent valuation company, having an appropriate recognised professional qualification and recent experience in the location and category of property being appraised, values the portfolio as at each reporting date. The fair value is the amount for which a property could be exchanged on the date of valuation between a willing buyer and a willing seller in an arm's length transaction. The valuation is prepared in accordance with International Valuation Standards published by the International Valuation Standards Council.

(iii) **Property under development (construction)**

Property that is being constructed or developed for future use as an investment property and for which it is not possible to reliably determine fair value is accounted for as an investment property that is stated at cost until construction or development is complete, or until it becomes possible to reliably determine its fair value. When construction is performed on land previously classified as an investment property and measured at fair value, such land continues to be accounted at fair value throughout the construction phase.

(e) Property and equipment

(i) **Recognition and measurement**

Items of property and equipment are measured at cost less accumulated depreciation and impairment losses.

Cost includes expenditures that are directly attributable to the acquisition of the asset. The cost of self-constructed assets includes the cost of materials and direct labor, any other costs directly attributable to bringing the asset to a working condition for its intended use, and the costs of dismantling and removing the items and restoring the site on which they are located. Purchased software that is integral to the functionality of the related equipment is capitalised as part of that equipment.

When parts of an item of property and equipment have different useful lives, they are accounted for as separate items (major components) of property and equipment.

The gain or loss on disposal of an item of property and equipment is determined by comparing the proceeds from disposal with the carrying amount of property and equipment, and is recognised net within other income/other operating expenses in profit or loss.

(ii) **Reclassification to investment property**

When the use of a property changes from owner-occupied to investment property, the property is re-measured to fair value and reclassified to investment property. Any gain arising on re-measurement is recognised in profit or loss to the extent that it reverses a previous impairment loss on the specific property, with any remaining gain recognised in other comprehensive income and presented in the revaluation reserve in equity. Any loss is recognised immediately in profit or loss.

(iii) **Subsequent costs**

The cost of replacing part of an item of property and equipment is recognised in the carrying amount of the item if it is probable that the future economic benefits embodied within the part will flow to the Group and its cost can be measured reliably. The costs of the day-to-day servicing of property and equipment are recognised in profit or loss as incurred.

(iv) **Depreciation**

Items of property, plant and equipment are depreciated from the date that they are installed and are ready for use, or in respect of internally constructed assets, from the date that the asset is completed and ready for use. Depreciation is based on the cost of an asset less its residual value.

Depreciation is recognised in profit or loss on a straight-line basis over the estimated useful lives of each part of an item of property and equipment. Leased assets are depreciated over the shorter of the lease term and their useful lives unless it is reasonably certain that the Group will obtain ownership by the end of the lease term. Land is not depreciated.

The estimated useful lives for the current and comparative periods are as follows:

- vehicles and equipment - 5 years
- fixture and fittings - 2.5 - 5 years

Depreciation methods, useful lives and residual values are reviewed at each financial year end and adjusted if appropriate.

(f) Intangible assets

(i) **Recognition and measurement**

Intangible assets that are acquired by the Group, which have finite useful lives, are measured at cost less accumulated amortisation and accumulated impairment losses.

(ii) **Subsequent expenditure**

Subsequent expenditure is capitalised only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditure, including expenditure on internally generated goodwill and brands, is recognised in profit or loss as incurred.

(iii) **Amortisation**

Amortisation is calculated over the cost of the asset, or other amount substituted for cost, less its residual value.

Amortisation is recognised in profit or loss on a straight-line basis over the estimated useful lives of intangible assets, other than goodwill, from the date that they are available for use since this most closely reflects the expected pattern of consumption of future economic benefits embodied in the asset. The estimated useful lives for the current and comparative periods are as follows:

- software - 3-5 years

Amortisation methods, useful lives and residual values are reviewed at each financial year end and adjusted if appropriate.

(g) Inventories

Inventories are measured at the lower of cost and net realisable value. The cost of inventories is based on the first-in first-out principle, and includes expenditure incurred in acquiring the inventories and bringing them to their existing location and condition.

Net realisable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and selling expenses.

(h) Assets classified as held for sale

Non-current assets, or disposal groups comprising assets and liabilities, that are expected to be recovered primarily through sale rather than through continuing use, are classified as held for sale.

Such assets, or disposal group, are measured at the lower of their carrying amount and fair value less cost to sell. Any impairment loss on a disposal group is allocated first to goodwill, and then to the remaining assets and liabilities on pro rata basis, except that no loss is allocated to inventories, financial assets, deferred tax assets or investment property, which continue to be measured in accordance with the Group's other accounting policies. Impairment losses on initial classification as held for sale and subsequent gains or losses on remeasurement are recognised in profit or loss. Gains are not recognised in excess of any cumulative impairment loss.

Intangible assets and property, plant and equipment once classified as held for sale are not amortised or depreciated.

(i) Impairment

(i) **Non-derivative financial assets**

A financial asset not carried at fair value through profit or loss is assessed at each reporting date to determine whether there is any objective evidence that it is impaired. A financial asset is impaired if objective evidence indicates that a loss event has occurred after the initial recognition of the asset, and that the loss event had a negative effect on the estimated future cash flows of that asset that can be estimated reliably.

Objective evidence that financial assets are impaired can include default or delinquency by a debtor, restructuring of an amount due to the Group on terms that the Group would not consider otherwise, indications that a debtor or issuer will enter bankruptcy, adverse changes in the payment status of borrowers or issuers in the Group, economic conditions that correlate with defaults, the disappearance of an active market for a security or observable data indicating that there is measurable decrease in expected cash flows from a group of financial assets. In addition, for an investment in an equity security, a significant or prolonged decline in its fair value below its cost is objective evidence of impairment.

Financial assets measured at amortised cost

The Group considers evidence of impairment for financial assets measured at amortised cost at both a specific asset and collective level. All individually significant assets are assessed for specific impairment. Those found not to be specifically impaired are then collectively assessed for any impairment that has been incurred but not yet identified. Assets that are not individually significant are collectively assessed for impairment by grouping together assets with similar risk characteristics.

In assessing collective impairment the Group uses historical trends of the probability of default, timing of recoveries and the amount of loss incurred, adjusted for management's judgment as to whether current economic and credit conditions are such that the actual losses are likely to be greater or less than suggested by historical trends.

An impairment loss is calculated as the difference between an asset's carrying amount, and the present value of the estimated future cash flows discounted at the asset's original effective interest rate. Losses are recognised in profit or loss and reflected in an allowance account. When the Group believes that there are no realistic prospects of recovery of the asset, the relevant amounts are written off. Interest on the impaired asset continues to be recognised through the unwinding of the discount. When a subsequent event causes the amount of impairment loss to decrease and the decrease can be related objectively to an event occurring after the impairment was recognised, the decrease in impairment loss is reversed through profit or loss.

Available-for-sale financial assets

Impairment losses on available-for-sale financial assets are recognised by reclassifying the losses accumulated in the fair value reserve in equity, to profit or loss. The cumulative loss that is reclassified from equity to profit or loss is the difference between the acquisition cost, net of any principal repayment and amortisation, and the current fair value, less any impairment loss previously recognised in profit or loss. Changes in impairment provisions attributable to application of the effective interest method are reflected as a component of interest income. If, in a subsequent period, the fair value of an impaired available-for-sale debt security increases and the increase can be related objectively to an event occurring after the impairment loss was recognised in profit or loss, then the impairment loss is reversed, with the amount of the reversal recognised in profit or loss. However, any subsequent recovery in the fair value of an impaired available-for-sale equity security is recognised in other comprehensive income.

(ii) **Non-financial assets**

The carrying amounts of non-financial assets, other than investment property and inventory are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists then the asset's recoverable amount is estimated. For goodwill and intangible assets that have indefinite lives or that are not yet available for use, the recoverable amount is estimated each year at the same time.

For the purpose of impairment testing, assets that cannot be tested individually are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or cash-generating unit (CGU). Subject to an operating segment ceiling test, for the purposes of goodwill impairment testing, CGUs to which goodwill has been allocated are aggregated so that the level at which impairment testing is performed reflects the lowest level at which goodwill is monitored for internal reporting purposes. Goodwill acquired in a business combination is allocated to groups of CGUs that are expected to benefit from the synergies of the combination.

The Group’s corporate assets do not generate separate cash inflows and are utilised by more than one CGU. Corporate assets are allocated to CGUs on a reasonable and consistent basis and tested for impairment as part of the testing of the CGU to which the corporate asset is allocated.

The recoverable amount of an asset or CGU is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset or CGU.

An impairment loss is recognised if the carrying amount of an asset or its CGU exceeds its estimated recoverable amount.

Impairment losses are recognised in profit or loss. Impairment losses recognised in respect of CGUs are allocated first to reduce the carrying amount of any goodwill allocated to the CGU (group of CGUs) and then to reduce the carrying amount of the other assets in the CGU (group of CGUs) on a pro rata basis.

An impairment loss in respect of goodwill is not reversed. In respect of other assets, impairment losses recognised in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset’s carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

(j) Provisions

A provision is recognised if, as a result of a past event, the Group has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability. The unwinding of the discount is recognised as finance cost.

(k) Revenue

(i) **Rental income from investment property**

Rental income from investment property is recognised in profit or loss on a straight-line basis over the term of the lease.

(ii) **Sale of services**

Revenue from services rendered is recognised in proportion to the stage of completion of the transaction at the reporting date. The stage of completion is assessed by reference to surveys of work performed.

(l) Leases

(i) **Determining whether an arrangement contains a lease**

At inception of an arrangement, the Group determines whether such an arrangement is or contains a lease. This will be the case if the fulfilment of the arrangement is dependent on the use of a specific asset and the arrangement conveys a right to use the asset.

At inception or upon reassessment of the arrangement, the Group separates payments and other consideration required by such an arrangement into those for the lease and those for other elements on the basis of their relative fair values. If the Group concludes for a finance lease that it is impracticable to separate the payments reliably, then an asset and a liability are recognised at an amount equal to the fair value of the underlying asset. Subsequently the liability is reduced as payments are made and an imputed finance charge on the liability is recognised using the Group's incremental borrowing rate.

(ii) **Leased assets**

Assets held by the Group under leases that transfer to the Group substantially all the risks and rewards of ownership are classified as finance leases. Upon initial recognition the leased asset is measured at an amount equal to the lower of its fair value and the present value of the minimum lease payments. Subsequent to initial recognition, the asset is accounted for in accordance with the accounting policy applicable to that asset.

Other leases are operating leases and the leased assets are not recognised in the statement of financial position.

(iii) **Lease payments**

Payments made under operating leases are recognised in profit or loss on a straight-line basis over the term of the lease. Lease incentives received are recognised as an integral part of the total lease expense, over the term of the lease.

Minimum lease payments made under finance leases are apportioned between the finance cost and the reduction of the outstanding liability. The finance cost is allocated to each period during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability.

Contingent lease payments are accounted for by revising the minimum lease payments over the remaining term of the lease when the contingency no longer exists and the lease adjustment is known.

(m) Finance income and costs

Finance income comprises interest income on funds invested, foreign currency gains, income from derecognition of finance lease liabilities and gains on initial recognition of financial liabilities at fair value. Interest income is recognised as it accrues in profit or loss, using the effective interest method.

Finance costs comprise interest expense on borrowings and on deferred consideration, foreign exchange losses, costs from recognition of finance lease liabilities and impairment of available-for-sale financial assets.

Borrowing costs that are not directly attributable to the acquisition, construction or production of a qualifying asset are recognised in profit or loss using the effective interest method.

Foreign currency gains and losses arising on loans receivable and borrowings are reported on a net basis as either finance income or finance cost. Foreign currency gains and losses arising on accounts receivable and payable are recognised as other income or operating expense.

(n) Income tax expense

Income tax expense comprises current and deferred tax. Current tax and deferred tax are recognised in profit or loss except to the extent that it relates to a business combination, or items recognised directly in equity or in other comprehensive income.

Current tax is the expected tax payable or receivable on the taxable income or loss for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

Deferred tax is recognised in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognised for:

- temporary differences on the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit or loss;
- temporary differences related to investments in subsidiaries and jointly controlled entities to the extent that it is probable that they will not reverse in the foreseeable future; and
- taxable temporary differences arising on the initial recognition of goodwill.

The measurement of deferred tax reflects the tax consequences that would follow the manner in which the Group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities. For this purpose, the carrying amount of investment property measured at fair value is presumed to be recovered through sale, and the Group has not rebutted this presumption.

Deferred tax is measured at the tax rates that are expected to be applied to the temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date.

In determining the amount of current and deferred tax the Group takes into account the impact of uncertain tax positions and whether additional taxes, penalties and late-payment interest may be due. The Group believes that its accruals for tax liabilities are adequate for all open tax years based on its assessment of many factors, including interpretations of tax law and prior experience. This assessment relies on estimates and assumptions and may involve a series of judgments about future events. New information may become available that causes the Group to change its judgment regarding the adequacy of existing tax liabilities; such changes to tax liabilities will impact the tax expense in the period that such a determination is made.

Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax assets and liabilities, and they relate to income taxes levied by the same tax authority on the same taxable entity, or on different tax entities, but they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realised simultaneously.

A deferred tax asset is recognised for unused tax losses, tax credits and deductible temporary differences, to the extent that it is probable that future taxable profits will be available against which they can be utilised. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

(o) Earnings per share

The Group presents basic and diluted earnings per share ("EPS") data for its ordinary shares. Basic EPS is calculated by dividing the profit or loss attributable to ordinary shareholders of the Company by the weighted average number of ordinary shares outstanding during the period, adjusted for own shares held.

As at 31 December 2016 and 2015, there were no potential dilutive ordinary shares.

(p) Segment reporting

An operating segment is a component of the Group that engages in business activities from which it may earn revenues and incur expenses, including revenues and expenses that relate to transactions with any of the Group's other components. Management believes that during the current year and prior year, the Group operated in and was managed as one operating segment, being property investment, with investment properties located in Ukraine and the Republic of Crimea.

The Board of Directors, which is considered to be the chief operating decision maker of the Group for IFRS 8 *Operating Segments* purposes, receives semi-annually management accounts that are prepared in accordance with IFRSs as adopted by the EU and which present aggregated performance of all the Group's investment properties.

(q) New standards and interpretations not yet adopted

A number of new standards, amendments to standards and interpretations are not yet effective as at 31 December 2016, and have not been applied in preparing these consolidated financial statements. Of these pronouncements, potentially the following will have an impact on the Group's operations. The Group plans to adopt these standards and interpretations when they become effective.

IFRS 9 Financial Instruments

IFRS 9 *Financial instruments*, published in July 2014, replaces the existing guidance in IAS 39 *Financial Instruments: Recognition and Measurement*, and includes revised guidance on the classification and measurement of financial instruments, impairment of financial assets and hedge accounting.

Classification - Financial assets and liabilities

IFRS 9 contains three principal classification categories for financial assets: measured at amortised cost, fair value through other comprehensive income (FVOCI) and fair value through profit or loss (FVTPL). The classification of financial assets under IFRS 9 is generally based on the business model in which a financial asset is managed and its contractual cash flow characteristics. The standard eliminates the existing IAS 39 categories of held-to-maturity, loans and receivables and available for-sale. Under IFRS 9, derivatives embedded in contracts where the host is a financial asset in the scope of the standard are not separated. Instead, the whole hybrid instrument is assessed for classification. Equity investments are measured at fair value.

IFRS 9 largely retains the existing requirements in IAS 39 for the classification of financial liabilities.

Impairment – Financial assets and contract assets

IFRS 9 replaces the 'incurred loss' model in IAS 39 with an 'expected credit loss' model. The new impairment model applies to financial assets measured at amortised cost and FVOCI and the contract assets. The new impairment model generally requires to recognise expected credit losses in profit or loss for all financial assets, even those that are newly originated or acquired. Under IFRS 9, impairment is measured as either expected credit losses resulting from default events on the financial instrument that are possible within the next 12 months ('12-month ECL') or expected credit losses resulting from all possible default events over the expected life of the financial instrument ('lifetime ECL'). Initial amount of expected credit losses recognised for a financial asset is equal to 12-month ECL (except for certain trade and lease receivables, and contract assets, or purchased or originated credit-impaired financial assets). If the credit risk on the financial instrument has increased significantly since initial recognition, the loss allowance is measured at an amount equal to lifetime ECL.

Financial assets for which 12-month ECL is recognised are considered to be in stage 1; financial assets that have experienced a significant increase in credit risk since initial recognition, but are not defaulted are considered to be in stage 2; and financial assets that are in default or otherwise credit-impaired are considered to be in stage 3.

Measurement of expected credit losses is required to be unbiased and probability-weighted, should reflect the time value of money and incorporate reasonable and supportable information that is available without undue cost or effort about past events, current conditions and forecasts of future economic conditions. Under IFRS 9, credit losses are recognised earlier than under IAS 39, resulting in increased volatility in profit or loss. It will also tend to result in an increased impairment allowance, since all financial assets will be assessed for at least 12-month ECL and the population of financial assets to which lifetime ECL applies is likely to be larger than the population with objective evidence of impairment identified under IAS 39.

Disclosures

IFRS 9 will require extensive new disclosures, in particular about credit risk and expected credit losses.

Transition

IFRS 9 is effective for annual reporting periods beginning on or after 1 January 2018. Early adoption of the standard is permitted. The Group does not intend to adopt the standard earlier.

The classification and measurement and impairment requirements are generally applied retrospectively (with some exemptions) by adjusting the opening retained earnings and reserves at the date of initial application, with no requirement to restate comparative periods.

The Group has not started a formal assessment of potential impact on its consolidated financial statements resulting from the application of IFRS 9 neither has initiated any specific actions towards the preparation for implementation of IFRS 9. Accordingly, it is not practicable to estimate the impact that the application of IFRS 9 will have on the Group's consolidated financial statements.

IFRS 15 Revenue from Contracts with Customers

IFRS 15 *Revenue from Contracts with Customers* establishes a comprehensive framework for determining whether, how much and when revenue is recognised. It replaces existing revenue recognition guidance, including IAS 18 *Revenue*, IAS 11 *Construction Contracts* and IFRIC 13 *Customer Loyalty Programmes*.

Rendering of services

Under IFRS 15, the total consideration in the service contracts will be allocated to all services based on their stand-alone selling prices. The stand-alone selling prices will be determined based on the list prices at which the Group sells the services in separate transactions.

Transition

IFRS 15 is effective for annual reporting periods beginning on or after 1 January 2018, with early adoption permitted.

The Group is currently performing a detailed assessment of the impact resulting from the application of IFRS 15 and expects to disclose additional quantitative information before it adopts IFRS 15.

Various Improvements to IFRSs

Various *Improvements to IFRSs* have been dealt with on a standard-by-standard basis. All amendments, which result in accounting changes for presentation, recognition or measurement purposes, will come into effect not earlier than 1 January 2017. The Group has not yet analysed the likely impact of the improvements on its financial position or performance.

4 Investment property

(a) Movements in investment property

Movements in investment properties for the years ended 31 December are as follows:

(in thousands of USD)	**Land held on freehold**	**Land held on leasehold**	**Buildings**	**Prepayment for investment property**	**Property under construction**	**Total**
At 1 January 2015	6,900	47,272	138,254	55	13,071	205,552
Additions	-	1,925	-	11	1,340	3,276
Transfers	-	-	-	(42)	42	-
Fair value gains on revaluation	724	8,605	7,067	-	-	16,396
Transfer from assets classified as held for sale*	-	4,499	-	8	543	5,050
Currency translation adjustment	(1,624)	(17,579)	(46,061)	(9)	(4,691)	(69,964)
At 31 December 2015/ 1 January 2016	6,000	44,722	99,260	23	10,305	160,310
Additions	**-**	**954**	**-**	**-**	**994**	**1,948**
Disposals	**-**	**(1,173)**	**-**	**-**	**-**	**(1,173)**
Fair value gains on revaluation	**(985)**	**3,920**	**24,993**	**-**	**-**	**27,928**
Currency translation adjustment	**785**	**(5,369)**	**(7,553)**	**(3)**	**(1,210)**	**(13,350)**
At 31 December 2016	**5,800**	**43,054**	**116,700**	**20**	**10,089**	**175,663**

* As at 31 December 2015 and 2016, included into land held on leasehold is the land plot, including the finance lease asset, owned by Mezokred Holding LLC. As at 31 December 2015 and 2016, the Group was involved as a third party in a lawsuit alleging invalidation of a resolution of the Kyiv City Council, according to which the latter has approved an allocation of this land plot for construction of the hypermarket to Mezokred Holding LLC and entitled Mezokred Holding LLC to lease this land plot for a period of 25 years (refer to note 23(d)*(ii)*).

During the year ended 31 December 2016, acquisition and disposal of a land plot held on leasehold of USD 954 thousand and USD 1,173 thousand, respectively, occurred through finance lease (2015: acquisition of USD 1,925 thousand) (refer to note 13).

As at 31 December 2016, in connection with loans and borrowings, the Group pledged as security investment property with a carrying value of USD 103,337 thousand (2015: USD 91,630 thousand) (refer to note 23(a)).

During the year ended 31 December 2016 53% of total construction services were purchased from one counterparty (2015: 42% of total construction services).

(b) Determination of fair value

The fair value measurement, developed for determination of fair value of the Group's investment property, is categorised within Level 3 category due to significance of unobservable inputs to the entire measurement, except for certain land held on the leasehold which is not associated with completed property and is therefore categorised within Level 2 category. As at 31 December 2016, the fair value of investment property categorised within the Level 2 category is USD 26,800 thousand (2015: USD 27,100 thousand). To assist with the estimation of the fair value of the Group's investment property as at 31 December 2016, which is represented by the shopping centres, management engaged registered independent appraiser Expandia LLC, part of the CBRE Affiliate network, having a recognised professional qualification and recent experience in the location and categories of the projects being valued.

The fair values are based on the estimated rental value of property. A market yield is applied to the estimated rental value to arrive at the gross property valuation. When actual rents differ materially from the estimated rental value, adjustments are made to reflect actual rents. The valuation is prepared in accordance with the practice standards contained in the Appraisal and Valuation Standards published by the Royal Institution of Chartered Surveyors ("RICS") or in accordance with International Valuation Standards published by the International Valuation Standards Council.

Valuations reflect, when appropriate, the type of tenants actually in occupation or responsible for meeting lease commitments or likely to be in occupation after letting vacant accommodation, the allocation of maintenance and insurance responsibilities between the Company and the lessee, and the remaining economic life of the property. When rent reviews or lease renewals are pending with anticipated reversionary increases, it is assumed that all notices and, when appropriate, counter-notices, have been served validly and within the appropriate time.

Land parcels are valued based on market prices for similar properties.

As at 31 December 2016, the estimation of fair value is made using a net present value calculation based on certain assumptions, the most important of which are as follows:

- monthly rental rates, ranging from USD 1.00 to USD 131.40 per sq.m., which are based on contractual and market rental rates, adjusted for discounts or fixation of rental rates in Ukrainian hryvnia at a pre-agreed exchange rate, occupancy rates ranging from 97.6% to 100%, and discount rates ranging from 18.40% to 24.40% p.a., which represent key unobservable inputs for determination of fair value;
- all relevant licenses and permits, to the extent not yet received, will be obtained, in accordance with the timetables as set out in the investment project plans.

As at 31 December 2015, the estimation of fair value is made using a net present value calculation based on certain assumptions, the most important of which are as follows:

- monthly rental rates, ranging from USD 3.00 to USD 56.00 per sq.m., which are based on contractual and market rental rates, adjusted for discounts or fixation of rental rates in Ukrainian Hryvnia at a pre-agreed exchange rate, occupancy rates ranging from 91% to 100% and discount rates ranging from 15.00% to 19.00% p.a, which represent key unobservable inputs for determination of fair value;
- all relevant licenses and permits, to the extent not yet received, will be obtained, in accordance with the timetables as set out in the investment project plans.

The reconciliation from the opening balances to the closing balances for Level 3 fair value measurements is presented in note 4(a).

As at 31 December 2016, the fair value of investment property denominated in functional currency amounted to UAH 4,115,139 thousand and RUB 1,475,176 thousand (2015: UAH 3,381,091 thousand and RUB 1,416,111 thousand). The increase in fair value of investment property mainly results from increased rental rates invoiced in Ukrainian hryvnia due to the increase in the exchange rates applied to the USD equivalent of rental rates fixed in the rental contracts.

Sensitivity at the date of valuation

The valuation model used to assess the fair value of investment property as at 31 December 2016 is particularly sensitive to unobservable inputs in the following areas:

- If rental rates are 1% less than those used in valuation models, the fair value of investment properties would be USD 1,309 thousand (2015: USD 1,135 thousand) lower. If rental rates are 1% higher, then the fair value of investment properties would be USD 1,309 thousand (2015: USD 1,135 thousand) higher.
- If the discount rate applied is 1% higher than that used in the valuation models, the fair value of investment properties would be USD 8,505 thousand (2015: USD 7,270 thousand) lower. If the discount rate is 1% less, then the fair value of investment properties would be USD 9,783 thousand (2015: USD 8,343 thousand) higher.
- If the occupancy rates are 1% higher than those used in the valuation or are assumed to be 100% for shopping center in Kyiv, the fair value of investment properties would be USD 956 thousand higher (2015: if occupancy rates are 1% higher than that used in the valuation or are assumed to be 100% for the shopping centers in Kyiv and for the first stage of the shopping center in Symferopol, the fair value of investment properties would be USD 608 thousand higher). If the occupancy rates are 1% less, then the fair value of investment properties would be USD 1,154 thousand (2015: USD 1,115 thousand) lower.

5 Loans receivable

Loans receivable as at 31 December are as follows:

	2016	2015
(in thousands of USD)		
Non-current assets		
Long-term loans receivable due from related parties	**1,383**	31,340
Accrued interest receivable due from related parties	**264**	10,025
Impairment of loans receivable due from related parties	**(1,647)**	(41,365)
	-	-
Current assets		
Short-term loans receivable due from related parties	**7,299**	7,326
Accrued interest receivable due from related parties	**1,601**	1,374
Short-term loans receivable due from third parties	**305**	347
Impairment of loans receivable due from related parties	**(8,900)**	(8,700)
	305	347

Loans receivable from related parties

In July 2011 the Parent Company granted a loan to Weather Empire Limited with the purpose of buying 1,077 shares in the Parent Company's share capital from Retail Real Estate S.A. As at 31 December 2015, the resulting loan receivable of USD 39,761 thousand, including accrued interest of USD 9,761 thousand, was unsecured, bore a 3% fixed interest rate that was fully capitalised and repayable together with the principal and was overdue.

In July 2013 the shares of Weather Empire Limited were transferred to the Parent Company's major shareholders pro-rata to their ownership rights due to non-exercising of conversion rights by ELQ Investors II Ltd and later on or about 12 August 2013 were transferred in full to Retail Real Estate S.A. Subsequent to this transfer, settlement of the loan by Weather Empire Limited depended on the intention and ability of the Company's ultimate controlling party to repay this loan.

As at 31 December 2015, this loan was overdue and management considered it to be non-recoverable. In this respect management has proceeded with the full impairment of that loan receivable of USD 39,761 thousand, including accrued interest of USD 9,761 thousand, as at 31 December 2015.

On 14 December 2016, the Group acquired 49% of shares in Filgate Credit Enterprises Limited (refer to note 3(a)(iii)). Due to the net liability position of Filgate Credit Enterprises Limited as at the date of acquisition, this investment is considered to be fully impaired. The purchase price was set-off in full against the loan receivable from Weather Empire Limited of USD 39,761 thousand that was fully impaired during the prior periods. Following the set-off, the loans receivable along with respective allowance for impairment were derecognised.

As part of the above acquisition, the rights to receive certain loans payable by Filgate Credit Enterprises Limited to entities under common control in amount of USD 215,891 thousand were reassigned to the Group for a nominal amount of USD 1. These loans are unsecured, bear an interest rate of 9-10% and are overdue as at 31 December 2016. The fair value of these loans receivable is considered to be nil.

Included in loans receivable as at 31 December 2016 is a loan due from Filgate Credit Enterprises Limited amounting to USD 10,300 thousand (2015: USD 10,029 thousand), out of which the amount of USD 8,390 thousand is overdue. Full amount of this loan receivable was impaired as at 31 December 2016 and 2015.

6 VAT recoverable

Management presents VAT recoverable within non-current and current assets based on the expected timing of VAT liabilities being available against which VAT recoverable can be utilised.

Management expects that long-term VAT recoverable will be recovered in full by 2019.

7 Trade and other receivables

Trade and other receivables as at 31 December are as follows:

(in thousands of USD)	**2016**	2015
Trade receivables from related parties	**1,384**	1,567
Other receivables from related parties	**8,963**	9,066
Allowance for impairment	**(10,338)**	(10,629)
	9	4
Trade receivables from third parties	**1,086**	950

Other receivables from third parties	**137**	24
Allowance for impairment	**(70)**	(88)
	1,153	886
	1,162	890

Trade receivables from related parties mainly comprise accounts receivable from related party, OKey Ukraine, under the common control of the ultimate controlling party. The Group ceased working with OKey Ukraine in August 2009. As the result of financial difficulties faced by this tenant, an allowance for impairment is recognised.

As at 31 December 2016, included in other receivables from related parties are receivables from Dniprovska Prystan PrJSC amounting to USD 8,598 thousand (2015: USD 8,704 thousand), which are overdue. In 2012, the court ruled to initiate bankruptcy proceedings against the mentioned related party and, as at 31 December 2016, the decision which would declare Dniprovska Prystan PrJSC insolvent has not yet been made. Full amount of receivable was impaired as at 31 December 2016 and 2015.

8 Assets classified as held for sale

(a) Movements in assets classified as held for sale

Movements in assets classified as held for sale for the years ended 31 December are as follows:

(in thousands of USD)	**Land held on leasehold**	**Buildings**	**Prepayment for investment property**	**Property under construction**	**Other assets**	**Total**
At 1 January 2015	5,996	215	24	654	2,813	9,702
Transfer to investment property	(4,499)	-	(8)	(543)	-	(5,050)
Transfer from VAT recoverable	-	-	-	-	(80)	(80)
Additions	-	-	5	18	25	48
Disposals	-	(148)	-	-	-	(148)
Transfers	-	-	(16)	34	(18)	-
Currency translation adjustment	(1,497)	(67)	(5)	(163)	(936)	(2,668)
At 31 December 2015/ 1 January 2016	-	-	-	-	1,804	1,804
Currency translation adjustment	**-**	**-**	**-**	**-**	**(214)**	**(214)**
At 31 December 2016	**-**	**-**	**-**	**-**	**1,590**	**1,590**

During the year ended 31 December 2015, the Group terminated held-for-sale classification of assets and liabilities of Gelida Holding Limited and its subsidiary Mezokred Holding LLC due to a change in expected pattern of realisation of these assets. As at 31 December 2015, the assets and liabilities of the above subsidiaries were reclassified as follows:

(in thousands of USD)	
Investment property	5,050
Long-term VAT recoverable	80
Finance lease liability	(297)
Short-term loans and borrowings	(199)
Trade and other payables	(167)

Included in other assets classified as held for sale as at 31 December 2016, is a land plot with a carrying amount of USD 1,590 thousand (2015: USD 1,804 thousand), land lease rights for which were intended to be amended by one of the Group's subsidiaries, Comfort Market Luks LLC, in respect of allocation of part of such land plot to a third party in accordance with an investment agreement concluded between the parties. Based on this investment agreement, Comfort Market Luks LLC acts as an intermediary in construction of a hypermarket with the total estimated area of 11,769 square meters and a parking lot with a total estimated area of 20,650 square meters. As at 31 December 2016, the construction of the hypermarket and a parking lot is finalised and, except for the lease rights for the abovementioned land plot to be allocated to a third party, the owner of the hypermarket, the investment agreement is considered to be fulfilled. Management expects that the lease rights for the land plot under the hypermarket will be transferred to the third party in 2017 subject to completion of formal legal procedures. As at 31 December 2016, advance payment received under this agreement (refer to note 15) amounts to USD 1,692 thousand (2015: USD 1,917 thousand) and will be settled upon transfer of the lease rights for the land plot.

9 Cash and cash equivalents

Cash and cash equivalents as at 31 December are as follows:

(in thousands of USD)	**2016**	2015
Bank balances	**2,935**	1,377
Call deposits	**2,018**	1,972
	4,953	3,349

As at 31 December 2015, excluded from cash and cash equivalents is a restricted deposit in amount of USD 800 thousand with maturity in 2016. This deposit served as pledge under loan facilities. As at 31 December 2016, the Group has not replenished the deposit pledged that leads to covenant's breach under loan agreement with PJSC "Bank "St.Petersburg" (refer to note 12).

As at 31 December 2016, in connection with loans and borrowings, the Group also pledged as security bank balances and call deposits with a carrying value of USD 44 thousand and USD 1,013 thousand, respectively (2015: USD 34 thousand and USD 1,255 thousand, respectively) (refer to note 23(a)).

As at 31 December 2016, cash and cash equivalents placed with two bank institutions amounted to USD 3,710 thousand, or 75% of the total balance of cash and cash equivalents (2015: USD 2,683 thousand, or 80%). In accordance with Moody's rating, these banks are rated Caa2 and Aa3 as at 31 December 2016 (2015: Caa2 and Aa3, respectively).

10 Share capital

Share capital as at 31 December is as follows:

	2016 Number of shares	**2016 US dollars**	**2016 EUR**	2015 Number of shares	2015 US dollars	2015 EUR

Issued and fully paid						
At 1 January and 31 December	**103,270,637**	**66,750**	**51,635**	103,270,637	66,750	51,635
Authorised						
At 1 January and 31 December	**106,000,000**	**68,564**	**53,000**	106,000,000	68,564	53,000
Par value, EUR	**-**	**-**	**0.0005**	-	-	0.0005

All shares rank equally with regard to the Parent Company's residual assets. The holders of ordinary shares are entitled to receive dividends as declared from time to time, and are entitled to one vote per share at meetings of the Parent Company.

During the years ended 31 December 2016 and 2015 the Parent Company did not declare any dividends.

11 Gain/(loss) per share

The calculation of basic gain per share for the year ended 31 December 2016 was based on the profit for the year ended 31 December 2016 attributable to ordinary shareholders of USD 23,493 thousand and a weighted average number of ordinary shares outstanding as at 31 December 2016 of 103,270,637. The calculation of basic loss per share for the year ended 31 December 2015 was based on the loss for the year ended 31 December 2015 attributable to ordinary shareholders of USD 20,379 thousand and weighted average number of ordinary shares outstanding as at 31 December 2015 of 103,270,637.

The Group has no potential dilutive ordinary shares.

12 Loans and borrowings

This note provides information about the contractual terms of loans. For more information about the Group's exposure to interest rate and foreign currency risk, refer to note 22.

(in thousands of USD)	**2016**	2015
Non-current		
Secured bank loans	**27,745**	31,231
Unsecured loans from related parties	**9,100**	7,270
	36,845	38,501
Current		
Secured bank loans (current portion of long-term bank loans)	**22,319**	28,843
Unsecured loans from related parties (including current portion of long-term loans from related parties)	**41,920**	37,391
Unsecured loans from third parties	**-**	151
	64,239	66,385
	101,084	104,886

Terms and debt repayment schedule

As at 31 December 2016, the terms and debt repayment schedule of loans and borrowings are as follows:

	Currency	Nominal interest rate	Contractual year of maturity	Carrying value
(in thousands of USD)				
Secured bank loans				
PJSC “Bank “St.Petersburg”	**USD**	**10.50%**	**2017-2020**	**17,650**
EBRD	**USD**	**1M LIBOR + 7.5%**	**2017-2020**	**15,485**
EBRD	**USD**	**3M LIBOR + 8.0%**	**2017-2020**	**8,454**
Raiffeisen Bank Aval	**UAH**	**18.00%**	**2017-2020**	**8,475**
				50,064
Unsecured loans from related parties				
Retail Real Estate OU	**USD**	**12.00%**	**2017**	**21,351**
Barleypark Limited	**USD**	**10.55%**	**2017**	**18,795**
Retail Real Estate OU	**USD**	**10.50%**	**2019**	**10,425**
Loans from other related parties	**UAH/ USD**	**0.00%-10.00%**	**2017**	**449**
				51,020
				101,084

As at 31 December 2015, the terms and debt repayment schedule of loans and borrowings are as follows:

	Currency	Nominal interest rate	Contractual year of maturity	Carrying value
(in thousands of USD)				
Secured bank loans				
PJSC “Bank “St.Petersburg”	USD	10.50%	2016-2020	20,193
EBRD	USD	1M LIBOR + 7.5%	2016-2020	18,258
EBRD	USD	3M LIBOR + 6.5%	2016-2018	11,210
Raiffeisen Bank Aval	UAH	18.00%	2016-2020	10,413
				60,074
Unsecured loans from related parties				
Bytenem Co Limited	USD	12.00%	2016	19,409
Barleypark Limited	USD	10.55%	2017	17,186
Retail Real Estate OU	USD	10.50%	2019	7,783
Loans from other related parties	UAH/ USD	0.00%-10.00%	2016	283
				44,661
Unsecured loans from third parties				
Other	UAH/USD	0.00%	2016	151
				151
				104,886

As at 31 December LIBOR for USD is as follows:

	2016	2015
LIBOR USD 3M	**1.00%**	0.61%
LIBOR USD 1M	**0.77%**	0.43%

For a description of assets pledged by the Group in connection with loans and borrowings refer to note 23(a).

PJSC "Bank "St.Petersburg"

During the year ended 31 December 2016, the Group signed amendments to the loan agreements with PJSC "Bank "St.Petersburg" stipulating a decrease in the amount of loan principal payable in 2016 by USD 2,447 thousand.

During the year ended 31 December 2015, the Group signed amendments to the loan agreements with PJSC "Bank "St.Petersburg" stipulating a decrease in the amount of loan principal payable in 2015 by USD 2,397 thousand, a decrease in the amount of the deposit pledged as a collateral from USD 1,385 thousand to USD 1,200 thousand and an obligation to replace the existing pledge of investment property by other investment properties acceptable to PJSC "Bank "St.Petersburg" until 31 December 2015.

As at 31 December 2016 and 2015, the Group has not fulfilled an obligation to replace the existing pledge of investment property by other investment properties acceptable to PJSC "Bank "St.Petersburg", which was considered as the event of default under the loan agreements concluded with the bank. In addition, during the year ended 31 December 2016, the Group has not replenished the deposit pledged as a collateral for the amount of USD 1,200 thousand within the time period required by the loan agreement. As a result, this loan was presented as short-term as at 31 December 2016 and 2015. As at the date these consolidated financial statements are authorised for issuance, these breaches are not remedied. In April 2017, management obtained the letter from the bank waving the breaches of these covenants valid until July 2018. Accordingly, management believes that despite the breaches of loan covenants the bank will not demand early repayment of the loans.

EBRD

On 25 November 2016, the Group signed an additional agreement with the EBRD reassigning the loan payable to the EBRD from PrJSC Grandinvest to PrJSC UkrPanGroup for an amount of USD 3,737 thousand. The effective date of this agreement is 14 December 2016. The new agreement stipulates an increase in the annual interest rate by 1.5% and changes to the repayment schedule of the loan principal.

Upon reassignment, the loan principal in amount of USD 1,238 thousand was settled by the Group. The pledge remained unchanged.

Bytenem Co Limited

On 26 February 2016, the Group signed an amendment to the loan agreement with Bytenem Co Limited stipulating a prolongation of the maturity date until 30 June 2017.

On 27 September 2016, the loan payable to Bytenem Co Limited was assigned to Retail Real Estate OU. Upon reassignment, the amount of loan facility was increased up to USD 18,000 thousand.

Barleypark Limited

Based on the terms of the loan agreement the loan is repayable on demand but not later than the final repayment date of 13 August 2017.

Retail Real Estate OU

As at 31 December 2016, the undrawn credit facilities from this related party amount to USD 900 thousand (2015: USD 2,558 thousand).

13 Finance lease liability

Finance lease liabilities as at 31 December are payable as follows:

(in thousands of USD)	**Future minimum lease payments 2016**	**Interest 2016**	**Present value of minimum lease payments 2016**	Future minimum lease payments 2015	Interest 2015	Present value of minimum lease payments 2015
Less than six months	**367**	**366**	**1**	564	562	2
Between six and twelve months	**367**	**366**	**1**	564	562	2
Between one and two years	**839**	**836**	**3**	1,379	1,376	3
Between two and five years	**2,836**	**2,816**	**20**	4,136	4,122	14
More than five years	**36,844**	**30,012**	**6,832**	56,973	47,057	9,916
	41,253	**34,396**	**6,857**	63,616	53,679	9,937

The imputed finance costs on the liability are based on the Group's incremental borrowing rate ranging from 13.0% to 17.2% as at 31 December 2016 and 2015.

During the year ended 31 December 2016, as a result of a change in land lease rate indices and land lease payments calculation methodology imposed by the state authorities, the Group derecognised a finance lease liability amounting to USD 1,799 thousand (refer to note 20) resulting an income in profit or loss for the year ended 31 December 2016 and derecognised a finance lease asset for the amount of USD 219 thousand (refer to note 4(a)) (2015: recognised an increase in finance lease liability amounting to USD 2,641 thousand resulting in a loss in profit or loss for the year ended 31 December 2015 in respect of land plot in Kryvyi Rig and recognised an additional finance lease asset for the amount of USD 1,925 thousand in respect of land plots in Kyiv, Zaporizhzhya and Odesa).

Future minimum lease payments as at 31 December 2016 and 2015 are based on management's assessment that is based on actual lease payments effective as at 31 December 2016 and 2015, respectively, and expected contractual changes in the lease payments. The future lease payments are subject to review and approval by the municipal authorities and may differ from management's assessment.

The contractual maturity of land lease agreements ranges from 2020 to 2038. The Group intends to prolong these lease agreements for the period of usage of the investment property being constructed on the leased land. Consequently, the minimum lease payments are calculated for a period of 50 years.

14 Trade and other payables

Trade and other payables as at 31 December are as follows:

(in thousands of USD)	**2016**	2015
Non-current liabilities		
Payables for construction works	**4,616**	3,981
Trade and other payables to third parties	**12**	7

	2016	2015
	4,628	3,988
Current liabilities		
Payables for construction works	**11,623**	15,809
Trade and other payables to related parties	**1,371**	1,785
Trade and other payables to third parties	**2,765**	2,697
	15,759	20,291
	20,387	24,279

As at 31 December 2016, included in payables for construction works are UAH denominated payables of USD 3,797 thousand and USD 2,155 thousand with maturity on 20 December 2020 and 15 August 2019, respectively. These payables are measured at amortised cost under the effective interest rates of 18.02% and 18.92% per annum, respectively.

As at 31 December 2015, non-current liabilities are represented by UAH denominated payables for construction works of USD 4,302 thousand with maturity on 20 December 2020 that are measured at amortised cost under the effective interest rate of 18.92% per annum.

Also, included in payables for construction works as at 31 December 2016 are EUR denominated payables under a commission agreement concluded with a third party for the total amount of USD 2,838 thousand (2015: USD 3,024 thousand) with maturity on 15 September 2019. As at 31 December 2016 and 2015, these payables relate to construction works performed at shopping centre "Prospect", are presented in accordance with their contractual maturity and measured at amortised cost under the effective interest rate of 6.38% (2015: 6.01%) per annum.

The Group's exposure to currency and liquidity risk related to trade and other payables is disclosed in note 22.

15 Advances received

Advances from customers as at 31 December are as follows:

(in thousands of USD)	**2016**	2015
Non-current		
Advances from third parties	**325**	556
	325	556
Current		
Advances received under investment agreement (refer to note 8)	**1,692**	1,917
Advances from third parties	**2,707**	2,593
Advances from related parties	**26**	29
	4,425	4,539
	4,750	5,095

In September 2009, the Group received a prepayment from an anchor tenant for the period of ten years. As at 31 December 2016, the non-current portion of the prepayment amounts to USD 325 thousand and the current portion amounts to USD 181 thousand (2015: USD 556 thousand and USD 205 thousand, respectively). Remaining advances from third parties are mainly represented by prepayments from tenants for the period from two to ten months.

16 Other liabilities

Other liabilities as at 31 December are as follows:

(in thousands of USD)	**2016**	2015
Non-current		
Other long-term liabilities	**98**	80
	98	80
Current		
Deferred consideration	**24,317**	22,362
Other liabilities	**799**	-
	25,116	22,362
	25,214	22,442

As at 31 December 2016, other liabilities amounting to USD 799 thousand are represented by accrual of liability to Odesa City Council in respect of an agreement on customer share participation in the creation and development of engineering, transport and social infrastructure of Odesa, including penalties for late payment, in amount of USD 191 thousand (2015: nil) (refer to note 23(d)(*iv*)).

As at 31 December 2016, other current liabilities comprise deferred consideration that is payable in respect of the acquisition of Wayfield Limited and its subsidiary Budkhol LLC, amounting to USD 24,317 thousand (2015: USD 22,362 thousand), including accrued interest of USD 4,317 thousand (2015: USD 2,362 thousand).

In March 2015, the Group signed an amendment to the share exchange agreement with Vunderbuilt S.A. in order to postpone the payment of USD 20,000 thousand from 30 April 2015 to 30 April 2016. In February 2016, the Group signed further amendment to the share exchange agreement in order to postpone the payment of this deferred consideration from 30 April 2016 to 30 June 2017. Deferred consideration is presented in accordance with its contractual maturity as at 31 December 2016 and 2015 and bears a 9.75% interest rate per annum.

17 Revenue

Revenue for the years ended 31 December is as follows:

(in thousands of USD)	**2016**	2015
Rental income from investment properties	**22,872**	20,184
Other sales revenue	**218**	199
	23,090	20,383

During the year ended 31 December 2016, 21% of the Group's rental income was earned from two tenants (15% and 6%, respectively) (2015: 23%, 16% and 7%, respectively).

The Group rents out premises in the shopping centres to tenants in accordance with lease agreements predominantly concluded for a period of 12-30 months, save for the hypermarkets and large network retails chains, which enter into long term lease agreements. In accordance with lease agreements, rental rates are usually established in USD and are settled in Ukrainian hryvnias and Russian Roubles using the exchange rates established by the National Bank of Ukraine and Central Bank of the Russian Federation, as applicable. However, taking into account the current market conditions, the Group provides temporary discounts to its tenants by applying lower exchange rates than those established by the National Bank of Ukraine or Central Bank of the Russian Federation, in arriving to the rent payment for the particular month.

Management believes that these measures will allow the Group to maintain occupancy rates in the shopping centres at a relatively high level during the current deteriorated period in Ukrainian business environment. Management believes that these measures are temporary until the Ukrainian business environment stabilises.

The Group's lease agreements with tenants usually include 3-15 months cancellation clause. The Group believes that execution of the option to prolong the lease period upon expiration of non-cancellable period on the terms different to those agreed during the non-cancellable period, is not substantiated. Accordingly, upon calculation of rental income for the period the Group does not take into account rent payments, which are prescribed by the agreements upon expiration of the period during which the agreement cannot be cancelled.

Direct operating expenses arising from investment property that generated rental income during the years ended 31 December are as follows:

(in thousands of USD)	**2016**	2015
Advertising (note 19)	**708**	542
Repair, maintenance and building services (note 18)	**370**	366
Communal public services (note 18)	**338**	249
Security services (note 19)	**259**	270
Realty tax (note 19)	**253**	178
	1,928	1,605

No direct operating expenses arising from investment property that did not generate rental income during 2016 and 2015 occurred.

18 Goods, raw materials and services used

Goods, raw materials and services used for the years ended 31 December are as follows:

(in thousands of USD)	**2016**	2015
Repair, maintenance and building services (note 17)	**370**	366
Communal public services (note 17)	**338**	249
Other costs	**129**	170
	837	785

19 Operating expenses

Operating expenses for the years ended 31 December are as follows:

(in thousands of USD)	**2016**	2015
Management, consulting and legal services	**2,209**	2,781
Advertising (note 17)	**708**	542
Office expenses and communication services	**277**	202
Security services (note 17)	**259**	270
Realty tax (note 17)	**253**	178
Administrative expenses	**66**	89
Independent auditors' remuneration	**51**	154
Other assurance services charged by independent auditors	**44**	67
Allowance for bad debts	**5**	10,617
Tax services charged by independent auditors	**3**	5
VAT recoverable written-off	**-**	426
Other	**670**	241
	4,545	15,572

20 Finance income and finance costs

Finance income and finance costs for the years ended 31 December are as follows:

(in thousands of USD)	**2016**	2015
Finance income from derecognition of finance lease liability (refer to note 13)	**1,799**	-
Gain on initial recognition of trade and other payables at fair value	**920**	-
Interest income	**257**	587
Other finance income	**119**	362
Finance income	**3,095**	949
Interest expense	**(10,293)**	(10,143)
Foreign exchange loss	**(4,086)**	(19,175)
Interest expense on deferred consideration	**(1,955)**	(1,950)
Finance costs from recognition of finance lease liability (refer to note 13)	**-**	(2,641)
Other finance costs	**(1,372)**	(2,179)
Finance costs	**(17,706)**	(36,088)
Net finance cost	**(14,611)**	(35,139)

21 Income tax expense

(a) Income tax expense

Income taxes for the years ended 31 December are as follows:

	2016	2015

(in thousands of USD)		
Current tax expense	**918**	574
Deferred tax expense	**4,821**	3,534
Total income tax expense	**5,739**	4,108

Corporate profit tax rate for Ukrainian entities is fixed at 18%.

While computing the deferred tax liability that arises on the temporary differences between carrying amounts and tax values of assets and liabilities of Voyazh-Krym LLC, registered in the Autonomous Republic of Crimea, as at 31 December 2016 and 2015, management of the Group reflected the tax consequences that are applicable under the legislation of the Russian Federation that is being applied for all companies operating in the Republic of Crimea. In absence of clear regulations that will be applicable to the Republic of Crimea, management expects that reversal of temporary differences will be done under the Laws of the Russian Federation. The applicable tax rate for the entities operating under the laws of the Russian Federation is 20%.

The applicable tax rates are 12.5% for Cyprus companies and 20% for Estonian companies, and nil tax for companies incorporated in the Isle of Man.

(b) Reconciliation of effective tax rate

The difference between the total expected income tax expense for the years ended 31 December computed by applying the Ukrainian statutory income tax rate to profit or loss before tax and the reported tax expense is as follows:

(in thousands of USD)	**2016**	**%**	2015	%
Profit/(loss) before tax	**29,232**	**100%**	(16,271)	100%
Income tax expense (benefit) at statutory rate in Ukraine	**5,262**	**18%**	(2,929)	18%
Effect of different tax rates on taxable profit/(loss) in other jurisdictions	**(3,030)**	**(10%)**	(1,117)	7%
Non-deductible expenses	**2,939**	**10%**	5,186	(32%)
Change in unrecognised deferred tax assets	**(1,734)**	**(6%)**	4,873	(30%)
Foreign currency translation difference	**2,302**	**8%**	(1,905)	12%
Effective income tax expense	**5,739**	**20%**	4,108	(25%)

(c) Recognised deferred tax assets and liabilities

As at 31 December deferred tax assets and liabilities are attributable to the following items:

	Assets		**Liabilities**		**Net**	
(in thousands of USD)	**2016**	2015	**2016**	2015	**2016**	2015
Investment property	**-**	-	**(16,316)**	(10,633)	**(16,316)**	(10,633)
Property and equipment	**1**	1	**-**	-	**1**	1
Trade and other receivables	**440**	501	**(22)**	-	**418**	501

Assets classified as held for sale	**-**	-	**(286)**	(324)	**(286)**	(324)
Trade and other payables	**811**	37	**-**	-	**811**	37
Short-term borrowings	**3,184**	8	**(3,178)**	-	**6**	8
Other long-term payables	**8**	7	**(349)**	(456)	**(341)**	(449)
Tax loss carry-forwards	**12,177**	8,053	**-**	-	**12,177**	8,053
Deferred tax assets (liabilities)	**16,621**	8,607	**(20,151)**	(11,413)	**(3,530)**	(2,806)
Offset of deferred tax assets and liabilities	**(16,621)**	(8,607)	**16,621**	8,607	**-**	-
Net deferred tax assets (liabilities)	**-**	-	**(3,530)**	(2,806)	**(3,530)**	(2,806)

(d) Movements in recognised deferred tax assets and liabilities

Movements in recognised deferred tax assets and liabilities during the year ended 31 December 2016 are as follows:

(in thousands of USD)	**Balance as at 1 January 2016 asset (liability)**	**Recognised in profit or loss**	**Recognised in OCI**	**Foreign currency translation adjustment**	**Balance as at 31 December 2016 asset (liability)**
Investment property	**(10,633)**	**(6,483)**	**-**	**800**	**(16,316)**
Property and equipment	**1**	**-**	**-**	**-**	**1**
Trade and other receivables	**501**	**(26)**	**-**	**(57)**	**418**
Assets classified as held for sale	**(324)**	**-**	**-**	**38**	**(286)**
Trade and other payables	**37**	**827**	**-**	**(53)**	**811**
Short-term borrowings	**8**	**(1)**	**-**	**(1)**	**6**
Other long-term payables	**(449)**	**55**	**-**	**53**	**(341)**
Tax loss carry-forwards	**8,053**	**807**	**4,576**	**(1,259)**	**12,177**
Deferred tax assets (liabilities)	**(2,806)**	**(4,821)**	**4,576**	**(479)**	**(3,530)**

Movements in recognised deferred tax assets and liabilities during the year ended 31 December 2015 are as follows:

(in thousands of USD)	Balance as at 1 January 2015 asset (liability)	Recognised in profit or loss	Recognised in OCI	Foreign currency translation adjustment	Balance as at 31 December 2015 asset (liability)
Investment property	(11,780)	(3,179)	-	4,326	(10,633)
Property and equipment	(2)	3	-	-	1
Trade and other receivables	974	(153)	-	(320)	501
Assets classified as held for sale	(494)	1	-	169	(324)
Trade and other payables	7	36	-	(6)	37
Advances received	855	(598)	-	(257)	-
Short-term borrowings	3	7	-	(2)	8
Long-term borrowings	(14)	10	-	4	-
Other long-term payables	(794)	80	-	265	(449)
Tax loss carry-forwards	9,734	259	1,548	(3,488)	8,053

Deferred tax assets (liabilities)	(1,511)	(3,534)	1,548	691	(2,806)

(e) Unrecognised deferred tax assets

Deferred tax assets as at 31 December 2016 have not been recognised in respect of the following items:

(in thousands of USD)	**Balance as at 1 January 2016**	**Change in tax-loss carry forward**	**Utilisation of previously unrecognised temporary differences**	**Increase in unrecognised temporary differences**	**Effect of acquisition**	**Foreign currency translation adjustment**	**Balance as at 31 December 2016**
Trade and other receivables	**107**	**-**	**(101)**	**-**	**550**	**(6)**	**550**
Tax loss carry-forwards	**28,575**	**(814)**	**-**	**75**	**4,119**	**(3,244)**	**28,711**
	28,682	**(814)**	**(101)**	**75**	**4,669**	**(3,250)**	**29,261**

Deferred tax assets as at 31 December 2015 have not been recognised in respect of the following items:

(in thousands of USD)	Balance as at 1 January 2015	Change in tax-loss carry forward	Utilisation of previously unrecognised temporary differences	Increase in unrecognised temporary differences	Foreign currency translation adjustment	Balance as at 31 December 2015
Trade and other receivables	275	-	(122)	-	(46)	107
Other long-term payables	69	-	(43)	-	(26)	-
Trade and other payables	731	-	(505)	-	(226)	-
Advances from customers	120	-	(75)	-	(45)	-
Tax loss carry-forwards	17,341	-	-	18,883	(7,649)	28,575
	18,536	-	(745)	18,883	(7,992)	28,682

During 2016, certain Group entities submitted amended CPT declarations that led to a decrease in tax loss carry forwards by USD 814 thousand.

In accordance with existing Ukrainian legislation tax losses can be carried forward and utilised indefinitely. Deferred tax assets have not been recognised in respect of those items since it is not probable that future taxable profits will be available against which the Group can utilise the benefits therefrom.

During the year ended 31 December 2016, unrecognised temporary differences of USD 1,708 thousand (2015: USD 13,265 thousand) relate to items recognised in other comprehensive income.

22 Financial risk management

(a) Overview

The Group has exposure to the following risks from its use of financial instruments:

- credit risk
- liquidity risk
- market risk

This note presents information about the Group's exposure to each of the above risks, the Group's objectives, policies and processes for measuring and managing risk. Further quantitative disclosures are included throughout these consolidated financial statements.

(b) Risk management framework

The management has overall responsibility for the establishment and oversight of the risk management framework.

The Group's risk management policies are established to identify and analyse the risks faced by the Group, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions and the Group's activities.

The Group, through its training and management standards and procedures, aims to develop a disciplined and constructive control environment in which all employees understand their roles and obligations.

The Group's Audit Committee oversees how management monitors compliance with the Group's risk management policies and procedures and reviews the adequacy of the risk management framework in relation to the risks faced by the Group.

(c) Credit risk

Credit risk is the risk of financial loss to the Group if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Group's loans and receivables.

(i) Trade and other receivables

The Group's exposure to credit risk is influenced mainly by the individual characteristics of each customer. However, management also considers the demographics of the Group's customer base, including the default risk of the industry and country, in which customers operate, as these factors may have an influence on credit risk, particularly in the currently challenging economic circumstances. There is no significant concentration of receivables from a single customer. In 2016 and 2015, 100% of the Group's revenue is attributable to sales transactions with customers in Ukraine and the Republic of Crimea.

Management has no formal credit policy in place for customers other than regular tenants and the exposure to credit risk is approved and monitored on an ongoing basis individually for all other significant customers.

The Group does not require collateral in respect of trade and other receivables.

The Group establishes an allowance for impairment that represents its estimate of incurred losses in respect of trade and other receivables and loans receivable. The main components of this allowance are a specific loss component that relates to individually significant exposures, and a collective loss component established for groups of similar assets in respect of losses that have been incurred but not yet identified. The collective loss allowance is determined based on historical data of payment statistics for similar financial assets.

(ii) **Guarantees**

The Group considers that financial guarantee contracts entered into by the Group to guarantee the indebtedness of related parties to be insurance arrangements, and accounts for them as such. In this respect, the Group treats the guarantee contract as a contingent liability until such time as it becomes probable that the Group will be required to make a payment under the guarantee.

(iii) **Exposure to credit risk**

The carrying amount of financial assets represents the maximum credit exposure.

In addition to the credit risk, the Group is exposed to the risk of non-recoverability of VAT recoverable, prepayments made and other assets amounting in total to USD 3,182 thousand as at 31 December 2016 (2015: USD 5,402 thousand).

(iv) **Impairment losses**

The ageing of trade and other receivables as at 31 December was:

(in thousands of USD)	**2016 Gross**	**2016 Impairment**	2015 Gross	2015 Impairment
Not past due	**1,082**	**-**	816	-
Past due 0 - 30 days	**13**	**-**	-	-
Past due 31 - 60 days	**5**	**-**	7	-
Past due 61 - 90 days	**-**	**-**	1	-
Past due 91 - 360 days	**46**	**-**	1,737	(1,729)
More than one year	**10,424**	**(10,408)**	9,046	(8,988)
	11,570	**(10,408)**	11,607	(10,717)

Allowance for impairment of financial assets is as follows:

(in thousands of USD)	**2016**	2015
Allowance for impairment of trade and other receivables	**10,408**	10,717
Allowance for impairment of loans receivable	**10,547**	50,065
Allowance for impairment of available-for-sale financial assets	**20,727**	20,727
	41,682	81,509

The movement in the allowance for impairment in respect of financial assets during the years ended 31 December was as follows:

(in thousands of USD)	**2016**	2015
Balance at 1 January	**81,509**	75,360
Impairment loss recognised	**5**	10,617
Bad debt write-off	**(39,761)**	-
Reversal of bad debt allowance	-	(1,972)
Foreign currency translation differences	**(71)**	(2,496)
Balance at 31 December	**41,682**	81,509

In 2016, the Group acquired corporate rights in Filgate Credit Enterprises Limited. Due to a net liability position of Filgate Credit Enterprises Limited as at the date of acquisition, this investment is considered to be fully impaired. The purchase price was set-off in full against the loan receivable from Weather Empire Limited amounting to USD 39,761 thousand that were fully impaired during the prior periods. Following the set-off, the loan receivable along with the respective allowance for impairment were derecognised (refer to note 5).

(d) Liquidity risk

Liquidity risk is the risk that the Group will encounter difficulty in meeting the obligations associated with its financial liabilities that are settled by delivering cash or another financial asset. The Group's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Group's reputation.

The following are the contractual maturities of financial liabilities, including interest payments as at 31 December 2016:

		Contractual cash flows					
(in thousands of USD)	**Carrying amount**	**Total**	**2 months or less**	**2 – 12 months**	**1 – 2 years**	**2 – 5 years**	**More than 5 years**
Secured bank loans	**50,064**	**60,727**	**1,518**	**25,077**	**8,803**	**25,329**	**-**
Unsecured loans from related parties	**51,020**	**54,550**	**18,980**	**24,575**	**955**	**10,040**	**-**
Finance lease liability	**6,857**	**41,253**	**122**	**612**	**839**	**2,836**	**36,844**
Trade and other payables	**20,387**	**24,072**	**15,754**	**821**	**778**	**6,719**	**-**
Other liabilities	**25,214**	**26,165**	**799**	**25,268**	**98**	**-**	**-**
	153,542	**206,767**	**37,173**	**76,353**	**11,473**	**44,924**	**36,844**

The following are the contractual maturities of financial liabilities, including interest payments as at 31 December 2015:

		Contractual cash flows					
(in thousands of USD)	Carrying amount	Total	2 months or less	2 – 12 months	1 – 2 years	2 – 5 years	More than 5 years
Secured bank loans	60,074	74,631	21,334	13,169	11,075	29,053	-
Unsecured loans from related parties	44,661	47,554	36,988	1,045	760	8,761	-

Unsecured loans from third parties	151	151	-	151	-	-	-
Finance lease liability	9,937	63,616	188	940	1,379	4,136	56,973
Trade and other payables	24,279	27,966	4,489	16,710	856	5,911	-
Other liabilities	22,442	23,088	-	23,008	80	-	-
	161,544	237,006	62,999	55,023	14,150	47,861	56,973

(e) Market risk

Market risk is the risk that changes in market prices, such as foreign exchange rates, interest rates and equity prices will affect the Group's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return.

(i) Currency risk

Group entities located in Ukraine

The Group is exposed to currency risk on sales, purchases and borrowings that are denominated in a currency other than the Ukrainian hryvnias (UAH), primarily the U.S. Dollar (USD) and Euro (EUR).

Interest on borrowings is denominated in the currency of the borrowing. Generally, borrowings are denominated in USD which does not always match the cash flows generated by the underlying operation of the Group, primarily executed in UAH.

Exposure to currency risk

The Group's exposure to foreign currency risk as at 31 December was as follows based on notional amounts:

	2016		2015	
	USD	**EUR**	USD	EUR
(in thousands of USD)				
Cash and cash equivalents	**25**	**109**	31	25
Secured bank loans	**(41,589)**	**-**	(49,661)	-
Unsecured loans from related parties	**(185)**	**-**	(191)	-
Trade and other payables	**(220)**	**(1,040)**	-	(775)
Net short position	**(41,969)**	**(931)**	(49,821)	(750)

Sensitivity analysis

A 10 percent weakening of the Ukrainian hryvnia against the following currencies as at 31 December would have decreased net profit or loss and decreased equity by the amounts shown below. This analysis assumes that all other variables, in particular interest rates, remain constant.

	2016		2015	
	Profit or loss	**Equity**	Profit or loss	Equity
(in thousands of USD)				
USD	**(3,441)**	**(3,441)**	(4,085)	(4,085)

EUR	**(76)**	**(76)**	(62)	(62)

A 10 percent strengthening of the Ukrainian hryvnia against these currencies at 31 December would have had the equal but opposite effect on these currencies to the amounts shown above, on the basis that all other variables remain constant.

Intra-group borrowings

The Group entities located in Ukraine are exposed to currency risk on intra-group borrowings, eliminated in these consolidated financial statements, that are denominated in a currency other than the Ukrainian hryvnia (UAH), primarily the U.S. Dollar (USD). These borrowings are treated as part of net investment in a foreign operation with foreign exchange gains and losses recognised in other comprehensive income and presented in the translation reserve in equity.

The exposure to foreign currency risk on these borrowings is USD 274,599 thousand and USD 256,769 thousand as at 31 December 2016 and 2015, respectively. The effect of translation of these loans payable by Ukrainian subsidiaries resulted in a foreign exchange loss of USD 28,356 thousand, including tax effect, recognised directly in other comprehensive income for the year ended 31 December 2016 (2015: USD 80,745 thousand).

A 10 percent weakening of the Ukrainian hryvnia against the USD would have increased other comprehensive loss for the year ended 31 December 2016 and decreased equity as at 31 December 2016 by USD 22,517 thousand (2015: USD 21,055 thousand). This analysis assumes that all other variables, in particular interest rates, remain constant.

A 10 percent strengthening of the Ukrainian hryvnia against these currencies would have had the equal but opposite effect to the amounts mentioned above, on the basis that all other variables remain constant.

Group entity located in the Republic of Crimea and the Russian Federation

The Group entities, located in the Republic of Crimea and the Russian Federation, are exposed to currency risk on purchases and borrowings that are denominated in a currency other than the Russian Rouble (RUB), primarily the Ukrainian hryvnia (UAH) and U.S. Dollar (USD).

Exposure to currency risk

The exposure to foreign currency risk as at 31 December was as follows based on notional amounts:

	2016		2015	
	USD	**UAH**	USD	UAH
(in thousands of USD)				
Cash and cash equivalents	**850**	**-**	-	-
Trade and other payables	**-**	**(1,320)**	-	(4,080)
Net short position	**850**	**(1,320)**	-	(4,080)

Sensitivity analysis

A 10 percent strengthening of the Russian Rouble against the following currencies as at 31 December would have increased net profit or loss and increased equity by the amounts shown below. This analysis assumes that all other variables, in particular interest rates, remain constant.

	2016		2015	
	Profit or loss	**Equity**	Profit or loss	Equity

(in thousands of USD)				
UAH	**106**	**106**	326	326
USD	**(68)**	**(68)**	-	-

A 10 percent weakening of the Russian Rouble against these currencies at 31 December would have had the equal but opposite effect on these currencies to the amounts shown above, on the basis that all other variables remain constant.

(ii) **Interest rate risk**

Changes in interest rates impact primarily loans and borrowings by changing either their fair value (fixed rate debt) or their future cash flows (variable rate debt). Management does not have a formal policy of determining how much of the Group's exposure should be to fixed or variable rates. However, at the time of obtaining new financing management uses its judgment to decide whether a fixed or variable rate would be more favorable to the Group over the expected period until maturity.

Refer to notes 5, 12, 13 and 16 for information about maturity dates and effective interest rates of fixed rate and variable rate financial instruments. Re-pricing for fixed rate financial instruments occurs at maturity of fixed rate financial instruments.

Profile

The interest rate profile of the Group's interest-bearing financial instruments as at 31 December was as follows:

(in thousands of USD)	**2016**	2015
Fixed rate instruments		
Loans and borrowings	**77,099**	75,216
Other liabilities	**24,317**	22,362
Finance lease liability	**6,857**	9,937
	108,273	107,515
Variable rate instruments		
Loans and borrowings	**23,939**	29,468
	23,939	29,468

Fair value sensitivity analysis for fixed rate instruments

The Group does not account for any fixed rate financial assets and liabilities at fair value through profit or loss or as available-for-sale, and the Group does not designate derivatives (interest rate swaps) as hedging instruments under a fair value hedge accounting model. Therefore a change in interest rates at the reporting date would not affect profit or loss or equity.

Cash flow sensitivity analysis for variable rate instruments

An increase of 100 basis points in interest rates at the reporting date would have decreased equity as at 31 December and would have decreased net profit or loss for the years ended 31 December by the amounts shown below. This analysis assumes that all other variables, in particular foreign currency rates, remain constant.

	2016	2015

(in thousands of USD)	**Profit or loss**	**Equity**	Profit or loss	Equity
Loans and borrowings	**(196)**	**(196)**	(242)	(242)
	(196)	**(196)**	(242)	(242)

A decrease of 100 basis points in interest rates at 31 December would have had the equal but opposite effect to the amounts shown above.

(iii) Fair values

Estimated fair values of the financial assets and liabilities have been determined using available market information and appropriate valuation methodologies. However, considerable judgment is required in interpreting market data to produce the estimated fair values. Accordingly, the estimates are not necessarily indicative of the amounts that could be realised in a current market exchange. The use of different market assumptions and/or estimation methodologies may have a material effect on the estimated fair values.

The estimated fair values of financial assets and liabilities are determined using discounted cash flow and other appropriate valuation methodologies, at year-end, and are not indicative of the fair value of those instruments at the date these consolidated financial statements are prepared or distributed. These estimates do not reflect any premium or discount that could result from offering for sale at one time the Group's entire holdings of a particular financial instrument. Fair value estimates are based on judgments regarding future expected cash flows, current economic conditions, risk characteristics of various financial instruments and other factors.

Fair value estimates are based on existing financial instruments without attempting to estimate the value of anticipated future business and the value of assets and liabilities not considered financial instruments. In addition, tax ramifications related to the realisation of the unrealised gains and losses can have an effect on fair value estimates and have not been considered.

Management believes that for all the financial assets and liabilities, the carrying value is estimated to approximate the fair value as at 31 December 2016 and 2015. Such fair value was estimated by discounting the expected future cash flows under the market interest rate for similar financial instruments that prevails as at the reporting date. The estimated fair value is categorised within Level 2 of the fair value hierarchy.

(f) Capital management

Management defines capital as total equity attributable to equity holders of the parent. The Group has no formal policy for capital management but management seeks to maintain a sufficient capital base for meeting the Group's operational and strategic needs, and to maintain confidence of market participants. The Group strives to achieve with efficient cash management, and constant monitoring of the Group's investment projects. With these measures the Group aims for steady profits growth. There were no changes in the Group's approach to capital management during the year.

23 Commitments and contingencies

(a) Pledged assets

As at 31 December, in connection with loans and borrowings, the Group pledged the following assets:

(in thousands of USD)	**2016**	2015

Investment property (note 4(a))	**103,337**	91,630
Call deposits (note 9)	**1,013**	1,255
Restricted deposits (note 9, 12)	**-**	800
Bank balances (note 9)	**44**	34
	104,394	93,719

As at 31 December 2016 and 2015, the Group has also pledged the following:

- Future rights on income of Prizma Alfa LLC and Comfort Market Luks LLC under all lease agreements;
- Investments in the following subsidiaries: PrJSC Grandinvest, PrJSC UkrPanGroup, Comfort Market Luks LLC and PrJSC Livoberezhzhiainvest;
- Property rights under the Investment Agreement between PrJSC Grandinvest, PrJSC Livoberezhzhiainvest and Voyazh-Krym LLC.

(b) Construction commitments

The Group entered into contracts with third parties to construct two shopping centres in Kyiv and a shopping centre in Odesa for the amount of USD 20,584 thousand as at 31 December 2016 (2015: USD 23,548 thousand).

(c) Operating leases commitments

The Group as lessor

The Group entered into lease agreements on its investment property portfolio that consists of five shopping centres. These non-cancellable lease agreements have remaining terms from one to ten years. All agreements include a clause to enable upward revision of the rent rate on an annual basis according to prevailing market conditions.

The future minimum lease payments under non-cancellable leases as at 31 December are as follows:

(in thousands of USD)	**2016**	2015
Less than one year	**3,358**	5,490
Between one and five years	**3,384**	3,470
More than five years	**-**	666
	6,742	9,626

(d) Litigations

In the ordinary course of business, the Group is subject to legal actions and complaints.

(i) Legal case in respect of Assofit Holdings Limited

Starting from November 2010 the Group has been involved in an arbitration dispute with Stockman Interhold S.A. (Stockman), which was the majority shareholder of Assofit Holdings Limited (Assofit), regarding invalidation of the Call Option Agreement dated 25 February 2010. In accordance with this Call Option Agreement, Arricano was granted the option to acquire the shareholding of Stockman being equal to 50.03 per cent in the share capital of Assofit during the period starting from 15 November 2010 up to 15 March 2011. In November 2010, the Company sought to exercise the option granted by the Call Option Agreement, however the buy-out was suspended by legal and arbitration proceedings that were initiated by Stockman in relation to the validity of the termination of the agreement relating to the call option under the Call Option Agreement.

In the seventh award delivered on 5 May 2016, the tribunal of the London Court of International Arbitration has found that Stockman is in breach of the Call Option Agreement and has taken "steps deliberately to dissipate and misappropriate Assofit´s assets". 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.

In its latest award, being the eighth award, made on 17 August 2016, the tribunal of the London Court of International Arbitration has awarded the costs of approximately USD 0.9 million to be paid by Stockman to Arricano. No receivable was recognised in these consolidated financial statements, as recoverability of the related asset was not certain.

As at the date that these consolidated financial statements are authorised for issuance, a number of related legal cases are under the consideration of the District Court of Nicosia.

In September 2014, Assofit Holdings Limited transferred the shares of Prizma Beta LLC to Financial and Investment Solutions BV, a company registered in the Netherlands, despite the fact that an Interim Receiver was appointed in Assofit at that period of time with the responsibility of collecting and safeguarding Assofit's assets. Further in September 2014, Joint-Stock Bank Pivdeniy PJSC, Ukraine, which had an outstanding mortgage loan due from Prizma Beta LLC of USD 32,000 thousand, exercised its right to recover the abovementioned loan by means of reposession of ownership rights to the Sky Mall shopping centre which was pledged to secure this loan in September 2014. As at the date that these consolidated financial statements are authorised for issuance, shares of Prizma Beta LLC and ownership rights for the Sky Mall shopping centre remain to be alienated.

As at 31 December 2016 and 2015, the Group holds 49.97% of nominal voting rights in Assofit without retaining significant influence. In prior years' consolidated financial statements of the Group until 31 December 2013, investment in Assofit was recognised in the statement of financial position as available for-sale financial asset at its carrying amount of USD 20,727 thousand. Due to loss of the legal control over the major operating asset being the Sky Mall shopping centre in September 2014, management believes that investment in Assofit is fully impaired as at 31 December 2016 and 2015.

(ii) Legal case in respect of Mezokred Holding LLC

On 17 April 2014, a claim was filed against Mezokred Holding LLC by a third party individual seeking to nullify the resolution issued by the Kyiv City Council, according to which the latter has approved the allocation to Mezokred Holding LLC of a land plot in Obolon District of Kyiv for the construction of a hypermarket and entitled Mezokred Holding LLC to lease this land plot for a period of 25 years.

On 9 November 2016, the Kyiv Administrative Court ruled in favor of Mezokred Holding LLC. The plaintiff filed an appeal to the Kyiv Court of Appeal.

On 21 March 2017, the Kyiv Court of Appeal reconfirmed the ruling of the first instance court and dismissed appeal of the plaintiff in full. Such ruling of the appeal court came into effect on the same date. The plaintiff had submitted a cassation appeal on 4 April 2017 requesting cancellation of the rulings of the first and second instance courts. Management believes that the Group will be successful in defending its title to the lease agreement for the land plot concerned further in court, if this is required. Should this not be the case, the Group may ultimately lose its lease rights for the land plot concerned and title to the related investment property. As at 31 December 2016, the fair value of the land plot and property under construction at Mezokred Holding LLC is USD 4,400 thousand and USD 694 thousand, respectively.

(iii) Legal case in respect of Voyazh-Krym LLC

Starting from October 2013, the Group has been involved in the legal proceedings regarding demolishing of the part of the shopping centre “South Gallery” located in Simferopol with an area of 0.73 ha. On 22 January 2016, Arbitration court of the Russian Federation ruled against Voyazh-Krym LLC and the latter filed an appeal. On 27 December 2016, the Court of Central District has cancelled the previous decision of 20 September 2016 and decided to reconsider the case under the rules of the arbitration court.

As at the date that these consolidated financial statements are authorised for issuance, the results of respective hearing in written proceeding are not yet available.

Management believes that the Group will be successful in defending its rights further in court, if this is required. Otherwise, Voyazh-Krym LLC may be required to perform reconstruction of the part of the shopping center stated at USD 24,307 thousand as at 31 December 2016.

(iv) Legal case in respect of Vector Capital LLC

On 3 October 2016, the claim was filed against Vektor Capital LLC by Odesa City Council to recover indebtedness in respect of the agreement on customer share participation in the creation and development of engineering, transport and social infrastructure of Odesa for the amount of USD 404 thousand. The Group has recognized an accrual in respect of this legal case (refer to note 16). As at the date that these consolidated financial statements are authorised for issuance, the legal case is ongoing.

Management is unaware of any other significant actual, pending or threatened claims against the Group.

(e) Taxation contingencies

(i) Ukraine

The Group performs most of its operations in Ukraine and therefore within the jurisdiction of the Ukrainian tax authorities. The Ukrainian tax system can be characterised by numerous taxes and frequently changing legislation which may be applied retroactively, open to wide interpretation and in some cases are conflicting. Instances of inconsistent opinions between local, regional, and national tax authorities and between the Ministry of Finance and other state authorities are not unusual. Tax declarations are subject to review and investigation by a number of authorities that are enacted by law to impose severe fines, penalties and interest charges. A tax year remains open for review by the tax authorities during the three subsequent calendar years, however under certain circumstances a tax year may remain open longer. These facts create tax risks substantially more significant than typically found in countries with more developed systems.

Management believes that it has adequately provided for tax liabilities based on its interpretation of tax legislation and official pronouncements. However, the interpretations of the relevant authorities could differ and the effect on these consolidated financial statements, if the authorities were successful in enforcing their interpretations, could be significant. No provisions for potential tax assessments have been made in these consolidated financial statements.

(ii) Republic of Crimea and the Russian Federation

As a result of the events described in note 1(b), Ukrainian authorities are not currently able to enforce Ukrainian laws on the territory of the Republic of Crimea. Starting from April 2014, this territory is subject to the transitional provisions of tax rules established by the Russian government to ensure gradual introduction of federal laws into the territory. Although these transitional provisions were thought to put certain relief on the entities registered in the Republic of Crimea, interpretations of these provisions by the tax authorities may be different from the tax payers' view.

Effective from 1 January 2015, the territory of the Republic of Crimea is subject to general legislation of the Russian Federation. The taxation system in the Russian Federation continues to evolve and is characterised by frequent changes in legislation, official pronouncements and court decisions, which are sometimes contradictory and subject to varying interpretation by different tax authorities.

Taxes are subject to review and investigation by a number of authorities, which have the authority to impose severe fines, penalties and interest charges. A tax year generally remains open for review by the tax authorities during the three subsequent calendar years; however, under certain circumstances a tax year may remain open longer. Recent events within the Russian Federation suggest that the tax authorities are taking a more assertive and substance-based position in their interpretation and enforcement of tax legislation.

These circumstances may create tax risks in the Russian Federation that are substantially more significant than in other countries. Management believes that it has provided adequately for tax liabilities based on its interpretations of applicable Russian tax legislation, official pronouncements and court decisions. However, the interpretations of the tax authorities and courts, especially due to reform of the supreme courts that are resolving tax disputes, could differ and the effect on these consolidated financial statements, if the authorities were successful in enforcing their interpretations, could be significant.

In addition, a number of new laws introducing changes to the Russian tax legislation have been recently adopted. In particular, starting from 1 January 2015 changes aimed at regulating tax consequences of transactions with foreign companies and their activities were introduced, such as concept of beneficial ownership of income, etc. These changes may potentially impact the Group's tax position and create additional tax risks going forward. This legislation is still evolving and the impact of legislative changes should be considered based on the actual circumstances.

(iii) Republic of Cyprus

During the prior years, the Company incurred certain foreign legal expenses, where the VAT accounted for on these expenses was fully claimed. Management believes that the Company properly claimed the VAT accounted for on these expenses, on the basis of the plans to transfer the said expenses, being purely of legal nature, to respective parties in full. Since as at the date of issue of these consolidated financial statements the management did not proceed with the implementation of their plans, the transactions will not be complete in the view of VAT authorities, and the Company may be liable to pay VAT of approximately USD 1,712 thousand plus related interest and penalties.

No provision for the VAT liability or related penalties is made in these consolidated financial statements as management believes that it is not probable that such VAT liability will materialise, as the Company will proceed with the implementation of the plan on the transfer of expenses.

24 Related party transactions

(a) Control relationships

The Group's largest shareholders are Retail Real Estate OU, OU Ekspert Kapital, Dragon – Ukrainian Properties and Development plc, Deltamax Group OU, Rauno Teder and Jüri Põld. The Group's ultimate controlling party is Estonian individual Hillar Teder. Hillar Teder indirectly controls 55.45% of the voting shares of the Parent Company. Apart from this, the adult son of Hillar Teder controls 7.48% of the voting shares of the Parent Company.

(b) Transactions with management and close family members

Key management remuneration

Key management compensation included in the statement of profit or loss and other comprehensive income for the year ended 31 December 2016 is represented by salary and bonuses of USD 711 thousand (2015: USD 298 thousand).

(c) Transactions and balances with entities under common control

Outstanding balances with entities under common control as at 31 December are as follows:

(in thousands of USD)	**2016**	2015
Long-term loans receivable	**1,647**	41,365
Short-term loans receivable	**8,900**	8,700
Trade receivables	**1,384**	1,567
Other receivables	**8,963**	9,066
Provision for impairment of trade and other receivables and loans receivable from related parties	**(20,885)**	(60,694)
	9	4
Long-term loans and borrowings	**9,100**	7,270
Short-term loans and borrowings	**41,920**	37,391
Trade and other payables	**1,371**	1,785
Advances received	**26**	29
Other liabilities	**24,317**	22,362
	76,734	68,837

None of the balances are secured. The terms and conditions of significant transactions and balances with entities under common control are described in notes 5, 7, 12 and 16.

Expenses incurred and income earned from transactions with entities under common control for the years ended 31 December are as follows:

(in thousands of USD)	**2016**	2015
Interest expense	**(6,320)**	(5,988)
Other finance costs	**(40)**	(2)
Interest income	**-**	268
Operating expenses	**(89)**	(11,147)
Other finance income	**18**	-

Prices for related party transactions are determined on an ongoing basis.

(d) Guarantees issued by related parties

The Group's related parties issued guarantees securing loans payable by Ukrainian subsidiaries of Arricano Real Estate PLC to the EBRD (loans payable by Comfort Market Luks LLC, UkrPanGroup PrJSC) and PJSC "Bank "St.Petersburg" (loans payable by Livoberezhzhiainvest PrJSC). The guarantees cover the total amount of outstanding liabilities in relation to EBRD loans as at 31 December 2016 of USD 23,939 thousand (2015: USD 29,468 thousand) and in relation to PJSC "Bank "St.Petersburg" as at 31 December 2016 of USD 17,650 thousand (2015: USD 20,193 thousand).

(e) Acquisitions from entities under common control

On 29 April 2016, the Group acquired 100% shareholding in Green City LLC from the entity under common control for the consideration of USD 1,560.

On 14 December 2016, the Parent Company acquired a non-controlling interest (49% of corporate rights) of Filgate Credit Enterprises Limited from the company under common control incorporated in Cyprus, in exchange for loan receivable from Weather Empire Limited (refer to note 5).

25 Subsequent events

There were no material events after the reporting period, which have a bearing on the understanding of the financial statements.

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF ARRICANO REAL ESTATE PLC

Report on the audit of the consolidated financial statements

Opinion

We have audited the accompanying consolidated financial statements of **Arricano Real Estate PLC** (the "Company"), and its subsidiaries (together with the Company, referred to as the "Group"), which comprise the consolidated statement of financial position as at 31 December 2016, and the consolidated statements of profit or loss and other comprehensive income, changes in equity and cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements give a true and fair view of the consolidated financial position of the Company as at 31 December 2016, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union (IFRS-EU) and the requirements of the Cyprus Companies Law, Cap. 113, as amended from time to time (the "Companies Law, Cap. 113").

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 "*Auditors' responsibilities for the audit of the consolidated financial statements"* section of our report. We are independent of the Group in accordance with the Code of Ethics for Professional Accountants of the International Ethics Standards Board for Accountants (IESBA Code), and the ethical requirements in Cyprus that are relevant to our audit of the consolidated financial statements, 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 opinion.

Material uncertainty related to going concern

We draw attention to Note 2 (e) in the consolidated financial statements, which indicates that as at 31 December 2016 the Company's current liabilities exceeded its current assets by USD 100,669 thousand. In addition, the Group has not complied with several loan covenants under the existing loan agreements (refer to note 12), which, as per the terms of the relevant loan agreement, gives the lender a right to demand immediate repayment of the loans amounting to USD 17,650 thousand as at 31 December 2016. As stated in Note 2 (e), these events or conditions indicate that a material uncertainty exists that may cast significant doubt on the Company's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

Key audit matters

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

Valuation of investment properties (USD 175,663 thousand)	
See Note 4 to the consolidated financial statements	
The key audit matter	***How the matter was addressed in our audit***
The Group has a significant holding of investment properties, which as at 31 December 2016 represented 94% of the total assets. We identified the valuation of investment properties as a key audit matter due to the significance of the balance to the consolidated financial statements as a whole, and due to the significant element of judgement and estimation associated with determination of the fair value. The Group measures its investment properties at fair value at each reporting date, except for properties under development, which are carried at cost. As disclosed in note 4 to the consolidated financial statements, the fair value is based on the valuation performed by an independent external valuer (the "Valuer"), engaged by the Group, using the discounted cash flow valuation model, which considers the present value of net cash flows to be generated from the property, taking into account the expected rental rates, occupancy rates, foreign exchange rates and other costs. The expected net cash flows are discounted using risk-adjusted discount	Our audit procedures included the following: 1. Assessing, using our own experts, the appropriateness of the valuation methods used and assumptions underlying the determination of the fair value of property, including monthly rental rates, occupancy rates and discount rates. We verified these assumptions to rental agreements, performed analytical review of the data received. Challenging various key inputs such as rental and occupancy rates, discount rates etc. 2. Evaluating the competence, objectivity and independence of the valuer used by the management. 3. Evaluating the reasonableness of the forecasted income used in the reports by reconciling actual figures of December 2016 against the budgeted figures for January 2017 used by the valuer in order to identify any deviations. All the deviations were investigated and traced to the primary documents.

rates. Land parcels are valued based on market prices for similar properties.	4. Testing the design and implementation of the Group's controls over the investment property valuation 5. Performing a sensitivity analysis over the key inputs used for calculation of the fair value of investment property.
Litigations and contingent liabilities	
See note 23 (d) to the consolidated financial statements	
The key audit matter	***How the matter was addressed in our audit***
In the normal course of the business, potential exposures may arise from various legal procedures against the Group entities. Due to the range of the potential outcomes and the considerable uncertainty around the resolution of various claims, the determination of the amount, if any, to be recorded in the consolidated financial statements as a provision is inherently subjective. As at 31 December 2016, the Group was involved in a number of significant legal cases which are still ongoing and the financial impact of which cannot be currently determined.	Our audit procedures included the following: 1. Reviewing the minutes of the Board and Audit Committee meetings. 2. Inquiring the in-house lawyers to determine any potential outcome of the cases and steps that will be undertaken in future with regards to the ongoing litigations. 3. Reviewing and assessing responses of the external legal advisors of the Group. 4. Assessment, following the completion of the above procedures, the appropriateness of accounting for litigations in the consolidated financial statements of the Group. We also reviewed the relevant disclosure in the contingent liabilities note to ensure completeness and accuracy of the disclosure.

Other information

The Board of Directors is responsible for the other information. The other information comprises the information included in the Annual Report for the year ended 31 December 2016, but does not include the consolidated financial statements and our auditors' report thereon.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon, except as required by the Companies Law, Cap. 113.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated 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. Our report in this regard is presented in the *"Report on other legal requirements"* section.

Responsibilities of the Board of Directors for the consolidated financial statements

The Board of Directors is responsible for the preparation of consolidated financial statements that give a true and fair view in accordance with IFRS-EU and the requirements of the Companies Law, Cap. 113, and for such internal control as the Board of Directors determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the Board of Directors is responsible for assessing the Group’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 there is an intention to either liquidate the Group or to cease operations, or there is no realistic alternative but to do so.

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

Auditors’ responsibilities for the audit of the consolidated financial statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors’ 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 ISAs 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 consolidated financial statements.

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

- Identify and assess the risks of material misstatement of the consolidated 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 Group’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 Group’s ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors’ report to the related disclosures in the consolidated 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 auditors’ report. However, future events or conditions may cause the Group to cease to continue as a going concern.

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

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinion.

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 consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditors' 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.

Report on other legal requirements

Pursuant to the additional requirements of the Auditors and Statutory Audits of Annual and Consolidated Accounts of Law 2009, L42(I)/2009, as amended from time to time ("Law 42(I)/2009"), we report the following:

- We have obtained all the information and explanations we considered necessary for the purposes of our audit.
- In our opinion, proper books of account have been kept by the Company, so far as it appears from our examination of these books.
- The consolidated financial statements are in agreement with the books of account.
- In our opinion and to the best of our information and according to the explanations given to us, the consolidated financial statements give the information required by the Companies Law, Cap. 113, in the manner so required.
- In our opinion, the Management Report, the preparation of which is the responsibility of the Board of Directors, has been prepared in accordance with the requirements of the Companies Law, Cap. 113, and the information given is consistent with the consolidated financial statements.
- In the light of the knowledge and understanding of the business and the Company's environment obtained in the course of our audit, we have not identified material misstatements in the Management Report.
- In our opinion, the information included in the corporate governance statement in accordance with the requirements of subparagraphs (iv) and (v) of paragraph 2(a) of Article 151 of the Companies Law, Cap. 113, and which is included as a specific section of the Management Report, have been prepared in accordance with the requirements of the Companies Law, Cap, 113, and is consistent with the consolidated financial statements.

- In the light of the knowledge and understanding of the business and the Company's environment obtained in the course of our audit, we have not identified material misstatements in the corporate governance statement in relation to the information disclosed for items (iv) and (v) of subparagraph 2(a) of Article 151 of the Companies Law, Cap. 113.
- In our opinion, the corporate governance statement includes all information referred to in subparagraphs (i), (ii), (iii) and (vi) of paragraph 2(a) of Article 151 of the Companies Law, Cap. 113.

Other matter

This report, including the opinion, has been prepared for and only for the Company's members as a body in accordance with Section 34 of Law 42(I)/2009 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 auditors' report is John C. Nicolaou.

John C. Nicolaou, CPA

Certified Public Accountant and Registered Auditor

for and on behalf of

KPMG Limited

Certified Public Accountants and Registered Auditors

11, June 16th 1943 Street

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Cyprus

25 April 2017