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EQS
Half-year/Interim Report

Interim Results

ARRICANO REAL ESTATE PLC

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23 September 2021

Arricano Real Estate plc

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

Unaudited Interim Results for the 6 months ended 30 June 2021

Arricano is one of the leading real estate developers and operators of shopping centres in Ukraine with over 148,100 sqm of gross leasable area under operation and land for a further three sites under development.

Highlights

- Operating activity was still affected by COVID-19 restrictions with the shopping centres in different regions partially closed for up to 59 days
- Group revenue increased by 19% to USD 16.9 million (2020: USD 14.2 million)
- Underlying operating profit before revaluation of investment property increased by 23% to USD 11.9 million (2020: USD 9.6 million)
- Group average occupancy was 99.5%, as at 30 June 2021
- Investment property revaluation loss of USD 9.0 million was due to the Hryvnia strengthening against the US Dollar, this was then offset by a foreign exchange gain of USD 10.2 million included in Other Comprehensive Income
- The total value of the investment property portfolio comprised USD 281.6 million (31 December 2020: USD 275.5 million)
- Net asset value increased to USD 125.2 million (31 December 2020: USD 119.4 million)

- Cash flows from operating activity were USD 10.0 million, an increase by 52% compared to the six month ended 30 June 2020
- Average cost of bank loans continued to decrease, down from 10.1% as at 31 December 2020, to 8.3% as at 30 June 2021

Ganna Chubotina, Chief Executive Officer of Arricano, commented:

"Despite the challenges created by the global pandemic, our portfolio of shopping centres continued to operate close to capacity with occupancy at 99.5%. This demonstrates, in our view, that we have been successful in supporting some of our tenants through the last 18 months and equally importantly the appeal amongst our tenant base of retaining their retail presence in our centres over a period when the retail market has been very challenging. While the impact of COVID-19 remains, normal trading is returning which enables us to switch from protecting the business to once again growing it."

For further information please contact:

CEO:

Arricano Real Estate plc — Tel: +357 25 582 535

Ganna Chubotina

Nominated Adviser and Broker:

WH Ireland Limited — Tel: +44 (0)20 7220 1666

Chris Fielding/Ben Good

Financial PR: — Tel: +44 (0)20 3151 7008

Novella Communications Limited

Tim Robertson/Fergus Young

Chief Executive Officer's Report

Introduction

I am pleased to be reporting on a positive trading performance for the first six months of 2021. While the effects of the global pandemic are still visible, visitor numbers to our shopping centres accelerated fast when restrictions were lifted, much faster than when they were lifted in 2020 and continue to rise; indicating that our customers are no longer avoiding social space for fear of COVID-19 and are instead keen to return to normal retail patterns.

Our ability to retain occupancy at 99.5% during a very challenging period for all retailers reflects well on our business. This led to revenue generation of USD 16.9 million, which is just 2% below pre-COVID-19 revenue levels in 2019, a good result especially as the portfolio was partially closed for nearly two of the six months under review. That being the case, the Company is performing well and is positioned, assuming trading remains restriction free, to continue to grow and develop.

Overall, we believe the retail market is recovering, in response to increased consumer spending and a general improvement in consumer confidence.

Results

Recurring revenues for the period increased by 19% to USD 16.9 million (2020: USD 14.2 million). Underlying operating profit before revaluation of investment property increased to USD 11.9 million (2020: USD 9.6 million).

The revaluation of the investment property portfolio, resulted in a loss of USD 9.0 million (6 months 2020: gain of USD 30.1 million), caused by the rise in value of the Hryvna against the USD dollar. However, the revaluation effect was offset by foreign exchange gains in the amount of USD 10.2 million included in Other Comprehensive Income. The total value of investment property portfolio comprised USD 281.6 million (31 December 2020: USD 275.5 million).

The Company has continued to make excellent progress in bringing the cost of borrowings down with the average cost of bank loans decreasing from an average of 10.1% as at 31 December 2020 to 8.3% as at 30 June 2021.

Cash flow from operating activities was USD 10.0 million with Group cash balances as at 30 June 2021 of USD 15.0 million (31 December 2020: USD 12.0 million).

Net asset value increased to USD 125.2 million (31 December 2020: USD 119.4 million).

Operating Review

Each year our shopping centres welcome tens of millions of visitors. To maintain and grow this level of interest and loyalty, which Arricano has achieved over the last years, requires hard work and a continual focus on evolving the customer experience. In 2021, despite the distractions of managing the impact of the pandemic, 41 new tenants were introduced into the portfolio.

New additions improve retail mix within each mall by expanding the most successful product categories. In the Rayon shopping mall, the fast fashion and electronics categories were expanded and in the Prospect shopping mall, the well-known French sports retailer Decathlon opened in May 2021 with a 2,000 sqm retail space, quickly adding to both visitor numbers and operating income.

As the challenges associated with the pandemic have reduced, key categories such as fast fashion, sporting goods, home appliances and electronics, and goods for home and interior have shown positive turnover growth in comparison to 2020 when shopping centres were under greater restrictions.

Alongside introducing new tenants into the retail mix, the Group continued to focus on direct dialogue with individual tenants with a focus on promoting closer working partnerships. Sharing of data is also key to evolving tenant partnerships. In the period under review, the Group has been testing and implementing new analytical products for tracking customer behavior, tenant turnover and providing a greater analysis of footfall across multiple different categories, as well as conversion into sales and other trading indicators, all in real time.

It is worth noting there has been a gradual recovery in the F&B segment as well as a moderate recovery in cinemas and entertainment centres, though they continue to operate with some restrictions relating to social distancing.

Operational experience gained in 2020 and the reduced impact of the pandemic enabled the introduction of a smart-leasing strategy. Each tenant was judged individually when providing assistance in rent relief based on their sales performance which, together with a general improvement in trading by all tenants, led to very low vacancy rates in the portfolio.

The safety of all visitors and employees remains the Group's first priority. Alongside adhering to strict PPE protocols, Arricano introduced vaccination points across all shopping centres with the assistance of local authorities and support of the Ministry of Health. As part of this initiative, all Arricano shopping centre employees were given an opportunity to be vaccinated.

Arricano continues to focus on promoting offline shopping through multiple communication venues, including cultural and art exhibitions. Recently, a new unique project in the Prospect shopping mall drew out the influences fashion and professional life have had on each other. This was a very popular project and, along with other similar projects, has helped to increase footfall and visit times.

While development projects have naturally slowed over the past 18 months, the Group is progressing the Lukianivka project, Kyiv. Although there have been a number of delays, commitment to the project remains unchanged and it is still expected to open in 2023.

As part of the Group's ESG policy, we continue to support our shopping centres' communities with charitable and educational activities, which also help to strengthen local loyalty, stimulate footfall and increase both visit times and number of stores visited. We also continue to engage with consumers around social responsibility topics focusing on brands with strong social responsibility credentials and/or extensive charitable works.

People

The first half-year of 2021 was still challenging for the Company, but the successful performance of the Group reflects high levels of commitment and hard work from all employees of Arricano and on behalf of the Board I would like to thank them.

Changes to the Board

In July 2021, Urmas Somelar decided to retire as a Director and as Chairman of the Board for personal reasons.

The Board has agreed that Mr Georgios Komodromos, an independent non-executive director of the Company, will succeed Mr Somelar as Chairman pending the appointment of a permanent independent successor.

Management and the Directors would like to thank Mr Somelar for his contribution and valuable advice over the last few years.

Outlook

Though the market situation and shopping centres performance within the remaining months of 2021 directly depends on the pandemic dynamics and any potential restrictions, with our focus on long-term partnerships with our tenants, I feel confident we will continue to perform and are well placed to make a good start in 2022.

	Note	30 June 2021 (unaudited)	31 December 2020
(in thousands of USD)			
Assets			
Non-current assets			
Investment property	*4*	**281,581**	275,452
Long-term VAT receivable		**4,297**	4,130
Property and equipment		**113**	94
Intangible assets		**118**	126
Total non-current assets		**286,109**	279,802
Current assets			
Trade and other receivables		**1,270**	1,673
Prepayments made and other assets		**594**	479
VAT receivable		**308**	576
Assets classified as held for sale		**1,591**	1,529
Income tax receivable		**391**	380
Cash and cash equivalents		**14,988**	12,062
Total current assets		**19,142**	16,699
Total assets		**305,251**	296,501

	Note	30 June 2021 (unaudited)	31 December 2020
(in thousands of USD)			
Equity and Liabilities			
Equity			
Share capital		**67**	67
Share premium		**183,727**	183,727
Non-reciprocal shareholders contribution		**59,713**	59,713
Retained earnings		**66,756**	67,142
Other reserves		**(61,983)**	(61,983)
Foreign currency translation differences		**(123,046)**	(129,272)
Total equity		**125,234**	119,394
Non-current liabilities			
Long-term borrowings	*5*	**70,266**	73,458
Long-term trade and other payables	*6*	**15,935**	15,330
Long-term advances received		**281**	-
Other long-term liabilities	*7*	**31,469**	31,462
Deferred tax liability		**6,243**	5,796
Total non-current liabilities		**124,194**	126,046
Current liabilities			
Short-term loans and borrowings	*5*	**35,317**	32,360
Short-term trade and other payables	*6*	**4,001**	3,712
Taxes payable other than income tax		**4,246**	5,015
Short-term advances received		**6,158**	5,503
Other short-term liabilities	*7*	**6,101**	4,471
Total current liabilities		**55,823**	51,061
Total liabilities		**180,017**	177,107
Total equity and liabilities		**305,251**	296,501

These consolidated interim condensed financial statements were approved by the Board of Directors on 22 September 2021 and were signed on its behalf by:

George Komodromos
Director

Juri Pold
Director

	Note	**Six months ended 30 June 2021 (unaudited)**	Six months ended 30 June 2020 (unaudited)
(in thousands of USD, except for earnings per share)			
Revenue	*8*	**16,906**	14,237
(Loss) / Gain on revaluation of investment property		**(9,027)**	30,096
Goods, raw materials and services used		**(483)**	(378)
Operating expenses		**(3,463)**	(3,122)
Employee costs		**(1,019)**	(1,031)
Depreciation and amortization		**(57)**	(66)
Profit from operating activities		**2,857**	39,736
Finance income	*9*	**2,381**	103
Finance costs	*10*	**(6,362)**	(12,702)
(Loss) / Profit before income tax		**(1,124)**	27,137
Income tax gain / (expense)	*11*	**738**	(5,054)
(Loss) / Profit for the period		**(386)**	22,083
Other comprehensive income			
Items that may be reclassified to profit or loss:			
Foreign exchange (losses)/gains on monetary items that form part of net investment in the foreign operation, net of tax effect		**11,322**	(33,427)
Foreign currency translation differences		**(5,096)**	14,397
Total items that may be reclassified to profit or loss		**6,226**	(19,030)
Other comprehensive income		**6,226**	(19,030)
Total comprehensive income for the period		**5,840**	3,053
Weighted average number of shares (in shares)		103,270,637	103,270,637
Basic and diluted earnings per share, USD		**(0.0037)**	0.21

	Note	**Six months ended 30 June 2021 (unaudited)**	Six months ended 30 June 2020 (unaudited)
(in thousands of USD)			
Cash flows from operating activities			
Profit before income tax		**(1,124)**	27,137
Adjustments for:			
Interest income, excluding foreign exchange gain	*9*	**(338)**	(103)
Interest expenses, excluding foreign exchange loss	*10*	**6,362**	5,574
Loss/ (gain) on revaluation of investment property	*4(a)*	**9,027**	(30,096)
Depreciation and amortization		**57**	66
Unrealised foreign exchange (gain)/loss		**(1,982)**	7,115
Allowance for bad debts		**133**	22
Operating cash flows before changes in working capital		**12,135**	9,715
Change in trade and other receivables and prepayments made and other assets		**342**	(807)
Change in VAT receivable		**221**	(995)
Change in trade and other payables		**285**	(95)
Change in advances received		**825**	(238)
Change in other liabilities		**-**	1,256
Change in taxes payable		**(835)**	549
Income tax paid		**(605)**	(679)
Interest paid		**(2,401)**	(2,166)
Cash flows from operating activities		**9,967**	6,540
Cash flows from investing activities			
Acquisition of investment property, excluding capitalized borrowing costs and settlements of payables due to constructors		**(4,059)**	(10,423)
Acquisition of property and equipment and intangible assets		**(68)**	(22)
Interest received		**96**	103
Cash flows used in investing activities		**(4,031)**	(10,342)

	Note	**Six months ended 30 June 2021 (unaudited)**	Six months ended 30 June 2020 (unaudited)
(in thousands of USD)			
Cash flows from financing activities			
Proceeds from borrowings		**3,192**	8,000
Repayment of borrowings		**(6,398)**	(5,991)
Cash flows from/ (used in) financing activities		**(3,206)**	2,009
Net increase in cash and cash equivalents		**2,730**	(1,793)
Cash and cash equivalents at 1 January		**12,062**	6,905
Effect of movements in exchange rates on cash and cash equivalents		**196**	(217)
Cash and cash equivalents at 30 June		**14,988**	4,895

(in thousands of USD)	Share capital	Share premium	Non-reciprocal shareholders contribution	Retained earnings	Other reserves	Foreign currency translation differences	Total
	Attributable to equity holders of the parent						
Balances at 1 January 2020	**67**	**183,727**	**59,713**	**46,962**	**(61,983)**	**(100,581)**	**127,905**
Total comprehensive income for the period							
Profit for the period (unaudited)				22,083			22,083
Foreign exchange gains on monetary items that form part of net investment in the foreign operation, net of tax effect (unaudited)						(33,427)	(33,427)
Foreign currency translation differences (unaudited)						14,397	14,397
Total other comprehensive income						(19,030)	(19,030)
Total comprehensive income for the period				22,083		(19,030)	3,053
Balances at 30 June 2020 (unaudited)	**67**	**183,727**	**59,713**	**69,045**	**(61,983)**	**(119,611)**	**130,958**

(in thousands of USD)	Attributable to equity holders of the parent Share capital	Share premium	Non-reciprocal shareholders contribution	Retained earnings	Other reserves	Foreign currency translation differences	Total
Balances at 1 January 2021	**67**	**183,727**	**59,713**	**67,142**	**(61,983)**	**(129,272)**	**119,394**
Total comprehensive income for the period							
Profit for the period (unaudited)				**(386)**			**(386)**
Foreign exchange gains on monetary items that form part of net investment in the foreign operation, net of tax effect (unaudited)						**11,322**	**11,322**
Foreign currency translation differences (unaudited)						**(5,096)**	**(5,096)**
Total other comprehensive income						**6,226**	**6,226**
Total comprehensive income for the period				**(386)**		**6,226**	**5,840**
Balances at 30 June 2021 (unaudited)	**67**	**183,727**	**59,713**	**66,756**	**(61,983)**	**(123,046)**	**125,234**

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 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 30 June 2021, the Group operates shopping centres in Kyiv, Simferopol, Zaporizhzhya and Kryvyi Rig with a total leasable area of over 148,100 square meters and is in the process of development of two new investment projects in Kyiv and Odesa, with one more project to be developed.

(b) Business environment

The Group's operations are primarily located in Ukraine. Consequently, the Group is exposed to the economic and financial markets of Ukraine, which display characteristics of an emerging market. The political and economic situation in Ukraine has been subject to significant turbulence in recent years. The legal, tax and regulatory frameworks continue development, but are subject to varying interpretations and frequent changes which, together with other legal and fiscal impediments, contribute to the challenges faced by entities operating in Ukraine. Additionally, an armed conflict in certain parts of Lugansk and Donetsk regions, which started in spring 2014, has not been resolved and 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. Various events in March 2014 led to the accession of the Republic of Crimea to the Russian Federation, which was not recognised by Ukraine and many other countries. Consequently, operations in the country involve risks that do not typically exist in other markets.

Despite this, the world's economy was significantly affected by COVID-19 pandemic. After the economic crisis held in 2020, in the first half-year 2021 there was a strengthening of the Ukrainian, Russian Federation and Cyprus operating environments. The local authorities are introducing some operating restrictions from time to time, however, these restrictions allow the businesses to operate at least at the minimum level.

During 6 months period ended 30 June 2021, the Ukrainian hryvnia and the Russian Ruble have strengthened against US dollar, a positive indicator of the economic situation in the areas of operations of the Group's shopping centres.

The management of the company is already seeing consumer confidence returning, evidenced by the gradual increase in visitor numbers across Company's portfolio. As before, the strategy remains centred around improving customer experiences. Management seeks innovative ways to influence and stimulate consumers, encouraging them to visit the shopping centres and once inside focus on creating the right balance between retail, leisure and socialising.

These consolidated interim condensed financial statements reflect management's current assessment of the impact of the business environment on the operations and the financial position of the Group. The future business environment may differ from management's assessment.

2 Basis of preparation

(a) Statement of compliance

These consolidated interim condensed financial statements have been prepared in accordance with IAS 34 *Interim Financial Reporting* as adopted by the European Union (EU) and should be read in conjunction with the Group's last annual consolidated financial statements as at and for the year ended 31 December 2020 ("last annual financial statements"). Selected explanatory notes are included to explain events and transactions that are significant to an understanding of the changes in financial position and performance of the Group since the last annual financial statements as at and for the year ended 31 December 2020. These consolidated interim condensed financial statements do not include all the information required for full annual financial statements prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union (EU).

The results for the six-month period ended 30 June 2021 are not necessarily indicative of the results expected for the full year.

(b) Judgements and estimates

Preparing the consolidated interim condensed financial statements requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities, income and expense and the disclosure of contingent assets and liabilities. Actual results may differ from these estimates.

In preparing these consolidated interim condensed financial statements, significant judgments made by management in applying the Group's accounting policies and the key sources of estimation uncertainty were the same as those that applied to the consolidated financial statements as at and for the year ended 31 December 2020.

(c) Functional and presentation currency

The functional currency of Arricano Real Estate PLC is the US dollar (USD). The Group entities are located in Ukraine and in the Russian Federation and have the Ukrainian Hryvnia (UAH) and Russian Rouble (RUB) as their functional currencies, since substantially all transactions and balances of these entities are denominated in the aforementioned currencies. The Group entities located in Cyprus, Estonia, Isle of Man and BVI have the US dollar as their functional currency, since substantially all transactions and balances of these entities are denominated in US dollar.

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

In translating the consolidated interim condensed 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 interim condensed financial statements are as follows:

Currency	30 June 2021	31 December 2020
UAH	**27.18**	28.27
RUB	**72.37**	73.88

Average USD exchange rates for the six months period ended 30 June are as follows:

Currency	2021	2020
UAH	**27.78**	25.98
RUB	**74.33**	69.34

As at the date that these consolidated interim condensed financial statements are authorised for issue, 22 September 2021, the exchange rate is UAH 26.71 to USD 1.00 and RUB 73.21 to USD 1.00.

(d) Going concern

As at 30 June 2021, the Group's current liabilities exceeded its current assets by USD 36,681 thousand (unaudited).

At the same time, the Group had positive equity of USD 125,234 thousand (unaudited) as at 30 June 2021, and generated positive cash flows from operating activities of USD 9,967 thousand (unaudited) for the six months then ended.

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

- Management makes all efforts to keep occupancy rates of its shopping centers at current levels. Besides, the Group managed to gradually increase its rental rates during the reporting period for existing tenants.
- The Group expects it 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.
- In accordance with the forecast for 2021 that is being revised on ongoing basis, taking into account already existing and potential future impact of COVID-19 on the Group's financial performance, the Group plans to earn revenue that together with other measures undertaken by the Group's management, including negotiations with lenders, will give an ability to settle the Group's current liabilities in the normal course of business.
- In addition, management expects that certain lenders will not exercise their right to require settlement of accrued interest for total amount of USD 8,126 thousand, and thus according to the respective agreements, after 1 August 2021 this accrued interest will be capitalised and reclassified to non-current liabilities in accordance with contractual terms (see Note 15).

Management believes that notwithstanding any material uncertainty that may cast significant doubt about the Group's ability to continue as a going concern in the foreseeable future exists, the measures that management undertakes, as described above, will allow the Group to maintain positive working capital, generate positive operating cash flows and continue business operations on going concern basis.

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.

(e) 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(b) – investment property; and
- Note 12(a) – fair values.

(f) 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 six months ended 30 June 2021 and the year ended 31 December 2020, the Group operated in and was managed as one operating segment, being property investment.

3 Significant accounting policies

The accounting policies applied in these consolidated interim condensed financial statements are the same as those applied in the Group’s consolidated financial statements as at and for the year ended 31 December 2020.

The changes in accounting policies are also expected to be reflected in the Group’s consolidated financial statements as at and for the year ending 31 December 2021.

A number of other new pronouncements are effective from 1 January 2021 but they do not have a material effect on the Group’s financial statements.

4 Investment property

(a) Movements in investment property

Movements in investment properties for the six months ended 30 June 2021 are as follows: fair value loss on revaluation in the amount of USD 9,027 thousand (unaudited) (six months ended 30 June 2020: fair value gain on revaluation in the amount of USD 30,096 thousand (unaudited)); currency translation gain in the amount of USD 10,179 thousand (unaudited) (six months ended 30 June 2020: loss USD 33,049 thousand (unaudited)); and additions in the amount of USD 4,987 thousand (unaudited) (six months ended 30 June 2020: USD 8,040 thousand(unaudited)).

As at 30 June 2021, in connection with loans and borrowings, the Group pledged as security investment property with a carrying value of USD 160,500 thousand (unaudited) (31 December 2020: USD 160,500 thousand) (refer to Note 13(a)).

(a) Determination of fair value

The fair value measurement, developed for determination of fair value of the Group's investment property, is categorised within the Level 3 category due to the 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 the Level 2 category. As at 30 June 2021, the fair value of investment property categorised within the Level 2 category is USD 29,400 thousand (unaudited) (31 December 2020: USD 29,400 thousand).

The most recent independent revaluation of investment property took place as at 31 December 2020. To assist with the estimation of the fair value of the Group's investment property, 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.

Group Management carefully considered investment property revaluation as at 30 June 2021. In light of the analysis of the retail property market, Group Management took a decision not to engage an independent property appraiser as at 30 June 2021. The reason for the decision is that the estimated value of property denominated in USD did not change significantly as compared to 31 December 2020.

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 where 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 2020, the estimation of fair value was made using a net present value calculation based on certain assumptions, the most important of which were as follows:

- monthly weighted average rental rates per shopping centers, excluding turnover income, ranging from USD 9 to USD 19 per sq.m., comprising minimum rental rate of USD 3 and maximum rental rate of USD 203 per sq.m., which were 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 98.1% to 100%, capitalisation rates ranging from 12.5% to 16.5% p.a. which represented key unobservable inputs for determination of fair value; and
- all relevant licences and permits, to the extent not yet received, will be obtained, in accordance with the timetables set out in the investment project plans.

As at 30 June 2021, the fair value of investment property, denominated in the functional currency, amounted to UAH 5,440,695 thousand (unaudited) and RUB 3,314,651 thousand (unaudited) (31 December 2020: UAH 5,660,575 thousand and RUB 3,383,507 thousand). The decrease in fair value of investment property in Ukrainian Hryvnia and in Russian Rouble resulted from the change in the currency exchange rates.

Sensitivity at the date of valuation

The valuation model used to assess the fair value of investment property as at 31 December 2020 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 2,206 thousand lower. If rental rates are 1% higher, then the fair value of investment properties would USD 2,206 thousand higher.
- If the capitalisation rate applied is 1% higher than that used in the valuation models, the fair value of investment properties would be USD 15,294 thousand lower. If the capitalisation rate is 1% less, then the fair value of investment properties would USD 17,785 thousand higher.
- If the occupancy rate is 1% higher than that used in the valuation model, the fair value of investment properties would be USD 1,997 thousand higher. If the occupancy rates are 1% less, then the fair value of investment properties would be USD 1,998 thousand lower.

5 Loans and borrowings

This note provides information about the contractual terms of loans.

(in thousands of USD)	**30 June 2021 (unaudited)**	31 December 2020
Non-current		
Secured bank loans	**24,350**	27,293
Unsecured loans from related parties	**21,420**	21,420
Unsecured loans from third parties	**24,496**	24,745
	70,266	73,458
Current		
Secured bank loans (current portion of secured long-term bank loans)	**22,938**	19,631
Unsecured loans from related parties (including current portion of long-term loans from related parties)	**9,727**	11,630
Unsecured loans from third parties	**2,652**	1,099
	35,317	32,360
	105,583	105,818

Terms and debt repayment schedule

As at 30 June 2021, the terms and debt repayment schedule of bank loans are as follows (unaudited):

(in thousands of USD)	**Currency**	**Nominal and effective interest rate**	**Contractual year of maturity**	**Carrying value**
Secured bank loans				
Secured bank loans	**USD**	**6.5%-8.0%**	**2023-2026**	**39,377**
Secured bank loans	**UAH**	**13.25%**	**2025**	**7,911**
				47,288

Unsecured loans from related parties				
Unsecured loans from related parties	**USD**	**10.50%**	**2021-2023**	**30,845**
Unsecured loans from related parties	**USD**	**10.0%**	**on demand**	**252**
Unsecured loans from related parties	**UAH/USD**	**0-3.2%**	**2019**	**50**
				31,147
Unsecured loans from third parties				
Unsecured loan from third party	**USD**	**10.50%**	**2021-2023**	**26,946**
Unsecured loans from third parties	**USD**	**3.0%**	**2022**	**202**
				27,148
				105,583

As at 31 December 2020, the terms and debt repayment schedule of loans and borrowings are as follows:

(in thousands of USD)	**Currency**	**Nominal and effective interest rate**	**Contractual year of maturity**	**Carrying value**
Secured bank loans				
Secured bank loans	USD	7.50%-11.25%	2023-2025	38,656
Secured bank loans	UAH	13.25%	2025	8,268
				46,924
Unsecured loans from related parties				
Unsecured loans from related parties	USD	10.5%	2021-2023	32,788
Unsecured loans from related parties	USD	10.0%	on demand	212
Unsecured loans from related parties	UAH/USD	0-3.2%	2019	50
				33,050
Unsecured loans from third parties				
Unsecured loan from third party	USD	10.50%	2023	25,645
Unsecured loans from third parties	USD	3.0%	2022	199
				25,844
				105,818

For a description of assets pledged by the Group in connection with loans and borrowings refer to Note 13(a).

(a) Joint Stock Company "Taskombank"

During the 6 months period ended 30 June 2021, the Group signed an amendment to the loan agreement with Joint Stock Company "Taskombank" stipulating a decrease in the annual interest rate from 9.75% to 8.0%.

During the 6 months period ended 30 June 2021, the Group signed an amendment to the loan agreement with Joint Stock Company "Taskombank" stipulating a decrease in the annual interest rate from 11.25% to 8.0%. The loan is syndicated with PJSC “Universal Bank”.

(b) Joint Stock Company "State Savings Bank of Ukraine"

During the 6 months period ended 30 June 2021, the Group received tranches on the existing loan facility with a bank in the amount of USD 3,192 thousand to finance the construction of the Lukianivka shopping and entertainment centre. The tranche facility expires on 25 July 2026.

Besides this, the Group signed an amendment to the loan agreement with Joint Stock Company "State Saving Bank of Ukraine" stipulating a decrease in the annual interest rate from 7.5% to 6.5%..

In accordance with the loan agreement, the lender may require early repayment of the loan facility amount. Respectively, the total loan amount of USD 17,020 thousand is presented within the current liabilities as at 30 June 2021.

During the 6 months period ended 30 June 2021 a number of covenants under loan agreements with banks were amended.

6 Trade and other payables

As at 30 June 2021, included in payables for construction works are accrued financial charges under construction agreement with third parties amounting to USD 15,928 thousand (31 December 2020: USD 15,323 thousand). In 2017-2018, the constructors claimed the Group to reimburse finance and foreign currency losses incurred by constructors due to untimely fulfillment of obligations by the Group companies under construction agreements, as well as fee for restructuring of accounts payable. As a result of negotiation accomplished on 12 July 2017, interest rate of 10.00% per annum was imposed on charges payable, they were converted to USD and maturity was postponed to 31 December 2025.

7 Other liabilities

As at 30 June 2021, other liabilities mainly comprise the amount of principal and the amount of interest of the deferred consideration that is payable in respect of the acquisition in 2013 of Wayfield Limited and its subsidiary Budkhol LLC, amounting to USD 31,305 thousand (unaudited) and USD 3,008 thousand (unaudited), respectively (31 December 2020: USD 31,305 thousand and USD 1,378 thousand, respectively). As at 30 June 2021 and 31 December 2020, deferred consideration is presented in accordance with its final contractual maturity and bears 10.5% interest rate per annum.

8 Revenue

The revenue for the 6 months period ended 30 June is represented as follows:

	2021	2020
(in thousands of USD)		
Rental income:		
Fixed lease payments	**12,013**	9,725
Variable lease payments	**1,177**	969
	13,190	10,694
Revenue from contract with customers:		
Common parts exploitation services	**3,566**	3,415
Marketing services	**150**	128
	3,716	3,543
	16,906	14,237

The Group's operations are those described in the last annual financial statements. The major amount of the Group's revenue is represented by rental income from investment properties that falls within the requirements of IFRS 16 *Leases* and amounts to USD 13,190 thousand (unaudited) for the six months ended 30 June 2021 (six months ended 30 June 2020 (unaudited): USD 10,694 thousand).

All other types of services are derived from contracts with customers and fall within the scope of IFRS 15 *Revenue*.

9 Finance income

During six months ended June 2021 finance income comprised foreign exchange gain of USD 2,043 thousand, interest income of USD 229 thousand, other finance income of USD 109 thousand (unaudited) (six months ended 30 June 2020: interest income of USD 103 thousand).

10 Finance expenses

During six months ended 30 June 2021 finance expenses comprised interest expenses of USD 6,362 thousand (unaudited) (six months ended 30 June 2020: interest expenses of USD 5,585 thousand and foreign exchange loss of USD 7,117 thousand (unaudited).

11 Income tax expenses

During six months ended 30 June 2021 income tax expenses mainly comprised deferred income tax benefit of USD 1,242 thousand (unaudited) (six months ended 30 June 2020: deferred income tax expense of USD 4,677 thousand (unaudited)) and current income tax expense of USD 504 thousand (six months ended 30 June 2020: USD 377 thousand)

12 Financial risk management

During the six months ended 30 June 2021, the Group had no significant changes in financial risk management policies as compared to 31 December 2020.

(a) 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 interim condensed 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.

The following table shows the carrying amounts and fair values of financial assets and financial liabilities, including their levels in the fair value hierarchy. It does not include fair value information for financial assets and financial liabilities not measured at fair value if the carrying amount is a reasonable approximation of fair value:

	30 June 2021		31 December 2020	
	Carrying amount	**Fair value Level 2**	Carrying amount	Fair value Level 2
(in thousands of USD)				
Financial liabilities not measured at fair value				
Non –current				
Secured bank loans	**24,350**	**24,838**	27,293	30,804
Unsecured loans from related parties	**21,420**	**23,768**	21,420	20,049
Unsecured loans from third parties	**24,496**	**27,413**	24,745	24,791
Payables for construction works	**15,935**	**17,641**	15,330	18,082
Deferred consideration	**31,305**	**34,932**	31,305	31,376
Other long-term liabilities	**164**	**164**	157	157
	117,670	**128,756**	120,250	125,259
Current				
Secured bank loans (current portion of long-term bank loans)	**22,938**	**13,756**	19,631	23,189
Unsecured loans from related parties (including current portion of long-term loans from related parties)	**9,727**	**10,511**	11,630	11,108
Unsecured loans from third parties	**2,652**	**2,570**	1,099	1,141
Deferred consideration	**3,008**	**3,356**	1,369	1,381
	38,325	**30,193**	33,729	36,819
	155,995	**158,949**	153,979	162,078

13 Commitments and contingencies

(a) Pledged assets

In connection with loans and borrowings, the Group pledged the following assets:

	30 June 2021 (unaudited)	31 December 2020
(in thousands of USD)		
Investment property (note 4(a))	**160,500**	160,500

Bank balances	**1,132**	212
	161,632	160,712

As at 30 June 2021 (unaudited) and 31 December 2020, the Group had also pledged the following:

- Rights on future income of Prisma Alfa LLC under all lease agreements for the period of validity of loan agreement between Prisma Alfa LLC with Raiffeisen Bank Aval.
- Investments in the following subsidiaries: Comfort Market Luks LLC and PrJSC Livoberezhzhiainvest (31 December 2020: PrJSC Ukrpangroup, Comfort Market Luks LLC and PrJSC Livoberezhzhiainvest).

(b) Construction commitments

The Group entered into contracts with third parties to construct a shopping centre in Kyiv and a shopping centre in Odesa for the total amount of USD 50,761 thousand as at 30 June 2021 (unaudited) (31 December 2020: USD 53,255 thousand).

(b) 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, is 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 interim condensed financial statements, if the authorities were successful in enforcing their interpretations, could be significant.

(ii) 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.

In addition, a number of new laws introducing changes to the Russian tax legislation have been 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 the 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.

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 interim condensed financial statements, if the authorities were successful in enforcing their interpretations, could be significant.

(iii) Republic of Cyprus

Operations of the Group in Cyprus are mainly limited to provision of intra-group financing, transactions related to the Assofit legal case and various management activities. Transactions performed by the Cyprus entities of the Group fall within the jurisdiction of Cyprus tax authorities. The Cyprus tax system can be characterised by numerous taxes, legislation may be applied retrospectively, and can be open to wide interpretation. VAT and income tax declarations are subject to review and investigation by authorities that are enacted by law to impose severe fines, penalties and interest charges. A tax year remains open for review by the Tax department during the six subsequent calendar years, however under certain circumstances a tax year may remain open longer.

Additionally, a new transfer pricing legislation was enacted in Cyprus from 30 June 2017, which requires entities to conduct intra-group financing transactions on the arm's length principle (a principle under which transactions are performed at market rates, as would have been performed between unrelated entities). The legislation requires taxpayers to prepare and submit to the tax authorities transfer pricing study documents justifying margins applied to the intra-group financing. The compliance of margins applied to the arms' length principle could be subject to scrutiny on the basis of unjustified tax benefit concept. Given the fact that the above rule has been in force for a limited period of time, currently, there is no established practice of its application by the tax authorities, and there can be no assurance that the tax authorities' interpretations of the approaches will concur with those used by the Group, which could result in the accrual of fines and penalty interest on the Group.

During the prior years, the Group incurred certain foreign legal expenses, where the VAT accounted for on these expenses was fully claimed. Management believes that the Group properly claimed the VAT accounted for on these expenses, on the basis of the plans to further collect reimbursement of the said expenses, being purely of legal nature, from the respective parties in full.

Management believes that it has adequately provided for tax liabilities based on its interpretation of tax legislation, official pronouncements and court decisions.

14 Related party transactions

(a) Control relationships

The Group's largest shareholders are Retail Real Estate OU, Dragon Capital Investments Limited, Deltamax Group OU, Mr. Rauno Teder and Mr. Jüri Põld. The Group's ultimate controlling party is the Estonian individual Mr. Rauno Teder.

During the year ended 31 December 2020, Hillar Teder transferred his equity interest in Retail Real Estate OU to Rauno Teder. As a result, Rauno Teder, who already had held 15.92% of the issued voting rights of the Parent Company (7.48% - directly and 8.34% through Deltamax Group OU), acquired interest of 55.04% in the Parent Company (though RRE), thus increasing his aggregate interest to 70.86% of the Parent Company.

(b) Transactions with management and close family members

Key management remuneration

Key management compensation included in the consolidated condensed statement of profit or loss and other comprehensive income for the six months ended 30 June 2021 is represented by salary and bonuses of USD 293 thousand (unaudited) (six months ended 30 June 2020: USD 252 thousand (unaudited)).

Directors' interests

The direct and indirect interest of the members of the Board in share capital of the Company as at 31 December 2020 and 30 June 2021 and as at the date of signing of these consolidated interim condensed financial statements is as follows:

Name	**Type of interest**	**Effective shareholding rate**
Mr. Jüri Põld	Direct shareholding	7.07%

(c) Transactions and balances with entities under common control

Outstanding balances with entities under common control are as follows:

(in thousands of USD)	**30 June 2021 (unaudited)**	31 December 2020
Short-term loans receivable	**11,344**	11,208
Trade receivables	**1**	1
Other receivables	**8,160**	8,160
Provision for impairment of trade and other receivables and loans receivable from related parties	**(19,503)**	(19,366)
	2	3
Long-term loans and borrowings	**21,420**	21,420
Short-term loans and borrowings	**9,727**	11,630
Trade and other payables	**214**	218
Advances received	**25**	24
	31,386	33,292

Expenses incurred and income earned from transactions with entities under common control for the six months ended 30 June are as follows:

(in thousands of USD)	**2021 (unaudited)**	2020 (unaudited)
Interest expense	**(1,502)**	(1,553)

All outstanding balances with related parties are priced on an arm's length basis and are to be settled in cash in accordance with contractual terms. None of the balances are secured.

15 Subsequent events

Subsequently to the reporting date, the maturities of certain amounts of accrued interest on loans and borrowings and other payables, that were presented within current liabilities as at 30 June 2021, were changed to 1 August 2023, because of non-execution of the contractual rights of the lenders to require settlement of these amounts by 1 August 2021. As at 30 June 2021, such accrued interest is represented within loans and borrowings from related parties amounting to USD 2,717 thousand, loans and borrowings from third parties amounting to USD 2,401 thousand and other current liabilities amounting to USD 3,008 thousand. This has improved the liquidity position of the Group.