Arricano Real Estate PLC

Consolidated interim condensed financial statements 30 June 2016

These consolidated interim condensed financial statements contain 34 pages

Contents

	Note	**30 June 2016 (unaudited)**	31 December 2015
(in thousands of USD)			
Assets			
Non-current assets			
Investment property	*4*	**167,460**	160,310
Long-term VAT recoverable		**2,395**	3,364
Property and equipment		**192**	230
Intangible assets		**37**	36
Total non-current assets		**170,084**	163,940
Current assets			
Inventories		**3**	3
Trade and other receivables		**1,102**	890
Loans receivable		**336**	347
Prepayments made and other assets		**893**	952
VAT recoverable		**1,084**	1,086
Assets classified as held for sale		**1,742**	1,804
Restricted deposits		**-**	800
Cash and cash equivalents		**5,442**	3,349
Total current assets		**10,602**	9,231
Total assets		**180,686**	173,171

The consolidated condensed statement of financial position is to be read in conjunction with the notes to, and forming part of, the consolidated interim condensed financial statements set out on pages 10 to 34.

(in thousands of USD)	*Note*	**30 June 2016 (unaudited)**	31 December 2015
Equity and Liabilities			
Equity			
Share capital	*5*	**67**	67
Share premium		**183,727**	183,727
Non-reciprocal shareholders contribution		**59,713**	59,713
Accumulated deficit		**(40,783)**	(48,466)
Other reserves		**(61,983)**	(61,983)
Foreign currency translation differences		**(130,180)**	(130,008)
Total equity		**10,561**	3,050
Non-current liabilities			
Long-term loans and borrowings	*6*	**47,235**	38,501
Advances received		**455**	556
Finance lease liability		**9,598**	9,933
Trade and other payables	*7*	**3,781**	3,988
Other long-term liabilities		**78**	80
Deferred tax liability		**3,199**	2,806
Total non-current liabilities		**64,346**	55,864
Current liabilities			
Short-term loans and borrowings	*6*	**55,323**	66,385
Trade and other payables	*7*	**21,520**	20,291
Tax payables		**1,078**	676
Advances received		**4,522**	4,539
Current portion of finance lease liability		**2**	4
Other liabilities	*8*	**23,334**	22,362
Total current liabilities		**105,779**	114,257
Total liabilities		**170,125**	170,121
Total equity and liabilities		**180,686**	173,171

These consolidated interim condensed financial statements were approved by the Board of Directors and were signed on 26 September 2016 its behalf by:

Michael Zampelas
Director

Mykhailo Merkulov
Director

The consolidated condensed statement of financial position is to be read in conjunction with the notes to, and forming part of, the consolidated interim condensed financial statements set out on pages 10 to 34.

(in thousands of USD, except for earnings (loss) per share)	*Note*	**Six months ended 30 June 2016 (unaudited)**	Six months ended 30 June 2015 (unaudited)
Revenue	*9*	**10,897**	9,677
Other income		**6**	111
Gain on revaluation of investment property	*4*	**9,141**	3,789
Goods, raw materials and services used		**(346)**	(325)
Operating expenses		**(1,973)**	(2,776)
Employee costs		**(818)**	(830)
Depreciation and amortisation		**(60)**	(57)
Profit from operating activities		**16,847**	9,589
Finance income	*10*	**128**	465
Finance costs	*10*	**(8,666)**	(16,772)
Profit (loss) before income tax		**8,309**	(6,718)
Income tax expense	*11*	**(626)**	(1,982)
Net profit (loss) for the period		**7,683**	(8,700)
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		**(8,238)**	(47,294)
Foreign currency translation differences		**8,066**	18,755
Total items that will be reclassified to profit or loss		**(172)**	(28,539)
Other comprehensive loss		**(172)**	(28,539)
Total comprehensive income (loss) for the period		**7,511**	(37,239)
Weighted average number of shares (in shares)	*5*	**103,270,637**	103,270,637
Basic and diluted earnings (loss) per share, USD		**0.07**	(0.08)

The consolidated condensed 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 interim condensed financial statements set out on pages 10 to 34.

(in thousands of USD)	*Note*	**Six months ended 30 June 2016 (unaudited)**	Six months ended 30 June 2015 (unaudited)
Cash flows from operating activities			
Profit (loss) before income tax		**8,309**	(6,718)
Adjustments for:			
Finance income	*10*	**(128)**	(465)
Finance costs, excluding foreign exchange loss	*10*	**7,165**	6,617
Gain on revaluation of investment property	*4*	**(9,141)**	(3,789)
Depreciation and amortisation		**60**	57
Unrealised foreign exchange loss		**1,477**	9,825
VAT recoverable written-off		**-**	426
Allowance for bad debt impairment		**-**	155
Operating cash flows before changes in working capital		**7,742**	6,108
Change in inventories		**-**	1
Change in trade and other receivables		**(238)**	574
Change in prepayments made and other assets		**26**	(30)
Change in VAT recoverable		**988**	660
Change in trade and other payables		**563**	(1,012)
Change in advances received		**29**	173
Change in other liabilities		**1**	(1)
Change in tax payables		**678**	143
Income tax paid		**(454)**	(243)
Interest paid		**(2,926)**	(2,992)
Cash flows from operating activities		**6,409**	3,381
Cash flows from investing activities			
Acquisition of investment property and settlements of payables due to constructors		**(347)**	(9,319)
Acquisition of property and equipment and intangible assets		**(43)**	(121)
Loans receivable repayment		**-**	9
Change in VAT recoverable		**(49)**	(39)
Placement of the restricted deposit		**-**	(1,467)
Repayment of the restricted deposit		**800**	2,228
Interest received		**128**	215
Cash flows from (used in) investing activities		**489**	(8,494)

The consolidated condensed statement of cash flows is to be read in conjunction with the notes to, and forming part of, the consolidated interim condensed financial statements set out on pages 10 to 34.

(in thousands of USD)	*Note*	**Six months ended 30 June 2016 (unaudited)**	Six months ended 30 June 2015 (unaudited)
Cash flows from financing activities			
Proceeds from borrowings, net of transaction costs		**68**	20,430
Repayment of borrowings		**(4,273)**	(15,049)
Finance lease payments		**(463)**	(268)
Cash flows (used in) from financing activities		**(4,668)**	5,113
Net increase in cash and cash equivalents		**2,230**	-
Cash and cash equivalents at 1 January		**3,349**	832
Effect of movements in exchange rates on cash and cash equivalents		**(137)**	1,249
Cash and cash equivalents at 30 June		**5,442**	2,081

The consolidated condensed statement of cash flows is to be read in conjunction with the notes to, and forming part of, the consolidated interim condensed financial statements set out on pages 10 to 34.

	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 loss for the period							
Net loss for the period (unaudited)	-	-	-	(8,700)	-	-	(8,700)
Foreign exchange losses on monetary items that form part of net investment in the foreign operation, net of tax effect (unaudited)	-	-	-	-	-	(47,294)	(47,294)
Foreign currency translation differences (unaudited)	-	-	-	-	-	18,755	18,755
Total other comprehensive loss (unaudited)	-	-	-	-	-	(28,539)	(28,539)
Total comprehensive loss for the period (unaudited)	-	-	-	(8,700)	-	(28,539)	(37,239)
Balances at 30 June 2015 (unaudited)	67	183,727	59,713	(36,787)	(61,983)	(120,322)	24,415

The consolidated condensed statement of changes in equity is to be read in conjunction with the notes to, and forming part of, the consolidated interim condensed financial statements set out on pages 10 to 34.

	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 income for the period							
Net profit for the period (unaudited)	-	-	-	**7,683**	-	-	**7,683**
Foreign exchange losses on monetary items that form part of net investment in the foreign operation, net of tax effect (unaudited)	-	-	-	-	-	**(8,238)**	**(8,238)**
Foreign currency translation differences (unaudited)	-	-	-	-	-	**8,066**	**8,066**
Total other comprehensive loss (unaudited)	-	-	-	-	-	**(172)**	**(172)**
Total comprehensive income (loss) for the period (unaudited)	-	-	-	**7,683**	-	**(172)**	**7,511**
Balances at 30 June 2016 (unaudited)	**67**	**183,727**	**59,713**	**(40,783)**	**(61,983)**	**(130,180)**	**10,561**

The consolidated condensed statement of changes in equity is to be read in conjunction with the notes to, and forming part of, the consolidated interim condensed financial statements set out on pages 10 to 34.

1 Background

(a) Organization 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 London Alternative Investment Market (London AIM). 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 30 June 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.

During the six months ended 30 June 2016, the Group had no changes in the consolidated entities as compared to 31 December 2015, except as described below:

- On 29 April 2016, the Group's subsidiary U.A. Terra Property Management Limited acquired LLC Green City, a 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. The acquisition of this subsidiary was accounted for as an acquisition of assets and liabilities as it did 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 this acquisition (unaudited). Consideration transferred is also not significant (unaudited). The sale and purchase agreement, amongst other terms, stipulates that certain loans of the acquired subsidiary payable to an entity under common control are to be re-assigned to one of the Group's subsidiaries for a nominal amount of USD 1 per each loan assignment. Accordingly, as at the date of acquisition the relative fair value of these loans is considered to be nil.

- During six months ended 30 June 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.

(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 interim condensed 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 directly 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. 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 65% of foreign currency proceeds to local currency, 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.

Ukraine has been receiving international financial aid helping to fund reforms in the most problematic areas of economy. This international aid allowed the National Bank of Ukraine to increase its foreign currency reserves and improve Ukrainian sovereign credit rating in 2016.

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 30 June 2016, the carrying value of the Group's investment property located in Simferopol, the administrative centre of the Republic of Crimea, amounted to USD 32,100 thousand (unaudited) (31 December 2015: USD 28,500 thousand). Starting from 2015, as a result of sanctions imposed by the United States of America and the EU on individuals and businesses in the Republic of Crimea, the Group is experiencing certain limitations on payments from the bank accounts placed with the bank located in the Republic of Crimea. As at 30 June 2016, the cash placed with this bank amounts to USD 2,883 thousand (unaudited) (31 December 2015: USD 643 thousand). Management believes that acquisition of the company, incorporated in the Russian Federation (refer to note 1(a)), will enable the Group to use cash generated from operations in the Republic of Crimea freely. The ultimate effect of the developments in the Republic of Crimea on the Group's ability to continue operations in this region, to realise its related assets, to manage cash flows 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 negatively affect the Group's results and financial position in a manner not currently determinable. These consolidated interim condensed 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

The Cyprus economy has been adversely affected from the crisis in the Cyprus banking system in conjunction with the inability of the Republic of Cyprus to borrow from international markets. As a result, the Republic of Cyprus entered into negotiations with the European Commission, the European Central Bank and the International Monetary Fund (the "Troika"), for financial support, which resulted in an agreement and the Eurogroup decision of 25 March 2013.

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 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 interim condensed financial statements have been prepared in accordance with IAS 34 *Interim Financial Reporting*. 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 2015. 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).

The results for the six-month period ended 30 June 2016 are not necessarily indicative of the results expected for the full year.

(b) Judgments 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 2015.

(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 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.

For the benefits of principal users, the management chose 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 procedures are performed:

- 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 the 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 2016	31 December 2015
UAH	**24.85**	24.00
RUB	**64.26**	72.88

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

Currency	2016	2015
UAH	**25.54**	21.27
RUB	**70.23**	57.71

As at the date that these consolidated interim condensed financial statements are authorised for issue by the Board of Directors, 21 September 2016, the exchange rate is UAH 25,81 to USD 1.00 and RUB 64,75 to USD 1.00.

(d) Going concern

As at 30 June 2016 the Group's current liabilities exceed current assets by USD 95,177 thousand (unaudited). In addition, the Group has not complied with several loan covenants under the existing loan agreements with the EBRD (refer to note 6), which gives the lender a right to demand immediate repayment of the loans amounting to USD 10,594 thousand (unaudited) as at 30 June 2016. Management has not obtained letters from the lender waiving these breaches. These conditions in aggregate 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 10,561 thousand (unaudited) as at 30 June 2016 and positive cash flows from operating activities for the six months then ended amounted to USD 6,409 thousand (unaudited).

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 the entities under common control, management believes that the Group will not be required to settle the outstanding loans, accrued interest, other liabilities and other payables to related parties in the amount of USD 63,787 thousand (unaudited) plus any accruing interest thereon at least until 30 June 2017.

- 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.

- On 31 August 2016, the Group and the EBRD agreed to and signed indicative terms and conditions for restructuring of loans payable to the EBRD amounting to USD 10,594 thousand (unaudited) as at 30 June 2016. As at 30 June 2016, covenants under these loan agreements were breached and these loans are therefore presented as payable on demand (refer to note 6). Although the abovementioned indicative terms and conditions are not a commitment of the EBRD to sign the amended loan agreements, management believes that restructuring of the abovementioned loans will be successfully completed and that the EBRD will not demand early repayment of these loans. As at the date that these consolidated interim condensed financial statements are authorised for issue, the amended loan agreements have not yet been signed but are expected by management to be executed in the coming months. If the amended loan agreements are not executed as agreed in indicative terms and conditions as currently anticipated, the Group will be liable to repay the full amount of loans due to the EBRD immediately upon demand within a twelve-month period, which would have a material adverse financial impact on the Group.

- The remaining working capital deficiency is planned to be covered by forecasted cash flows from operating activity. Based on the review of actual performance of the Group against budgeted as at the date that these consolidated interim condensed financial statements are authorised for issuance, management believes that the Group will generate sufficient operating cash-flows to finance its operational expenditures and settle liabilities when due.

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

These consolidated interim condensed 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 2016 and the year ended 31 December 2015, the Group operated in and was managed as one operating segment, being property investment, with all 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 IFRS as adopted by the EU and which present aggregated performance of all the Group's investment properties.

3 Significant accounting policies

The accounting policies applied by the Group in these consolidated interim condensed financial statements are the same as those applied by the Group in its consolidated financial statements as at and for the year ended 31 December 2015.

(a) New standards and interpretations not yet adopted

A number of new standards, amendments to standards and interpretations are not yet effective for the six-month period ended 30 June 2016, and have not been applied in preparing these consolidated interim condensed financial statements. Management plans to adopt these pronouncements when they become effective, and has not yet analysed the likely impact of these new standards on its consolidated financial statements.

4 Investment property

(a) Movements in investment property

Movements in investment properties for the six months ended 30 June 2016 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 2016	**6,000**	**44,722**	**99,260**	**23**	**10,305**	**160,310**
Additions (unaudited)	-	-	-	-	**246**	**246**
Fair value gain on revaluation (unaudited)	**(603)**	**1,261**	**8,483**	-	-	**9,141**
Currency translation adjustment (unaudited)	**603**	**(1,537)**	**(943)**	-	**(360)**	**(2,237)**
At 30 June 2016 (unaudited)	**6,000**	**44,446**	**106,800**	**23**	**10,191**	**167,460**

Movements in investment properties for the six months ended 30 June 2015 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 (unaudited)	-	-	-	19	176	195
Transfers (unaudited)	-	-	-	(36)	36	-
Fair value gain on revaluation (unaudited)	(405)	6,763	(2,569)	-	-	3,789
Currency translation adjustment (unaudited)	(295)	(11,780)	(31,441)	(18)	(3,255)	(46,789)
Transfer from assets held for sale (unaudited)	-	4,499	-	8	543	5,050
At 30 June 2015 (unaudited)	6,200	46,754	104,244	28	10,571	167,797

(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 30 June 2016 (unaudited) and 31 December 2015, the fair value of investment property categorized within Level 2 category is USD 27,100 thousand. To assist with the estimation of the fair value of the Group's investment property as at 30 June 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 30 June 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 (unaudited):

- monthly rental rates, ranging from USD 3.00 to USD 68.00 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 12.50% to 16.00% p.a., which represent key unobservable inputs for determination of fair value.

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.

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

As at 30 June 2016, fair value of investment property denominated in functional currency amounted to UAH 3,604,646 thousand (unaudited) and RUB 1,441,265 thousand (unaudited) (31 December 2015: UAH 3,381,091 thousand and RUB 1,416,111 thousand). The increase in fair value of investment property results from increased rental rates invoiced in Ukrainian hryvnia and Russian Rouble due to the increase in the exchange rates applied to the USD equivalent of rental rates fixed in the contracts.

Sensitivity at the date of valuation

The valuation model used to assess the fair value of investment property as at 30 June 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 1,214 thousand (unaudited) (31 December 2015: USD 1,135 thousand) lower. If rental rates are 1% higher, then the fair value of investment properties would be USD 1,214 thousand (unaudited) (31 December 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 7,761 thousand (unaudited) (31 December 2015: USD 7,270 thousand) lower. If the discount rate is 1% less, then the fair value of investment properties would be USD 8,905 thousand (unaudited) (31 December 2015: USD 8,343 thousand) higher.

- If the occupancy rates are 1% higher than those used in the valuation models or are assumed to be 100% for shopping centers in Kyiv and for the first stage of the shopping center in Simferopol, the fair value of investment properties would be USD 472 thousand (unaudited) (31 December 2015: USD 608 thousand) higher. If the occupancy rates are 1% less, then the fair value of investment properties would be USD 473 thousand (unaudited) (31 December 2015: USD 1,115 thousand) lower.

5 Equity

Share capital 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 30 June (unaudited)	**103,270,637**	**66,750**	**51,635**	103,270,637	66,750	51,635
Authorised						
At 1 January and 30 June (unaudited)	**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 Company.

During the six months ended 30 June 2016 and 30 June 2015 the Parent Company did not declare any dividends.

Earnings (loss) per share

The calculation of basic earnings (loss) per share for the six-month period ended 30 June 2016 was based on the profit for the six-month period ended 30 June 2016 attributable to ordinary shareholders of USD 7,683 thousand (unaudited) (six-month period ended 30 June 2015: loss in the amount of USD 8,700 thousand (unaudited)) and a weighted average number of ordinary shares outstanding as at 30 June 2016 of 103,270,637 (unaudited) (30 June 2015: 103,270,637).

The Group has no potential dilutive ordinary shares.

6 Loans and borrowings

This note provides information about the contractual terms of loans.

(in thousands of USD)	**30 June 2016 (unaudited)**	31 December 2015
Non-current		
Secured bank loans	**39,886**	31,231
Unsecured loans from related parties	**7,349**	7,270
	47,235	38,501
Current		
Secured bank loans (current portion of secured long-term bank loans)	**15,721**	28,843
Unsecured loans from related parties (including current portion of long-term loans from related parties)	**39,540**	37,391
Unsecured loans from third parties	**62**	151
	55,323	66,385
	102,558	104,886

Terms and debt repayment schedule

As at 30 June 2016, the terms and debt repayment schedule of bank loans are as follows (unaudited):

(in thousands of USD)	**Currency**	**Nominal interest rate**	**Contractual year of maturity**	**Carrying value**
Secured bank loans				
PJSC "Bank "St.Petersburg"	**USD**	**10.50%**	**2016-2020**	**18,422**
EBRD	**USD**	**1M LIBOR + 7.5%**	**2016-2020**	**16,902**
EBRD	**USD**	**3M LIBOR + 6.5%**	**2016-2018**	**10,594**
Raiffeisen Bank Aval	**UAH**	**18.00%**	**2016-2020**	**9,689**
				55,607
Unsecured loans from related parties				
Bytenem Co Limited	**USD**	**12.00%**	**2017**	**20,374**
Barleypark Limited	**USD**	**10.55%**	**2017**	**17,986**
Retail Real Estate OU	**USD**	**10.50%**	**2019**	**8,234**
Loans from other related parties	**UAH/ USD**	**0.00%-10.00%**	**2017**	**295**
				46,889
Unsecured loans from third parties				
Other	**UAH/USD**	**0.00%**	**2016**	**62**
				62
				102,558

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

(in thousands of USD)	Currency	Nominal interest rate	Contractual year of maturity	Carrying value
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

LIBOR for USD is as follows:

	30 June 2016	31 December 2015
LIBOR USD 3M	**0.65%**	0.61%
LIBOR USD 1M	**0.47%**	0.43%

Retail Real Estate OU

As at 30 June 2016 and 31 December 2015, loan payable to Retail Real Estate OU includes accrued interest of USD 885 thousand and USD 513 thousand, respectively, which is payable semiannually in accordance with loan agreement.

Bytenem Co Limited

In 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.

PJSC "Bank "St. Petersburg"

As at 30 June 2016 (unaudited) and 31 December 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. This breach gave PJSC "Bank "St.Petersburg" a right to demand immediate repayment of the loans amounting to USD 18,422 thousand (unaudited) and USD 20,193 thousand as at 30 June 2016 and 31 December 2015, respectively. As a result, such loans were presented as short-term as at 31 December 2015. In addition, during the six months ended 30 June 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. In June 2016, management obtained the letter from PJSC "Bank "St.Petersburg" waving the above breaches of loan covenants. Accordingly, management believes that the bank will not demand early repayment of the loans. Consequently, as at 30 June 2016, loans amounting to USD 18,422 thousand (unaudited) were presented according to their contractual maturities in 2016-2020.

EBRD

During the six months ended 30 June 2016, the Group breached the repayment schedule in terms of part of the loan principal of two loans payable to the EBRD. This breach gives the EBRD a right to demand immediate repayment of the loans amounting to USD 10,594 thousand (unaudited) as at 30 June 2016, which are therefore presented as short-term in these consolidated interim condensed financial statements. As at the date that these consolidated interim condensed financial statements were authorised for issue, these breaches are not remedied. However, on 31 August 2016, the Group and the EBRD agreed to and signed indicative terms and conditions for restructuring of these loans. Management believes that restructuring of the abovementioned loans will be successfully completed and that the EBRD will not demand early repayment of these loans. As at the date that these consolidated interim condensed financial statements are authorised for issue, the amended loan agreements have not yet been signed.

7 Trade and other payables

Trade and other payables are as follows:

(in thousands of USD)	**30 June 2016 (unaudited)**	31 December 2015
Non-current liabilities		
Payables for construction works	**3,773**	3,981
Trade and other payables to third parties	**8**	7
	3,781	3,988
Current liabilities		
Payables for construction works	**16,647**	15,809
Trade and other payables to related parties	**1,778**	1,785
Trade and other payables to third parties	**3,095**	2,697
	21,520	20,291
	25,301	24,279

8 Other liabilities

As at 30 June 2016 (unaudited) and 31 December 2015, other liabilities are mainly represented by deferred consideration that is payable in respect of the acquisition of Wayfield Limited and its subsidiary Budkhol LLC.

In February 2016, the Group signed an amendment to the share exchange agreement with Vunderbuilt S.A. in order to postpone the payment of this deferred consideration from 30 April 2016 to 30 June 2017.

9 Revenue

Revenue for the six months ended 30 June is as follows:

(in thousands of USD)	**2016 (unaudited)**	2015 (unaudited)
Rental income from investment properties	**10,796**	9,596
Other sales revenue	**101**	81
	10,897	9,677

For the six months ended 30 June 2016, 21% of the Group's rental income was earned from two tenants (15% and 6%, respectively) (six months ended 30 June 2015: 19%, 13% and 6%, respectively) (unaudited).

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. 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.

10 Finance income and finance costs

Finance income and finance costs for the six months ended 30 June are as follows:

(in thousands of USD)	**2016 (unaudited)**	2015 (unaudited)
Interest income	**128**	215
Other finance income	**-**	250
Finance income	**128**	465
Foreign exchange loss	**(1,501)**	(10,155)
Interest expense	**(5,133)**	(4,857)
Interest expense on deferred consideration	**(972)**	(967)
Other finance costs	**(1,060)**	(793)
Finance costs	**(8,666)**	(16,772)
Net finance costs	**(8,538)**	(16,307)

11 Income tax expense

(a) Income tax expense

Income taxes for the six months ended 30 June are as follows:

(in thousands of USD)	**2016 (unaudited)**	2015 (unaudited)
Current tax expense	**143**	356
Deferred tax expense	**483**	1,626
Total income tax expense	**626**	1,982

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 Republic of Crimea, as at 30 June 2016 and 31 December 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 0% 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 six months ended 30 June computed by applying the Ukrainian statutory income tax rate to profit (loss) before tax and the reported tax expense is as follows:

(in thousands of USD)	**2016 (unaudited)**	**%**	2015 (unaudited)	%
Profit (loss) before tax	**8,309**	**100%**	(6,718)	100%
Income tax expense (benefit) at statutory rate	**1,496**	**18%**	(1,209)	18%
Effect of lower tax rates on taxable profit (loss) in foreign jurisdictions	**(942)**	**(11%)**	(853)	13%
Non-deductible expenses	**1,748**	**21%**	1,761	(26%)
Change in unrecognised deferred tax assets	**(888)**	**(11%)**	5,308	(79%)
Foreign currency translation difference	**(788)**	**(9%)**	(3,025)	45%
Effective income tax expense	**626**	**8%**	1,982	(29%)

In accordance with existing Ukrainian legislation tax losses can be carried forward and utilised indefinitely. As at 30 June 2016, management has not recognised deferred tax assets amounting to USD 28,388 thousand (unaudited) (31 December 2015: USD 28,682 thousand) mainly in respect of tax losses carried forward because of significant uncertainties regarding their realisation.

During the six months ended 30 June 2016, deferred tax benefit for the amount of USD 414 thousand was recognised in other comprehensive income (six months ended 30 June 2015: USD 1,054 thousand) (unaudited).

12 Financial risk management

During the six months ended 30 June 2016, the Group had no significant changes in financial risk management policies as compared to 31 December 2015.

(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.

Management believes that for all the financial assets and liabilities, the carrying value is estimated to approximate the fair value as at 30 June 2016 (unaudited) and 31 December 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.

13 Commitments and contingencies

(a) Pledged assets

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

(in thousands of USD)	**30 June 2016 (unaudited)**	31 December 2015
Investment property	**96,170**	91,630
Call deposits	**1,226**	1,255
Restricted deposits	**-**	800
Bank balances	**29**	34
	97,425	93,719

As at 30 June 2016 (unaudited) and 31 December 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, PrJSC Livoberezhzhiainvest, Comfort Market Luks LLC;
- Property rights under the Investment agreement between PrJSC Livoberezhzhianvest, PrJSC Grandinvest and LLC Voyazh-Krym.

(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 22,779 thousand as at 30 June 2016 (unaudited) (31 December 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 operating shopping centres. These non-cancellable lease agreements have remaining terms from one to six 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 are as follows:

	30 June 2016 (unaudited)	31 December 2015
(in thousands of USD)		
Less than one year	**3,767**	5,490
Between one and five years	**3,528**	3,470
More than five years	**328**	666
	7,623	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 is involved in an arbitration dispute with Stockman Interhold S.A. (Stockman), who 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 (the “Option Shares”). 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. As at the date that these consolidated interim condensed financial statements are authorised for issuance, the case of the London Court of International Arbitration is finilized in favour of Arricano.

Initially, the award issued by the Sole Arbitrator on 13 December 2011 in favour of Stockman. However, the matter was remitted to the Sole Arbitrator for further consideration following a successful challenge to that ward by Arricano in the High Court of England and Wales. The Sole Arbitrator subsequently issued second, third, fourth, fifth and sixth awards on 19 August 2014, 8 December 2014, 19 December 2014, 31 March 2015 and 8 October 2015 respectively. Arricano filed damages claim in the arbitration.

In the seventh award delivered on 05th of 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 (the “Eighth Award”) made on 17 August 2016, the tribunal of the London Court of International Arbitration has awarded the costs of approximately US$0.9 million to be paid by Stockman to Arricano. No receivable was recognised in these consolidated interim condensed financial statements, as recoverability of the related asset was not certain.

Stockman has challenged the Second, Fourth, Fifth and the most recently the Seventh Award in the High Court of England and Wales. Stockman’s challenge in respect of the Second Award was unsuccessful. After the Seventh Award Stockman commenced challenge proceedings against the Seventh award and signaled its intent to pursue its challenges to the Fourth and Fifth awards.

On 12 March 2012, Arricano filed an application to the District Court of Larnaca to wind up its associate, Assofit Holdings Limited, on grounds of oppression of minority. Within the frame of this application, on 30 March 2012 Arricano has successfully applied for the appointment of a receiver at the level of Assofit Holdings Limited in order to protect its assets until consideration of the winding up application is completed. On 9 January 2014, based on an interim order of the District Court of Larnaca the powers of the receiver to appoint or change the Board of Directors of Assofit or management of the Ukrainian subsidiaries were temporarily nullified without affecting the powers of the receiver to protect Assofit's assets. The receiver contested this interim order with the District Court of Larnaca. On 21 January 2014, Arricano filed the certiorari application with the Supreme Court of Cyprus to suspend this interim order based on procedural grounds. On 14 November 2014, the court removed all the restrictions that were imposed in the past on the Receiver's powers. On 30 January 2015, following Stockman's application, the court cancelled its previous interim orders on appointment of the Receiver. As at the date that these financial statements are authorised for issue, Assofit is not under receivership. On 14 June 2016 the Court decided to strike out the winding up petition on the ground that Arricano is not qualified to pursue the case, as the Company is neither a creditor nor a contributory.

On 14 October 2013 Stockman, Assofit and the Ukrainian subsidiary of Assofit initiated legal proceedings before the District Court of Nicosia for the alleged violation of fiduciary duties by Arricano, Hillar Teder (the Company's ultimate controlling party) and Dragon Ukrainian Properties and Development PLC (a shareholder of the Company) and recovery of the funds lent based on the loan agreement between Assofit and Filgate. On 7 March 2014, Arricano filed its Defence and Counterclaim against Stockman, Assofit and Prizma Beta LLC, on the basis of a series of violations of the fiduciary duties by Stockman and its nominees. As at the date that these consolidated interim condensed financial statements are authorised for issue by the Board of Directors these litigation proceedings remain pending.

On 20 August 2014, Arricano commenced legal proceedings before the District Court of Nicosia against Assofit, Stockman, Omniserve Ltd and Althor Property Investments Ltd ("Althor Property"). In the aforementioned process, Arricano succeeded in obtaining interim orders. The interim orders imposed restrictions on the transfer and/or otherwise alienation of Stockman's shares in Assofit as well on Stockman's voting and shareholding rights and inter alia, ordered Althor Property to transfer the Assofit shares it received back to Stockman. Despite the very good prospects of the orders becoming absolute, i.e. valid until the determination of the main action, the court decided on 27th May 2016 to dismiss the orders and ex parte application. The case is set for directions for the 1st November 2016.

On 30 March 2016 Arricano filed an action in respect of the illegal transfer of the Filgate Loans. The service is still pending and thus the case has not yet been set for the court.

On 31 May 2016 following the issuance of the 7th Award by the LCIA Arricano has filed a petition in aid of the ongoing arbitration. On the same day and within the contexts of this petition an ex parte application was filed requesting from the court, inter alia, an order prohibiting the alienation in any way of the shares in Assofit. The Court issued the requested orders and at the moment completion of service of process to all interested parties is still pending. The case is fixed for directions for the 10th October 2016.

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 repossession of ownership rights to the Skymall shopping centre which was pledged to secure this loan in September 2014. Management of the Company believes that these transfers are illegal and requests that the Company will transfer to Stockman the call option deposit placed as at 31 December 2015 only after these transfers are nullified. As at the date that these 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 30 June 2016 (unaudited) and 31 December 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 Skymall shopping centre in September 2014, management believes that investment in Assofit is fully impaired as at 30 June 2016 (unaudited) and 31 December 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. As at the date that these consolidated interim condensed financial statements are authorised for issue, the results of the latest hearing of the first instance court that took place on 15 April 2016 in written proceeding are not yet available. 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 30 June 2016, the carrying value of the land plot and property under construction at Mezokred Holding LLC is USD 4,918 thousand and USD 775 thousand, respectively (unaudited).

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

Starting from October 2013, the Group is 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 (or 28% of leasable area of this shopping centre). On 22 January 2016, Arbitration court of the Russian Federation ruled against Voyazh-Krym LLC and the latter filed an appeal. On 11 April 2016, Arbitration Court of Appeal cancelled the above decision of 22 January 2016 and decided to reconsider the case under the rules of the court of first instance. As at the date that these consolidated interim condensed financial statements are authorised for issuance, the case is still under the consideration of Arbitration Court of Appeal. 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, with a carrying value of USD 22,430 thousand as at 30 June 2016 (unaudited). The ouflow of economic benefits that will be required should Voyazh-Krym LLC be required to perform reconstruction of the part of the shopping center cannot be measured reliable, but can be material.

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 characterized 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 interim condensed 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 interim condensed financial statements.

(ii) Republic of Crimea

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 interim condensed 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

As part of its operations, the Parent Company incurred various costs, treatment of which may be challenged by the Cyprus VAT authorities. Should the tax authorities be successful in enforcement of their view, the Group will be liable to pay additional VAT and related penalties, amount of which can not be assessed at the reporting date. No provision for such potential charges is made in these consolidated interim condensed financial statements as management believes that it is not probable that there will be a significant outflow of economic benefits related to these charges.

14 Related party transactions

(a) Control relationships

As at 30 June 2016, the Group’s shareholders are Retail Real Estate OU, 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.

During the six months ended 30 June 2016, one of the Group’s shareholders, Retail Real Estate OU, which represented the interest of the ultimate controlling party, Hillar Teder, acquired shares in the Group that belonged to other shareholders, Retail Real Estate S.A., Vunderbuilt S.A. and Sigma Real Estate Limited, that also represented the interest of the ultimate controlling party. As a result of this transaction, as at the date that these consolidated interim condensed financial statements are authorised for issuance, Retail Real Estate O.U. directly controls 55.45% of the voting shares of the Parent Company, without change in the ultimate controlling party.

(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 2016 is represented by salary and bonuses of USD 308 thousand (unaudited) (2015: USD 150 thousand (unaudited)).

(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 2016 (unaudited)**	31 December 2015
Long-term loans receivable	**41,387**	41,365
Short-term loans receivable	**8,807**	8,700
Trade receivables	**1,514**	1,567
Other receivables	**9,037**	9,066
Provision for impairment of loans receivable and trade and other receivables from related parties	**(60,735)**	(60,694)
	10	4
Long-term loans and borrowings	**7,349**	7,270
Short-term loans and borrowings	**39,540**	37,391
Trade and other payables	**1,778**	1,785
Other liabilities	**23,334**	22,362
Advances received	**28**	29
	72,029	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 6 and 8.

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)	**2016 (unaudited)**	2015 (unaudited)
Interest expense	**(3,128)**	(2,887)
Operating expenses	**(52)**	(150)

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

(d) Guarantees issued

The Group’s related parties issued guarantees securing loans payable by Ukrainian subsidiaries of Arricano Real Estate PLC to the EBRD, PJSC “Bank “St.Petersburg”. The guarantees cover the total amount of outstanding liabilities in relation to the EBRD as at 30 June 2016 of USD 10,594 thousand (unaudited) (31 December 2015: USD 11,210 thousand) and in relation to PJSC “Bank “St.Petersburg” as at 30 June 2016 of USD 18,422 thousand (unaudited) (31 December 2015: USD 20,193 thousand).

15 Subsequent events

Subsequent to the reporting period end, the Group and the EBRD agreed to and signed indicative terms and conditions for restructuring of loans payable (refer to notes 2(d) and 6).

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INDEPENDENT AUDITORS' REPORT ON REVIEW OF CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

TO THE MEMBERS OF

ARRICANO REAL ESTATE PLC

Introduction

We have reviewed the accompanying condensed consolidated interim statement of financial position of Arricano Real Estate Plc and its subsidiaries ("the Group") as at 30 June 2016, the condensed consolidated interim statements of comprehensive income, changes in equity and cash flows for the six- month period then ended, and notes to the interim financial statements ("the condensed consolidated interim financial statements"). Management is responsible for the preparation and presentation of this condensed consolidated interim financial statements in accordance with IAS34 "Interim Financial Reporting". Our responsibility is to express a conclusion on this condensed consolidated interim financial statements based on our review.

Scope of Review

We conducted our review in accordance with International Standard on Review Engagements 2410, "Review of Interim Financial Information Performed by the Independent Auditor of the Entity." A review of interim financial statements consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the accompanying condensed consolidated interim financial statements as at 30 June 2016 is not prepared, in all material respects, in accordance with IAS 34 "Interim Financial Reporting".

Emphasis of matter

Without qualifying our opinion we draw you attention to the following:

1. Note 1(b) to the consolidated interim condensed financial statements, which describes the political and social unrest and regional tensions in Ukraine that started in November 2013 and escalated in 2014 and afterwards. The events referred to in Note 1(b) have adversely affected the Group and could continue to adversely affect the Group's results and financial position in a manner not currently determinable.

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2. Note 2(d) to the consolidated interim condensed financial information, which describes that as at 30 June 2016 the Group's current liabilities exceed current assets by USD 95,177 thousand. This condition, along with the other matters described in Note 2(d), indicate the existence of a material uncertainty that may cast significant doubt about the Group's ability to continue as a going concern.

3. Note 13 (d) (ii) to the consolidated interim condensed financial statements, which describe that, as at 30 June 2016, the Group was involved as a defendant in a lawsuit in respect of nullifying lease rights of the subsidiary for the land plot with a carrying amount of USD 4,918 thousand and nullifying the state authority's permits for the construction on the land. The ultimate outcome of the matter cannot be currently determined.

4. Note 13 (d) (iii) to the consolidated interim condensed financial statements, which describe that, as at 30 June 2016, the Group was involved as a defendant in a lawsuit concerning the request of the claimant for demolishing of the part of the shopping center held by one of the subsidiaries with an area of 0.73 ha, equaling to 28% of leasable area of this shopping center. The potential financial effect as well as the ultimate outcome of the legal case cannot be currently determined.

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
3022 Limassol
Cyprus

Limassol, 26 September 2016