arricano
commercial real estate

Annual Report 2017

About Arricano

Arricano is one of the leading real estate developers and operators of shopping centres in Ukraine.

Today, Arricano owns and operates five completed shopping centres comprising 147,500 square metres of gross leasable area, a 49.9 per cent shareholding in Assofit and land for a further three sites under development.

2017 Highlights

- Recurring revenues increased by 19 per cent to USD 27.5 million (2016: USD 23.1 million).
- Operating profit increased to USD 65.5 million (2016: USD 43.8 million), both figures including revaluation gains.
- Total fair valuation of the Company's portfolio was USD 221.3 million as at 31 December 2017 (2016: USD 175.7 million).
- Overall occupancy rates for 2017 increased to 98.7 per cent against 98.3 per cent in 2016.
- As at 31 December 2017, the Company's borrowings at project level remain conservative with a banks' loan to investment property value ratio of 19.5 per cent, against 28.5 per cent in 2016.
- Net asset value of USD 52.2 million (2016: USD 24.2 million).

27.5m

Recurring Revenues (USD)

65.5m

Operating Profit (USD)

221.3m

Total Value of the Portfolio (USD)

98.7%

Overall Occupancy Rate

Our Portfolio at a Glance

Completed Portfolio

Consisting of five shopping centres located in the cities of Kryvyi Rih, Zaporizhzhia, Simferopol and Kiev. Spread over 147,500 square metres offering consumers a range of domestic and international retail brands.

Read more:
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Development Properties

Following the IPO on AIM, the Company acquired four development sites for approximately USD 66 million, one of which was completed and three are at different stages of development. Two are located in Kiev and one is in Odessa.

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Investment

49.9 per cent shareholding in Assofit, ex-holding company of Sky Mall, one of the City's largest shopping centres, home to a range of leading retail brands including Marks & Spencer, Topshop and Comfy.

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Strategic Report

Directors' Report

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Chairman’s Statement

2017 was a successful year for Arricano and a continuation of the progress made by the Company in 2016. Delivering revenue growth of 19 per cent in the current market reflects well on the management team and the strategies they are pursuing to increase the appeal of the shopping centres to both consumers and tenants.

In 2017, Arricano delivered a positive performance increasing rental income by 19 per cent to USD 27.5 million and growing recurring profits by 10.5 per cent to USD 17.6 million (excluding gains from property revaluation). Along with improving economic stability in Ukraine, Arricano has significantly outperformed the market with these results, attracting and maintaining new tenants and creating modern retail environments which consumers want to shop and socialise in.

It is noteworthy that rental income from the portfolio now exceeds income generated in 2013 which was the year before the military conflicts started. Since that time, the social and economic environment has been particularly challenging. It is therefore a significant achievement for Arricano to have not only maintained the portfolio but to have expanded it with the opening of the Prospekt Mall in 2014 and to have adapted the business to be able to grow in the current environment.

Arricano's management team has been dynamic in its approach to understanding and anticipating new trends in 21st Century retailing and their impact upon city based shopping centres. The focus has been on working in partnership with tenants to jointly enhance the attraction of each Arricano shopping centre, making them places where consumers want to visit in order to spend time relaxing, socialising and shopping. To achieve this objective, a key focus in 2017 was managing tenant mix and turnover and ensuring tenants were rotated to keep retail environments refreshed and new.

The success of the Company's strategy to increase the appeal of each shopping centre in the portfolio is reflected in the significant increase in visitor numbers up by 17 per cent in 2017 to 45.2 million visitors. This is an excellent achievement and demonstrates the significant appeal of the shopping centres.

Tenant demand for space has continued to be strong and the Company has worked hard to select new tenants who add to the appeal and ambience of the shopping centres, thereby increasing occupancy and number of visitors. Occupancy across the portfolio improved to 98.7 per cent, up from 98.3 per cent at 31 December 2016, demonstrating Arricano's ability to both attract new and keep existing tenants. In 2017, the Company signed 101 new lease agreements relating to 11,574 square metres of retail space.

As at 31 December 2017, Arricano had 147,500 square metres of completed assets spread across five completed shopping centres. In addition, the Company also owns title rights for 14 hectares of development land divided into three specific sites which are at varying stages of development. These are in Lukianivka and Petrivka (both Kiev), as well as Rozumovska (Odessa).

During the financial year, the ongoing court case regarding Arricano's 49.97 per cent shareholding in Assofit Holdings Limited ('Assofit'), the holding company which held the Sky Mall shopping centre, continued with further awards from the High Court of England and Wales ruling in Arricano's favour. Arricano's focus is now on enforcement of the Court's decision and seeing the rightful return of the asset to the Company. In October 2017, Arricano became one of 46 member companies of the Ukrainian Network of Integrity and Compliance (UNIC) a new movement aiming to promote ethical business practices.

During 2017, Arricano was nominated for and won a series of industry awards reflecting the Company's leadership across multiple areas. At the well regarded Retail & Development Business Awards, Arricano won awards for Corporate & Social Responsibility, Marketing and came second in The Best Medium-Sized Shopping Mall rating. The National Commercial Property awards saw Arricano win the Best Marketing Project in Shopping Malls for its social campaign 'Change Old Things for New'. Since the year-end, Arricano attended the Consumer's Choice Retail Awards and won awards for best shopping mall in Kryvyi Rih, and the best shopping mall in Zaporizhia.

On behalf of the Board I would like to thank all the employees across the business, for their contributions and commitment to the business during 2017 and I look forward to them achieving another successful year in 2018.

Arricano's long-term strategy remains focused on developing and protecting value of the portfolio. Key metrics of visitor numbers and occupancy demonstrate the success of the management's strategies to date. However, retail is a fast-moving world and the Company is focused on anticipating future trends and ensuring that Arricano centres maintain their strong appeal.

Philip Scales
Interim Independent Chairman
25 April 2018

'Occupancy across the portfolio improved to 98.7 per cent, up from 98.3 per cent at 31 December 2016, demonstrating Arricano's ability to both attract new and keep existing tenants.'

2017 was a satisfying year for the business, while the economy in Ukraine grew by 2.5 per cent, Arricano grew much faster recording a 19 per cent increase in sales together with the independent valuation of the portfolio of assets increasing by 26 per cent to USD 221 million.

Introduction

This was undoubtedly a pleasing performance and a reflection of the Company's success in continuing to enhance the appeal of the Group's shopping centres.

2017 was also the year of the Customer Experience with the management team focused on better understanding the primary issues facing tenants and visitors. Research combined with practical experience helped to identify areas where the Company has been able to remove potential issues and thereby increase loyalty and ultimately revenues.

Results

Recurring revenues for the period were USD 27.5 million (2016: USD 23.1 million). As a result, the Net Operating Income ('NOI') from the operating properties excluding revaluation gains were USD 17.6 million compared to USD 15.9 million in 2016.

Profit before tax was USD 33.6 million (2016: USD 29.2 million). This increase was achieved through a combination of improved recurring revenues and an increase in the valuation of the Company's property portfolio.

The portfolio of assets was externally and independently valued as at 31 December 2017 by Expandia LLC, part of the CBRE Affiliate Network. The portfolio was valued at USD 221.3 million (31 December 2016: USD 175.7 million), the increase in the value of the portfolio was primarily driven by the increase in rental income and through conservative operational cost management.

Bank debt at the year-end was USD 43 million, with the majority of borrowings at the project level at an average interest rate of 11.1 per cent. Loans mature between 2018 and 2020 and the Company's banks' loan to investment property value ratio is 19.5 per cent. In addition, there was USD 1.2 million of restricted cash, cash equivalents, and restricted deposits, as at 31 December 2017.

The Market

With 45.2 million visits to Arricano's shopping centres in 2017, it is clear consumers are still enjoying visiting shopping centres, despite global trends towards shopping online and the wider political and economic challenges that persist in Ukraine. The outlook for the business is therefore positive and the management team remains focused on ensuring the Company is constantly adapting and keeping up with modern trends and lifestyle preferences.

To that end in 2017, technology was a made a central feature of the Group, with the objective of incorporating technology-led solutions across the business. Investment in these new solutions is supporting internal functions, whilst also being shared with tenants to support their businesses with retail focused online tools such as 'Portal for Tenants' providing access to all documentation and additional services to increase tenants' turnover.

2017 also saw a significant increase in the use of social media across the business, moving away from more traditional communication channels to focus on digital. Arricano estimates social media interaction increased sixfold during the period under review, with each shopping centre launching dedicated YouTube channels as part of this strategy. Through the use of these digital channels, the Company is also compiling a database of customer preferences, based upon their digital behaviour which is intended to support more targeted customer communication in the future.

At the heart of the Company's operational focus is the simple aim of enhancing the appeal of the shopping centres. Central to this, is maintaining the rotation of tenants so that each shopping centre is able to offer new brands and new stores, thereby keeping the experience of visiting each shopping centre fresh. Selection of new tenants is a genuine skill and the Company is applying increasing resources to researching potential tenants and assessing their likely level of appeal to consumers.

These efforts are clearly producing results given the 17 per cent increase in visitor numbers during the year. Alongside achieving a good mix of tenants an important reason behind the popularity of the Company's shopping centres is having the right balance of social spaces within each centre. With this in place, visitors can come and find their favourite retailers under one roof and also enjoy the well-designed social spaces to meet, eat and relax.

In terms of the new developments, the Company is progressing projects in Odessa and Lukyanivka, Kiev. Our main focus is on development of the Lukyanivka project, construction is underway and we are currently assessing financing options to complete the project in 2020.

Outlook

As a developer and operator of city centre shopping centres Arricano is a market leader in Ukraine. Maintaining this position requires Arricano to be constantly evolving its offering to consumers and tenants alike. In 2018, an important focus for the Group is to improve upon its environmental credentials, currently the Company is evaluating the benefits of eco-friendly energy solutions such as solar panels and solar blinds within the Group.

Trading in 2018 has continued to be positive with occupancy and rental income in line with management expectations.

Mykhailo Merkulov
Chief Executive Officer
25 April 2018

Operating Portfolio

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

Sun Gallery (Kryvyi Rih)

Key statistics

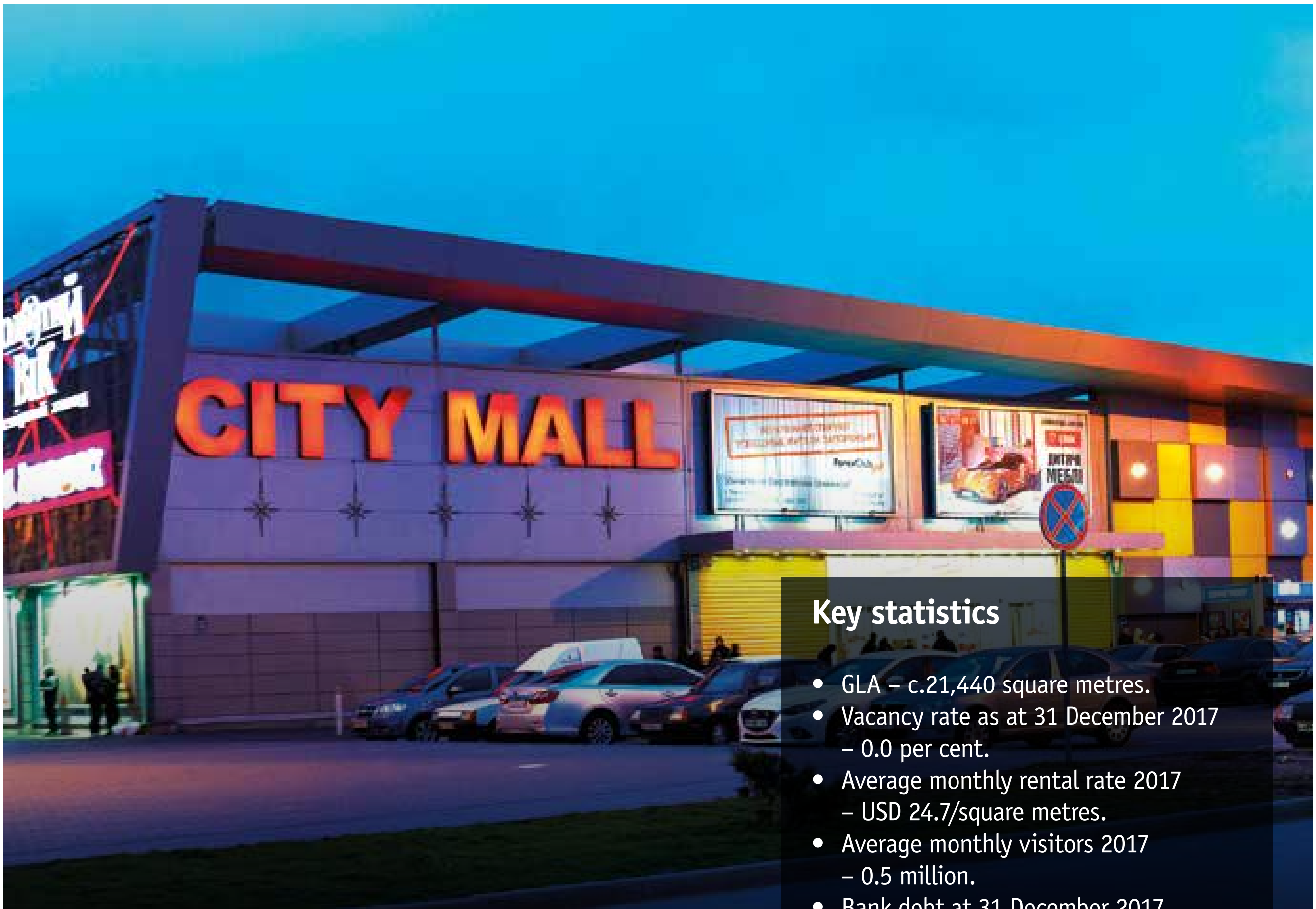
- GLA – c.37,470 square metres.
- Vacancy rate as at 31 December 2017 – 0.4 per cent.
- Average monthly rental rate 2017 – USD 12.7/square metres.
- Average monthly visitors 2017 – 0.4 million.
- Bank debt at 31 December 2017 – USD 7.0 million.
- Valuation at 31 December 2017 – USD 25.1 million.

Sun Gallery, opened in 2008, is one of the largest shopping malls in Kryvyi Rih.

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

The shopping centre is on two levels, spanning a total GLA of approximately 37,470 square metres. There are approximately 139 tenants, including children's entertainment zone, a food court with restaurants and cafes. During 2017, 25 new agreements were signed bringing new brands to the Sun Gallery, including brands that were previously unavailable in the region. Two anchor tenants were added: LC Waikiki (fashion) and Jysk (home goods) both stores opened in 2017.

City Mall (Zaporizhzhia)



Key statistics

- GLA – c.21,440 square metres.
- Vacancy rate as at 31 December 2017 – 0.0 per cent.
- Average monthly rental rate 2017 – USD 24.7/square metres.
- Average monthly visitors 2017 – 0.5 million.
- Bank debt at 31 December 2017 – USD 7.4 million.
- Valuation at 31 December 2017 – USD 24.5 million.

City Mall is one of the largest shopping centres in Zaporizhzhia with a total GLA of approximately 21,440 square metres on a single level.

The shopping centre is located on the Dnipro river approximately 3 kilometres from Zaporizhzhia city centre, between two densely populated areas of Zaporizhzhia in the Alexandrovskyy administrative district (1b Zaporizska street) with convenient accessibility by public and private transport.

City Mall comprises a gallery with approximately 88 international and local tenants, including a food court with 5 restaurants, a children's entertainment zone and parking which is shared with DIY superstore Epicentres. City Mall's anchor tenants are the hypermarket Auchan, which is the largest in the city, and the electronics store Comfy. During 2017, 14 new contracts were signed bringing new brands to the City Mall, including brands that were previously unavailable in the region. Building upon the fourth successive year of nil vacancy rates, the tenant portfolio continues to be strengthened, with additions such as McDonald's.

South Gallery (Simferopol)

Key statistics

- GLA – 33,390 square metres.
- Vacancy rate as at 31 December 2017 – 0.5 per cent.
- Average monthly rental rate 2017 – USD 19.4/square metres.
- Average monthly visitors 2017 – 0.8 million.
- Bank debt at 31 December 2017 – USD nil.
- Valuation at 31 December 2017 – USD 46.8 million.

The site is located in the north of Simferopol, about five minutes' driving distance from one of the city's major crossroads, Moskovska Square.

The shopping centre is linked to the city centre and residential areas east of the city by one of the main thoroughfares of Simferopol. The primary shopping centre catchment area includes northern parts of the Kyivskyi and Zaliznychnyi districts. The secondary area covers almost the whole city, except for its very southern parts.

South Gallery shopping centre (Phases I and II) is situated on a land plot with a total area of 10.2 hectares. Phase I of the shopping centre tenants include Auchan (international hypermarket chain), with a small gallery. With the completion of Phase II in February 2014 the mall is now a regional destination shopping centre with a total GLA of 33,390 square metres.

During 2017, 20 new lease contracts were signed, including LCWaikiki (expected to be opened in 2018) and Zenden.

RayON (Kiev)

Key statistics

- GLA – c.24,300 square metres.
- Vacancy rate as at 31 December 2017 – 4.64 per cent.
- Average monthly rental rate 2017 – USD 16.8/square metres.
- Average monthly visitors 2017 – 0.5 million.
- Bank debt at 31 December 2017 – USD 16.1 million.
- Valuation at 31 December 2017 – USD 34.9 million.

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

The shopping centre has a GLA of approximately 24,300 square metres on two levels, with approximately 860 parking spaces. The concept for RayON is a district shopping centre, which focuses on food, clothing and convenience products. The shopping centre is anchored by a Silpo foods supermarket, one of the biggest supermarket chains in Ukraine and a member of the Fozzy group. Electronics supermarket Comfy also operates within the shopping centre.

RayON has several restaurants and a children's entertainment zone to complement the retail facilities. RayON is located in the middle of the Desnjanski district, one of the most densely populated areas in Kiev.

Rayon completed the refurbishment of its food court and the installation of baby-rooms in the centre has produced very positive feedback from customers with young children. During 2017, 18 new lease contracts were signed, including McDonalds. 'Boomer' (Cinema) opened two additional halls.

Prospect (Kiev)

Key statistics

- GLA – c.30,900 square metres.
- Vacancy rate as at 31 December 2017 – 1.7 per cent.
- Average monthly rental rate 2017 – USD 13.9/square metres.
- Average monthly visitors 2017 – 1.5 million.
- Bank debt at 31 December 2017 – USD 12.7 million.
- Valuation at 31 December 2017 – USD 43.7 million.

SEC Prospect is located directly on the inner ring road of Kiev on the left bank of the Dnipro river in the Desnianskyi administrative district, with good automobile accessibility and public transport links.

The area is already recognised as a popular shopping destination, located close to a large open-air market and a bazaar-style shopping centre (SC Darinok).

The SEC consists of a two-storey retail and leisure complex with a total gross building area of approximately 61,872 square metres (excluding roof and surface parking and excluding the hypermarket building referred to below) and a GLA of approximately 30,900 square metres and parking with 1,350 parking spaces. The centre opened at the end of 2014.

2017 saw the successful continuation of free training sessions for shop personnel, building on demand from the previous year. During 2017, 24 new lease contracts were signed. Brands such as Vovk and Budynok Ihrashok were introduced as tenants, with international brands such as Xiaomi and Smyk also joining the centre.

Development Properties

Lukianivka (Kiev)

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

Land plot:	4.14 hectares
Title:	Leasehold title plus title to several buildings (historical landmarks) on the site
Development:	Retail, leisure and entertainment centre
Gross construction area (GBA):	c.78,000 square metres for the shopping centre (plus c.38,500 square metres GBA for parking)
Gross leasable area (GLA):	c.47,000 square metres
Parking spaces:	To include roof parking and underground parking
Type:	City shopping centre (pocket hypermarket anchored) with residential
Actual construction start date:	Q4 2013
Forecast opening date:	2020

Rozumovska (Odessa)

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

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

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

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

Petrivka (Kiev)

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

Rental income represents the majority of revenues and in 2017, this increased by 19 per cent to USD 27.5 million (2016: USD 23.1 million).

The total fair valuation of the Company's portfolio was USD 221.3 million as at 31 December 2017 (2016: USD 175.7 million). The main reasons for the increase of fair value of the Company's portfolio were successful rotations of lessees, increase in rental rates and close control of costs. Operating expenses during the period were USD 7.1 million, compared to USD 4.5 million in the previous year reflecting increases primarily in consulting and legal expenses.

As a result of the above, profit from operating activities has increased to USD 65.5 million (2016: USD 43.8 million).

Finance expenses in 2017 increased to USD 32.5 million being a result of recognised foreign exchange losses (2016 USD 17.7 million), while finance income was USD 0.7 million (2016 USD 3.1 million).

The Company's net profits for the year ended 31 December 2017, was USD 25.8 million (2016: USD 23.5 million). The improvement has come from property valuation gains, but held back by the increase in finance costs.

Net Asset Value as at 31 December 2017 was USD 52.2 million (2016: USD 24.2 million), resulting in an Adjusted Net Asset Value per Share of USD 0.51 (2016: USD 0.23).

Total assets, as at 31 December 2017, amounted to USD 230.9 million (2016: USD 187.1 million), an increase of 23.4 per cent from the previous year. This mainly related the increase in investment property value, as well as trade and other receivables.

Cash balances as at 31 December 2017 including cash equivalents and current deposits amounted to USD 2.6 million (2016: USD 4.9 million).

As at 31 December 2017, the Company had USD 98.7 million of outstanding borrowings.

Tetyana Novytska
Chief Financial Officer
25 April 2018

'The Company's net profits for the year ended 31 December 2017, was USD 25.8 million (2016: USD 23.5 million).'

Directors' Report

The Board of Directors of Arricano Real Estate PLC (the 'Company') submits to the members its Annual Report together with the audited consolidated financial statements of the Company and its subsidiary companies (the Company and its subsidiaries together referred to as the 'Group') for the year ended 31 December 2017.

Incorporation

Arricano Real Estate PLC (Arricano, the Company or the Parent Company) was incorporated in Cyprus on 31 January 2008 as a private limited liability company. On 12 September 2012 the name of the Company was changed from 'Arricano Trading Limited' to 'Arricano Real Estate PLC' and the Company was converted into a public limited liability company in accordance with provisions of the Cyprus Companies Law, Cap. 113.

Principal Activities

The principal activities of the Group are real estate development and construction and holding of investment properties.

Financial Results

The Group's financial results for the year ended 31 December 2017 and its financial position at that date are set out in the consolidated statement of profit or loss and other comprehensive income and in the consolidated statement of financial position.

The net profit of the Group for the year ended 31 December 2017 amounted to USD 25,807 thousand (2016: USD 23,493 thousand). This increase was mainly due to the USD 19,945 thousand increase in the gain on revaluation of investment property, offset by the USD 14,839 thousand increase in finance costs and USD 2,601 thousand increase in operating expenses.

The Group's revenue mainly consists of rental income from the portfolio of the completed properties. During the year ended 31 December 2017 the Group's rental income amounted to USD 27,549 thousand (2016: USD 23,090 thousand). The increase in revenue is attributable mainly to the increase in rental rates and foreign exchange rates. As a result of the above, profit from operating activities has increased by 49 per cent to USD 65,453 thousand (2016: USD 43,843 thousand).

During the year ended 31 December 2017, the Group earned positive cash flows from operating activities amounting to USD 11,559 thousand (2016: USD 10,691 thousand). These cash flows were mainly used for repayments of loans and borrowings amounting to USD 6,777 thousand for the year ended 31 December 2017 (2016: USD 9,309 thousand).

Net Asset Value as at 31 December 2017 was USD 52,182 thousand (2016: USD 24,180 thousand), resulting in an Adjusted Net Asset Value per share of USD 0.52 (2016: USD 0.23). The increase in NAV was driven primarily by the growth in the Group's property valuation as well as positive cash flows.

The total fair valuation of the Group's portfolio was USD 221,265 thousand as at 31 December 2017 (2016: USD 175,663 thousand). The main reasons for increase in fair value of the Group's portfolio were successful rotations of lessees, increase in rental rates and increase in the currency exchange rates used for billing tenants.

As at 31 December 2017, the Group's current liabilities exceed current assets by USD 69,293 thousand. At the same time, the Group has positive equity of USD 52,182 thousand as at 31 December 2017, generated net profit of USD 25,807 thousand and positive cash flows from operating activities amounting to USD 11,559 thousand. The Group has financial support from the ultimate controlling party. Based on representations received from entities under common control, management believes that the Group will not be required to settle the outstanding loans, accrued interest and other payables to related parties in the amount of USD 9,428 thousand that are included within short-term liabilities during the year ended 31 December 2017. Moreover, management is looking for ways to restructure some of the bank loans. For more details on the measures that management is taking to overcome the liquidity gap, refer to Note 2 (e) of the consolidated financial statements.

Review of Developments, Position and Performance of the Group's Business

The current financial position and performance of the Group as presented in the consolidated financial statements is considered satisfactory. The management has plans to further increase occupancy rates and to improve tenants mix of the malls by the attraction of well-known European and local retailers, to increase rental rates and exchange rates used for billing the tenants. Moreover, the Group provides significant marketing and PR support for tenants in order to increase their turnover.

The Company is the owner of the entities owning and operating five trade centres with total gross leasable area ('GLA') of 147,500 square metres, located in Kiev, Simferopol, Zaporizhzhya and Krivyi Rig. The Company also owns title rights for 14 ha of development land divided into three specific sites which are at varying stages of development.

The Company continues the development of the Lukyanivka project in Kiev. During the year ended 31 December 2017 the development was financed by internal resources. For the following financial year management is focused on securing external financing for this project and is in negotiations with Ukrainian and European banks.

Dividends

The Directors do not recommend the payment of a dividend for the financial year ended 31 December 2017.

Main Risks and Uncertainties

The main risks and uncertainties faced by the Group, together with the Group's objectives, policies and processes for measuring and managing those risks, are disclosed in Note 22 of the consolidated financial statements.

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

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

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

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

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

The carrying amount of financial assets represents the maximum credit exposure. In addition to the credit risk, the Group is exposed to the risk of non-recoverability of VAT recoverable, prepayments made and other assets amounting in total to USD 2,454 thousand as at 31 December 2017 (2016: USD 3,183 thousand).

Liquidity risk
The Group's approach to managing liquidity is to ensure, as far as possible, that it will have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Group's reputation.

Market risk
The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return.

Future Developments of the Group

Arricano continues to outperform the market in the context of the wider environment. The increase in occupancy to 98.7 per cent during 2017 is an excellent achievement. The asset and tenant base of the business is strong and management continues to work hard to further strengthen it with a focus on the Customer Experience of the Group's tenants and all visitors to the malls.

Following the 'Service' year of 2016, and a 'Customer Experience' year in 2017 Arricano is declaring 2018 to be a 'Phygital (Physical plus Digital)' year. The Group management believes that in a new Experience Economy, the increased loyalty of B2C and B2B customers will enable an increase in revenues. Focus on Customer Experience will involve significant research and analysis activities which will be followed by product and tenant mix tuning. Management will also continue to support tenants in helping to increase their turnover, while visitors will continue to see changes in the product and service offering in their malls which is expected to increase frequency of visits and lengths of stay in Arricano malls. Management is confident that in time Ukraine will recover and at that point Arricano will be able to reap the reward of its continued investment in the existing and future portfolio.

Share Capital

There were no changes in the share capital of the Company during the year.

Director's Shareholdings

The direct and indirect shareholdings of the members of the Board in the Company's issued share capital as at 31 December 2017 and at the date of signing of these consolidated financial statements is as follows:

Name	Type of interest	Effective shareholding rate
Juri Pold	Direct shareholding	7.07%

Branches

During the year ended 31 December 2017, the Company did not operate any branches.

Board of Directors

The members of the Company's Board of Directors as at 31 December 2017 and at the date of this report are presented on page 1. Mr. Raul Parusk resigned on 1 February 2017 and Mr. Rupert Cottrell resigned on 6 September 2017. Mr. Juri Pold was appointed to the Board on 10 August 2017. Based on the provisions of the Company's Articles of Association, all directors continue in office. Only directors, which are appointed by the Board of Directors are subject for re-election from the shareholders at the Annual General Meeting. The Company may remove any Director by ordinary resolution.

The remuneration of the Board of directors for the year ended 31 December 2017 amounted to USD 339 thousand (2016: USD 307 thousand).

Since October 2013, the Board of Directors established the operation of the following two committees: the Audit Committee and the Remuneration Committee. As at 31 December 2017 the Audit Committee comprised of three non-executive directors. The audit committee is chaired by Mr. Michael Zampelas; Mr. Philip Scales and Mr. Volodymyr Tymochko are the other members (Mr. Raul Parusk was member of the Audit Committee for one month during the year ended 31 December 2017). Following the resignation of Mr. Raul Parusk, Mr. Volodymyr Tymochko took the office of the third member of the Audit Committee. The Remuneration Committee comprises of three non-executive directors. The remuneration committee is chaired by Mr. Philip Scales; Mr. Michael Zampelas and Mr. Volodymyr Tymochko are the other members.

Directors' Remuneration

Director	Salary/Fee (USD)
Rupert Cottrell (resigned on 6 September 2017)	22,266
Philip Scales	15,000
Michael Zampelas	15,000
Mykhailo Merkulov	286,423
Volodymyr Tymochko	–
Raul Parusk (resigned 1 February 2017)	–
Juri Pold (appointed on 10 August 2017)	–
Total	**338,689**

Operating Environment of the Group

Any significant events that relate to the operating environment of the Group are described in Note 1 to the consolidated financial statements.

Events After the Reporting Date

The material events after the reporting date, which have an effect on the understanding of the consolidated financial statements, are disclosed in Note 25 of the consolidated financial statements.

Related Party Transactions

Disclosed in Note 24 to the consolidated financial statements.

Independent Auditors

The independent auditors of the Company Messrs. KPMG Limited, have expressed their willingness to continue in office. A resolution giving this authority to the Directors to fix their remuneration will be proposed to the Annual General Meeting.

By order of the Board of Directors,

Mykhailo Merkulov	Michael Zampelas
Director	Director

Limassol,
25 April 2018

Board of Directors

Philip Scales
Independent Non-Executive Director, Interim Chairman

Philip is deputy chairman of FIM Capital Limited ('FIM') a company that specialises in the provision of third-party fund administration and investment management services. Prior to this, Philip spent 18 years as managing director of Northern Trust International Fund Administration Services (Isle of Man) Limited (formerly Barings (Isle of Man) Limited). He has over 40 years' experience working offshore, primarily in corporate and mutual fund administration, and currently holds a number of directorships of listed companies.

FIM provides secretarial and administrative services to a number of listed companies and collective investment schemes. Philip is a Fellow of the Institute of Chartered Secretaries and Administrators.

Michael Zampelas
Independent Non-Executive Director

Michael, together with his associates, established Coopers & Lybrand in Cyprus and Athens in 1970. He served the firm as its Chairman and Chief Executive Officer from its establishment in 1970 until 2001 (latterly as PricewaterhouseCoopers) and as a Non-executive Chairman from 2002 until 2005. He also served as an elected member of the board of the European Organisation of Coopers & Lybrand Europe from 1991 to 1999. Michael served as chairman of the board of a number of local government authorities and companies. Currently, he is the independent non-executive Vice Chairman of Eurobank Cyprus Limited and the independent Non-Executive Chairman of the Russian transport company, Globaltrans Investment Plc, listed on the Main Market of the London Stock Exchange.

He was Mayor of Nicosia from 2002 to 2006. Since 1997, he has been the Honorary Consul General of Estonia in Cyprus, contributing to the development of the commercial and cultural relations between the two countries. He has played a significant role in the promotion of education, culture, community affairs and business in Cyprus. He is a Fellow of the Institute of Chartered Accountants in England and Wales.

Mykhailo Merkulov
Executive Director, CEO

Mykhailo graduated from Romano-Germanic Philology Department of Kharkov State University in 1996, and received an MBA from Manchester Business School in the UK in 2007.

Mykhailo has more than 20 years' experience across different industries operating in Central and Eastern Europe countries (Ukraine, Russia, Bulgaria, Serbia, Slovenia and Austria). His career started in 1996 when he joined McDonald's, in Ukraine, where he worked for nine years on various middle-level and, later, top management positions. After nine years of being with McDonald's, Mykhailo joined Food Star (Russia) in the capacity of Chief Executive Officer. In 2007 Mykhailo joined Erste Group Immorent AG in Ukraine, a specialist in real estate financing, infrastructure financing and project development, as Managing Director. In 2011 he became Regional Director for the Eastern European Group (Ukraine, Poland, Bulgaria, Serbia and Slovenia).

Mykhailo was appointed to the position of the Chief Executive Officer of Arricano Real Estate PLC in 2014 and was appointed to hold the position of the Executive Director of the Board in April 2015. His competence covers strategic planning and the Company's business operations control. In 2016 Mykhailo won in the Personality of the Year in the real estate market nomination in the field of real estate in Eastern Europe and Asia.

Volodymyr Tymochko
Non-Executive Director

Juri Pold
Non-Executive Director

Volodymyr is a Managing Director, Private Equity, and a partner at Dragon Capital. At this position he is responsible for investment management of DUPD – an AIM-listed property investment company with ten active real estate projects in Ukraine. In 2007, Volodymyr was appointed a director at Dragon Asset Management ('Dragon AM'), where he was in charge of deal sourcing and management of DUPD's real estate projects. Prior to joining Dragon, AM Volodymyr was an Associate Director for Consulting and Investment Services at Colliers International.

Volodymyr graduated from the National University of 'Kyiv-Mohyla Academy' and holds an MA degree in Economic Theory.

Juri Pold as a construction and development professional has more than 20 years of experience working for European companies and respectively the best practices and best European approaches to construction of civil (non-residential) projects. Juri graduated from the Estonian Agricultural University as a civil engineer in 1991. Mr. Pold started his professional career in 1990 as project manager. In 1997 Juri joined Skanska, a world leading project development and construction group based in Sweden. Among the main achievements of Juri in Skanska was development of several infrastructural nationwide projects in Finland and Estonia.

Since 2007 Juri acted as a construction director of Expert Capital Management OU: it was an active start of expanding the development projects of shopping malls in Ukraine. Mr. Pold occupied the position of construction director until 2009. During this period, Juri in cooperation with the team of international professionals engaged by Expert Capital Management OU worked on commercial real estate projects in Ukraine and Estonia. As a result, one of the first professional malls named – 'Sun Gallery' Shopping and Entertainment Centre was opened in 2008 in Kryvyi Rih, Ukraine.

In 2013 Mr. Pold continued his career as a consultant, where his competence in construction and investments support the companies' development strategies.

By joining the Board of Directors of Arricano Real Estate PLC Mr. Juri Pold has strengthened the team of professionals engaged in management and supervision of the Company's strategic development and expansion.

Senior Management

Mykhailo Merkulov
Chief Executive Officer

Mykhailo graduated from Romano-Germanic Philology Department of Kharkov State University in 1996, and received an MBA from Manchester Business School in the UK in 2007.

Mykhailo has more than 20 years' experience across different industries operating in Central and Eastern Europe countries (Ukraine, Russia, Bulgaria, Serbia, Slovenia and Austria). His career started in 1996 when he joined McDonald's, in Ukraine, where he worked for nine years on various middle-level and, later, top management positions. After nine years of being with McDonald's, Mykhailo joined Food Star (Russia) in the capacity of Chief Executive Officer. In 2007 Mykhailo joined Erste Group Immorent AG in Ukraine, a specialist in real estate financing, infrastructure financing and project development, as Managing Director. In 2011 he became Regional Director for the Eastern European Group (Ukraine, Poland, Bulgaria, Serbia and Slovenia). Mykhailo was appointed to the position of the Chief Executive Officer of Arricano Real Estate PLC in 2014 and was appointed to hold the position of the Executive Director of the Board in April 2015. His competence covers strategic planning and the Company's business operations control. In 2016 Mykhailo won in the Personality of the Year in the real estate market nomination in the field of real estate in Eastern Europe and Asia.

Tetyana Novytska
Chief Financial Officer

Tetyana Novytska received a master's degree in finance at the Odessa National Economic University. Since 2011, she has been a member of the Association of Chartered Certified Accountants ('ACCA').

Tetyana has 14 years' experience in accounting and taxation, accounting and reporting in accordance with IFRS, international audit, planning and budgeting. During her professional activity, she has occupied various positions in a number of companies, in particular at joint enterprise 'Vitmark-Ukraine' (one of the leading producers of juices and baby formula in Ukraine). In 2007–2010, before joining the Arricano team, Tetyana worked at the Kiev office of 'Ernst & Young': first as an auditor, and then as a senior auditor (Project Manager).

In November 2010, Tetyana was appointed as Head of Department of Planning and Reporting of Arricano. In December 2013, Tetyana was appointed the Acting Chief Financial Officer of the Company. Since September 2015 she has held the role of Chief Financial Officer. Her competencies include the Company's finance management and organisation of work of the Financial Department as well as planning, financial analysis and forecasting of the activities of the Company.

Svetlana Renkas
Head of Legal Department (Residents)

In 2004 Svetlana Renkas graduated with honours from the Legal Department of the Kiev National University and received the degree of Master of Law.

Svetlana has a ten-year track record in legal practice in the areas of land, civil, economic, investment, corporate and adjective law. She also worked in the capacity of civil servant.

Since 2010 Svetlana has been concentrating her efforts on retail legal practice and has been part of Arricano team since 2012.

Svetlana's main activities are focused on ensuring smooth and efficient legal operations of Arricano Group in Ukraine.

Nataliya Dmytrenko
Chief Marketing Officer

Nataliya Dmytrenko joined Arricano as Head of Marketing in April 2015. She has more than ten years of experience in the marketing of commercial real estate, developing successful projects and long-term marketing strategies, working as a marketing consultant. Prior to Arricano Nataliya was Chief Marketing Officer for a group of companies developing one of the most challenging realty projects in Kiev – Darynok marketplace. In her previous career in property management Nataliya started in 2003 as a Commercial Director of Alta Centre, one of the first Ukrainian shopping malls. As an experienced and results-orientated manager, her key challenges are to enhance the marketing communication and implement efficient marketing tools in malls' management.

Nataliya graduated from the Institute of Foreign Languages, Gorlivka, and later received degree in Economics and Marketing in European University and MIM, Kiev.

Anna Chubotina
Director of Retail Leasing Department

Anna Chubotina assumed the office of Arricano Director of Retail Leasing Department in March 2016. Management of Leasing Department, development and implementation of plan package for optimisation of business processes of retail space lease with a view to increase the Company's profitability, creation and implementation of shopping malls' development strategies, efficient work with the existing tenants and involvement of new ones are all key areas of Anna's work.

Anna came to Arricano from JLL Ukraine where she held the office of Retail Space Department Head.

She has been working for over 15 years in the field of commercial real estate nine of which were at JLL Ukraine. Anna's professional portfolio includes working with such large players of retail property market as SvitLand Ukraine, King Cross & Komfort Invest, Arricano Real Estate, DCH Real Estate, Kray Property and such projects as Décor Service national furniture and décor network, Sky Mall shopping mall, Prospekt shopping mall, MFC Silver Breeze, Magellan shopping mall, Victoria Gardens shopping mall and others.

Anna graduated from Romano-Germanic Philology and Foreign Literature faculty of M.P. Dragomanov National Pedagogical University. Then she obtained degrees in Economics and Marketing at Kiev National University of Trade and Economics.

Olexander Nemer

Director of IT Department

Since November 2015, Olexander Nemer has headed the IT department of Arricano. Areas of his responsibility include issues of designing the Company development strategy and tactics in IT area, management of in-house IT projects, design and organisation of IT infrastructure.

Before Arricano, Olexander had over 11 years of professional experience in different areas of business of EasteOne Group (international investment and consulting group) on various positions: PJSC MMC-STB #1 TV channel in Ukraine – head of IT Infrastructure Exploitation Team, StarLightMedia – #1 media group in Ukraine – Deputy IT Director.

Olexander's professional achievement portfolio includes a number of successful large-scale IT projects.

In 2004 Olexander graduated from Dnipropetrovsk National Mining University with a degree in Power Supply of Industrial Enterprises. He successfully completed his studies in the areas of ITIL and COBI; when implementing the tasks, he observes PMBoK principles.

Tatyana Burkatskaya

Business Development Director

Tatyana Burkatskaya graduated from Kiev National Economic University, with a specialty in finance and credit, in 1983. In 1995, she has completed her specialised training on taxation at the Institute of International Relations (Kiev). In 2002, Tatyana completed the Efficient Company Management course at the International institute of business.

The professional biography of Tatyana includes more than 20 years of successful work on executive positions in the retail sector. In 1998, Tatyana became Deputy Financial Director of the leading Ukrainian retail network Argo Retail Networki. In 2000 she became the Commercial Director and in 2008, the Development Director of the Company.

Since October 2010, Tatyana had held a position of Chief Operating Officer ('COO') at Arricano. Her obligations include management and supervision of the activities of all the shopping-and-entertainment centres as well as development of new projects of the Company.

In 2014 Tatiana was appointed as the Business Development Director. She is responsible for the corporate strategic development planning, negotiating and attracting to the market retail operators that are new to Ukraine, and representing Arricano in international retail, investment and development exhibitions.

Nikolai Yakimenko

Acting Head of Development

Nikolai Yakimenko joined Arricano team in 2010 as the head of projects and programs. He was responsible for the construction works in the lease areas during Sky Mall shopping centre construction, and he also managed RayON shopping centre project. In 2012, Nikolai was appointed to the position of the head of the Lukianivka project. Since February 2016, Nikolai has been working in the position of acting head of development. Before joining Arricano, Nikolai worked as a project portfolio manager in the sphere of commercial real estate in one of Ukrainian equity investment companies. Nikolai's career in the field of commercial real estate started in 2005 in the position of regional development manager of the network operator of Amstor grocery hypermarkets in the Smart-Holding group of companies.

Nikolai graduated from the Kiev National Economic University named after Vadym Hetman(Ukraine), where he obtained a master's degree in Investment Management.

Independent Auditors' Report
to the Members of Arricano Real Estate PLC

Report on the audit of the consolidated financial statements

Opinion

We have audited the accompanying consolidated financial statements of Arricano Real Estate PLC (the 'Company'), and its subsidiaries (together with the Company, referred to as the 'Group'), which are presented on pages 25 to 64 and comprise the consolidated statement of financial position as at 31 December 2017, and the consolidated statements of profit or loss and other comprehensive income, changes in equity and cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2017, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union ('IFRS-EU') and the requirements of the Cyprus Companies Law, Cap. 113, as amended from time to time (the 'Companies Law, Cap. 113').

Basis for opinion

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

Material uncertainty related to going concern

We draw attention to Note 2 (e) in the consolidated financial statements, which indicates that as at 31 December 2017 the Group's current liabilities exceeded its current assets by USD 69,293 thousand. In addition, the Group has not complied with several loan covenants under the existing loan agreements (refer to Note 12). As stated in Note 2 (e), these events or conditions indicate that a material uncertainty exists that may cast significant doubt on the Group's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

Key audit matters

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

Valuation of investment property (USD 221,265 thousand)

See Note 4 to the consolidated financial statements.

The key audit matter	How the matter was addressed in our audit
The Group has a significant holding of investment property, which as at 31 December 2017 represented 96% of the total assets. We identified the valuation of investment properties as a key audit matter due to the significance of the balance to the consolidated financial statements as a whole, and due to the significant element of judgement and estimation associated with determination of the fair value. The Group measures its investment properties at fair value at each reporting date, except for properties under development, which are carried at cost. As disclosed in Note 4 to the consolidated financial statements, the fair value is based on the valuation performed by an independent external valuer (the 'Valuer'), engaged by the Group, using the estimated rental value of property (income approach). 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. Land parcels are valued based on market prices for similar properties (market approach).	Our audit procedures included the following: 1. Assessing, using our own experts, the appropriateness of the valuation methods used by the external valuer and assumptions underlying the determination of the fair value of property, including monthly rental rates, occupancy rates and discount rates. We verified these assumptions to rental agreements, performed analytical review of the data received. Challenging various key inputs such as rental and occupancy rates, discount rates etc. 2. Evaluating the competence, objectivity and independence of the valuer used by the management. 3. Evaluating the reasonableness of the forecasted income used by the valuer for calculation of the fair value of investment property by reconciling actual figures of December 2017 against the budgeted figures for January 2018 used by the valuer in order to identify any deviations. All the deviations were investigated and traced to the primary documents. 4. Testing the design and implementation of the Group's controls over the investment property valuation. 5. Preparation the roll-forward schedule on movements in investment property and recalculation of FV gains for the year based on the report prepared by the valuer. 6. Performing a sensitivity analysis over the key inputs used for calculation of the fair value of investment property and comparing calculation to the amounts disclosed in the consolidated financial statements.

Litigations and contingent liabilities
See Note 23 (d) to the consolidated financial statements.

The key audit matter	How the matter was addressed in our audit
In the normal course of the business, potential exposures may arise from various legal procedures against the Group entities. Due to the range of the potential outcomes and the considerable uncertainty around the resolution of various claims, the determination of the amount, if any, to be recorded in the consolidated financial statements as a provision is inherently subjective. As at 31 December 2017, the Group was involved in a number of significant legal cases which are still ongoing and the financial impact of which cannot be currently determined.	Our audit procedures included the following: 1. Reviewing the minutes of the Board and Audit Committee meetings. 2. Inquiring the in-house lawyers to determine any potential outcome of the cases and steps that will be undertaken in future with regards to the ongoing litigations. 3. Reviewing and assessing responses of the external legal advisors of the Group. 4. Assessment, following the completion of the above procedures, the appropriateness of accounting for litigations in the consolidated financial statements of the Group. We also reviewed the relevant disclosure in the contingent liabilities note to ensure completeness and accuracy of the disclosure. 5. Re-calculation and assessment and potential financial impact on the Group from relevant litigations.

Other information
The Board of Directors is responsible for the other information. The other information comprises the information included in the management report for the year ended 31 December 2017, but does not include the consolidated financial statements and our auditors' report thereon.

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

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. Our report in this regard is presented in the '*Report on other legal requirements*' section.

With regards to the management report, our report is presented in the '*Report on other legal requirements*' section.

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

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

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

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

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:
- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Board of Directors.
- Conclude on the appropriateness of the Board of Directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves true and fair view.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or the business activities of the within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinion.

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

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

From the matters communicated with the Board of Directors, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters.

Report on other legal requirements

Pursuant to the additional requirements of law L.53(I)2017, and based on the work undertaken in the course of our audit, we report the following:

- In our opinion, the consolidated management report, the preparation of which is the responsibility of the Board of Directors, has been prepared in accordance with the requirements of the Companies Law, Cap. 113, and the information given is consistent with the consolidated financial statements.
- In the light of the knowledge and understanding of the business and the Group's environment obtained in the course of the audit, we have not identified material misstatements in the management report.

Other matter

This report, including the opinion, has been prepared for and only for the Company's members as a body in accordance with Section 69 of Law L.53(I)/2017, and for no other purpose. We do not, in giving this opinion, accept or assume responsibility for any other purpose or to any other person to whose knowledge this report may come to.

The engagement partner on the audit resulting in this independent auditors' report is John C. Nicolaou.

John C. Nicolaou, CPA
Certified Public Accountant and Registered Auditor
for and on behalf of

KPMG Limited
Certified Public Accountants and Registered Auditors

11, 16th June 1943 Street
3022 Limassol
Cyprus
Limassol, 25 April 2018

Consolidated Statement of Financial Position
as at 31 December 2017

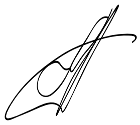
(in thousands of USD)	Note	31 December 2017	31 December 2016
Assets			
Non-current assets			
Investment property	4	**221,265**	175,663
Long-term VAT receivable	6	**1,016**	1,215
Property and equipment		**146**	214
Intangible assets		**42**	38
Total non-current assets		**222,469**	177,130
Current assets			
Trade and other receivables	7	**2,364**	1,162
Loans receivable	5	**296**	305
Prepayments made and other assets		**427**	901
VAT receivable	6	**1,011**	1,067
Assets classified as held for sale	8	**1,541**	1,590
Income tax receivable		**228**	–
Cash and cash equivalents	9	**2,609**	4,953
Total current assets		**8,476**	9,978
Total assets		**230,945**	187,108

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

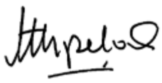
Consolidated Statement of Financial Position continued
as at 31 December 2017

(in thousands of USD)	Note	31 December 2017	31 December 2016
Equity and Liabilities			
Equity	10		
Share capital		**67**	67
Share premium		**183,727**	183,727
Non-reciprocal shareholders contribution		**59,713**	59,713
Retained earnings (accumulated deficit)		**834**	(24,973)
Other reserves		**(61,983)**	(61,983)
Foreign currency translation differences		**(130,176)**	(132,371)
Total equity		**52,182**	24,180
Non-current liabilities			
Long-term borrowings	12	**58,765**	36,845
Advances received	15	**125**	325
Finance lease liability	13	**7,037**	6,855
Trade and other payables	14	**9,885**	4,628
Other long-term liabilities	16	**20,091**	98
Deferred tax liability	21	**5,091**	3,530
Total non-current liabilities		**100,994**	52,281
Current liabilities			
Short-term borrowings	12	**39,891**	64,239
Trade and other payables	14	**25,258**	15,759
Taxes payable		**1,429**	1,106
Advances received	15	**4,922**	4,425
Current portion of finance lease liability	13	**2**	2
Other liabilities	16	**6,267**	25,116
Total current liabilities		**77,769**	110,647
Total liabilities		**178,763**	162,928
Total equity and liabilities		**230,945**	187,108

These consolidated financial statements were approved by the Board of Directors on 25 April 2018 and were signed on its behalf by:



Mykhailo Merkulov
Director



Michael Zampelas
Director

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

Consolidated Statement of Profit or Loss and other Comprehensive Income

for the year ended 31 December 2017

(in thousands of USD, except for earnings per share)	Note	2017	2016
Revenue	17	**27,549**	23,090
Other income		**368**	56
Gain on revaluation of investment property	4(a)	**47,873**	27,928
Goods, raw materials and services used	18	**(977)**	(837)
Operating expenses	19	**(7,146)**	(4,545)
Salary costs		**(1,790)**	(1,384)
Salary related charges		**(294)**	(343)
Depreciation and amortisation		**(130)**	(122)
Profit from operating activities		**65,453**	43,843
Finance income	20	**668**	3,095
Finance costs	20	**(32,545)**	(17,706)
Profit before income tax		**33,576**	29,232
Income tax expense	21	**(7,769)**	(5,739)
Net profit for the year		**25,807**	23,493
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		**(4,407)**	(28,356)
Foreign currency translation differences		**6,602**	25,993
Total items that will be reclassified to profit or loss		**2,195**	(2,363)
Other comprehensive income (loss)		**2,195**	(2,363)
Total comprehensive income for the year		**28,002**	21,130
Weighted average number of shares (in shares)	11	**103,270,637**	103,270,637
Basic and diluted earnings per share, USD	11	**0.24990**	0.22749

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

Strategic Report

Directors' Report

Financial Statements

Consolidated Statement of Cash Flows
for the year ended 31 December 2017

(in thousands of USD)	Note	2017	2016
Cash flows from operating activities			
Profit before income tax		**33,576**	29,232
Adjustments for:			
Finance income	20	**(668)**	(3,095)
Finance costs, excluding foreign exchange loss	20	**32,090**	13,620
Gain on revaluation of investment property	4(a)	**(47,873)**	(27,928)
Depreciation and amortisation		**130**	122
Unrealised foreign exchange loss		**455**	4,089
Other income		**(368)**	–
Allowance for bad debts	19	**425**	5
Operating cash flows before changes in working capital		**17,767**	16,045
Change in trade and other receivables		**(1,304)**	(413)
Change in prepayments made and other assets		**46**	(69)
Change in finance lease liability		**–**	56
Change in VAT receivable		**196**	1,721
Change in income tax receivable and taxes payable		**370**	497
Change in trade and other payables		**1,027**	(939)
Change in advances received		**348**	309
Change in other liabilities		**(179)**	830
Income tax paid		**(1,486)**	(866)
Interest paid	12	**(5,226)**	(6,480)
Cash flows from operating activities		**11,559**	10,691
Cash flows from investing activities			
Acquisition of investment property and settlements of payables due to constructors		**(6,622)**	(1,341)
Acquisition of property and equipment		**(70)**	(187)
Repayment of the restricted deposit		**–**	800
Interest received		**240**	257
Cash flows used in investing activities		**(6,452)**	(471)
Cash flows from financing activities			
Proceeds from borrowings, net of transaction costs		**–**	1,860
Repayment of borrowings	12	**(6,777)**	(9,309)
Finance lease payments	12	**(659)**	(612)
Cash flows used in financing activities		**(7,436)**	(8,061)
Net (decrease)/increase in cash and cash equivalents		**(2,329)**	2,159
Cash and cash equivalents at 1 January		**4,953**	3,349
Effect of movements in exchange rates on cash and cash equivalents		**(15)**	(555)
Cash and cash equivalents at 31 December	9	**2,609**	4,953

Non-cash movements

During the year ended 31 December 2017,an acquisition of a land plot held on leasehold of USD 396 thousand occurred through a finance lease (2016: acquisition and disposal of a land plot held on leasehold of USD 954 thousand and USD 1,173 thousand, respectively).

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

Consolidated Statement of Changes in Equity

as at and for the year ended 31 December 2017

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

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

(in thousands of USD)	Share capital	Share premium	Non-reciprocal shareholders contribution	Accumulated deficit	Other reserves	Foreign currency translation differences	Total
	Attributable to equity holders of the parent						
Balances at 1 January 2017	**67**	**183,727**	**59,713**	**(24,973)**	**(61,983)**	**(132,371)**	**24,180**
Total comprehensive income/(loss) for the year							
Net profit for the year	**–**	**–**	**–**	**25,807**	**–**	**–**	**25,807**
Foreign exchange losses on monetary items that form part of net investment in the foreign operation, net of tax effect	**–**	**–**	**–**	**–**	**–**	**(4,407)**	**(4,407)**
Foreign currency translation differences	**–**	**–**	**–**	**–**	**–**	**6,602**	**6,602**
Total other comprehensive profit for the year	**–**	**–**	**–**	**–**	**–**	**2,195**	**2,195**
Total comprehensive income for the year	**–**	**–**	**–**	**25,807**	**–**	**2,195**	**28,002**
Balances at 31 December 2017	**67**	**183,727**	**59,713**	**834**	**(61,983)**	**(130,176)**	**52,182**

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

Notes to the Consolidated Financial Statements

1 Background

(a) Organisation and operations

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

The main activities of the Group are investing in the development of new properties in Ukraine and leasing them out. As at 31 December 2017, the Group operates five shopping centres in Kiev, Simferopol, Zaporizhzhya and Kryvyi Rig with a total leasable area of over 147,500 square metres and is in the process of development of two new investment projects in Kiev and Odessa, with one more project to be consequently developed.

The average number of employees employed by the Group during the year is 106 (2016: 112).

(b) Ukrainian business environment

The Group's operations are primarily located in Ukraine. The political and economic situation in Ukraine has been subject to significant turbulence in recent years and demonstrates characteristics of an emerging market. Consequently, operations in the country involve risks that do not typically exist in other markets.

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. This event resulted in a significant deterioration of the relationship between Ukraine and the Russian Federation.

Ukraine's economic situation deteriorated significantly since 2014 as a result of the fall in trade with the Russian Federation and military tensions in Eastern Ukraine. Although instability continued throughout 2016 and 2017, Ukrainian economy showed first signs of recovery with inflation rate slowing down, lower depreciation of hryvnia against major foreign currencies, growing international reserves of the National Bank of Ukraine (the 'NBU') and general revival in business activity.

In 2016 and 2017, the NBU made certain steps to provide a relief to the currency control restrictions introduced in 2014–2015. In particular, the required share of foreign currency proceeds subject to mandatory sale on the interbank market was gradually decreased, while the settlement period for export-import transactions in foreign currency was increased. Also, the NBU allowed Ukrainian companies to pay dividends abroad with a certain monthly limitation.

The banking system remains fragile due to low level of capital and weak asset quality and the Ukrainian companies and banks continue to suffer from the lack of funding from domestic and international financial markets.

The International Monetary Fund continued to support the Ukrainian government under the four-year Extended Fund Facility Programme approved in March 2015. Other international financial institutions have also provided significant technical support in recent years to help Ukraine restructure its external debt and launch various reforms (including anticorruption, corporate law, and gradual liberalization of the energy sector).

In August 2017 Moody's upgraded Ukraine's credit rating to Caa2, with a positive outlook, reflecting recent government reforms and improved foreign affairs. Further stabilization of economic and political environment depends on the continued implementation of structural reforms and other factors.

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 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.

As at 31 December 2017, the carrying value of the Group's investment property located in Simferopol, the administrative centre of the Republic of Crimea, amounted to USD 46,800 thousand (2016: USD 35,400 thousand). The ultimate effect of these developments in the Republic of Crimea on the Group's ability to continue operations in this region, to realise its related assets and to maintain and secure its ownership rights cannot yet be determined.

(c) Cyprus business environment

The Cyprus economy has been adversely affected during the last few years by the economic crisis. The negative effects have to some extent been resolved, following the negotiations and the relevant agreements reached with the European Commission, the European Central Bank and the International Monetary Fund (IMF) for financial assistance which was dependent on the formulation and the successful implementation of an Economic Adjustment Program. The agreements also resulted in the restructuring of the two largest (systemic) banks in Cyprus through a 'bail in'.

The Cyprus Government has successfully completed earlier than anticipated the Economic Adjustments Program and exited the IMF program on 7 March 2016, after having recovered in the international markets and having only used EUR 7,25 billion of the total EUR 10 billion earmarked in the financial bailout. Under the new Euro area rules, Cyprus will continue to be under surveillance by its lenders with bi-annual post-program visits until it repays 75 per cent of the economic assistance received.

Although there are signs of improvement, especially in the macroeconomic environment of the country's economy including growth in GDP and reducing unemployment rates, significant challenges remain that could affect the estimates of the Company's cash flows and its assessment of impairment of financial and non-financial assets.

The Group's management believes that it is taking all the necessary measures to maintain the viability of the Group and the development of its business in the current business and economic environment and that no adverse impact on the Group's operations is expected.

(d) Russian business environment
The Group's operations are also carried out in the Russian Federation. Consequently, the Group is exposed to the economic and financial markets of the Russian Federation which display characteristics of an emerging market. 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 the Russian Federation.

The conflict in Ukraine and related events has increased the perceived risks of doing business in the Russian Federation. The imposition of economic sanctions on Russian individuals and legal entities by the European Union, the United States of America, Japan, Canada, Australia and others, as well as retaliatory sanctions imposed by the Russian government, has resulted in increased economic uncertainty including more volatile equity markets, a depreciation of the Russian Rouble, a reduction in both local and foreign direct investment inflows and a significant tightening in the availability of credit. In particular, some Russian entities may be experiencing difficulties in accessing international equity and debt markets and may become increasingly dependent on Russian state banks to finance their operations. The longer term effects of recently implemented sanctions, as well as the threat of additional future sanctions, are difficult to determine.

The consolidated financial statements reflect management's assessment of the impact of the Russian 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 financial statements have been prepared in accordance with International Financial Reporting Standards ('IFRSs') as adopted by the European Union (EU).

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

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

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

In translating the consolidated financial statements into USD the Group follows a translation policy in accordance with International Financial Reporting Standard IAS 21 *The Effects of Changes in Foreign Exchange Rates* and the following rates are used:
- Historical rates: for the equity accounts except for net profit or loss and other comprehensive income (loss) for the year.
- Year-end rate: for all assets and liabilities.
- Rates at the dates of transactions: for the statement of profit or loss and other comprehensive income and for capital transactions.

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

2 Basis of preparation *continued*

(c) Functional and presentation currency continued

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

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

Currency	2017	2016
UAH	**28.07**	27.19
RUB	**57.60**	60.66

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

Currency	2017	2016
UAH	**26.60**	25.59
RUB	**58.30**	66.83

As at the date of these consolidated financial statements are authorised for issue, 25 April 2018, the exchange rate is UAH 26.18 to USD 1.00 and RUB 61.66 to USD 1.00.

(d) Use of judgments, estimates and assumptions

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

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

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

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

(e) Going concern

As at 31 December 2017, the Group's current liabilities exceed current assets by USD 69,293 thousand. This condition indicates 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 52,182 thousand as at 31 December 2017, generated net profit of USD 25,807 thousand and positive cash flows from operating activities amounting to USD 11,559 thousand for the year then ended.

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

- The Group has financial support from the ultimate controlling party. Based on representations received in writing from entities under common control, management believes that the Group will not be required to settle the outstanding loans and accrued interest to related parties in the amount of USD 16,513 thousand plus any accruing interest during the year ending 31 December 2018.
- In April 2018, the Group has received a waiver from Barleypark Limited waiving repayment of the loan during twelve months ending 31 December 2018, amounting to USD 20,420 thousand, which is payable on demand and presented as short-term liability as at 31 December 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.
- The Group expects to obtain bank financing to refinance loans from PJSC 'Bank 'St. Petersburg' amounting to USD 16,062 thousand as at 31 December 2017 with contractual maturity in 2018–2020, short-term part of which amounts to USD 3,705 thousand.
- During the year ended 31 December 2017, management was able to conclude a number of new tenancy agreements and increase occupancy rate of its shopping centres. Besides, the Group managed to gradually increase its rental rates during the year for existing tenants.
- In accordance with the budget approved for 2018, the Group plans to increase its operating income during the next year.

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

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

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

When measuring the fair value of an asset or a liability, the Group uses market observable data as far as possible. Fair values are categorised into different levels in a fair value hierarchy based on the inputs used in the valuation techniques as follows:
- *Level 1*: quoted prices (unadjusted) in active markets for identical assets or liabilities.
- *Level 2*: inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).
- *Level 3*: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

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

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

Further information about the assumptions made in measuring fair values is included in the following Notes:
- Note 4 – investment property; and
- Note 22(e)*(iii)* – fair values.

(g) Change in presentation
Management made some minor amendments to comparative information in a way that it conforms with the current year presentation.

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

(a) Basis of consolidation
(i) Business combinations
Business combinations are accounted for using the acquisition method as at the acquisition date, which is the date on which control is transferred to the Group.

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

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

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

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

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

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

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

3 Significant accounting policies *continued*

(a) Basis of consolidation continued

Consolidated entities as at 31 December are as follows:

Name (in thousands of USD, except for % of ownership)	Country of incorporation	Cost 2017	Cost 2016	% of ownership 2017	% of ownership 2016
Praxifin Holdings Limited	Cyprus	**3**	3	**100.00%**	100.00%
U.A. Terra Property Management Limited	Cyprus	**3**	3	**100.00%**	100.00%
Museo Holdings Limited	Cyprus	**3**	3	**100.00%**	100.00%
Sunloop Co Limited	Cyprus	**3**	3	**100.00%**	100.00%
Lacecap Limited	Isle of Man	**3**	3	**100.00%**	100.00%
Beta Property Management Limited	Cyprus	**3**	3	**100.00%**	100.00%
Voyazh-Krym LLC	Ukraine	**363**	363	**100.00%**	100.00%
PrJSC Livoberezhzhiainvest	Ukraine	**69**	69	**100.00%**	100.00%
PrJSC Grandinvest	Ukraine	**69**	69	**100.00%**	100.00%
Arricano Property Management LLC	Ukraine	**5**	5	**100.00%**	100.00%
PrJSC Ukrpangroup	Ukraine	**59**	59	**100.00%**	100.00%
Prisma Alfa LLC	Ukraine	**4**	4	**100.00%**	100.00%
Arricano Development LLC	Ukraine	**9**	9	**100.00%**	100.00%
Prisma Development LLC	Ukraine	**4**	4	**100.00%**	100.00%
Arricano Real Estate LLC	Ukraine	**–**	–	**100.00%**	100.00%
Twible Holdings Limited	Cyprus	**–**	–	**100.00%**	100.00%
Gelida Holding Limited	Cyprus	**–**	–	**100.00%**	100.00%
Sapete Holdings Limited	Cyprus	**–**	–	**100.00%**	100.00%
Wayfield Limited	Cyprus	**–**	–	**100.00%**	100.00%
Comfort Market Luks LLC	Ukraine	**40,666**	40,666	**100.00%**	100.00%
Mezokred Holding LLC	Ukraine	**8,109**	8,109	**100.00%**	100.00%
Vektor Capital LLC	Ukraine	**11,441**	11,441	**100.00%**	100.00%
Budkhol LLC	Ukraine	**31,300**	31,300	**100.00%**	100.00%
Budkholinvest LLC	Ukraine	**–**	–	**100.00%**	100.00%
Green City LLC	Russian Federation	**–**	–	**100.00%**	100.00%
RRE Development Services OU	Estonia	**–**	–	**100.00%**	100.00%
Coppersnow Limited	British Virgin Islands	**–**	–	**100.00%**	100.00%

On 31 July 2017, the Parent Company established Coppersnow Limited, a company incorporated in British Virgin Islands for the purpose of facilitating of management activities.

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

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

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

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

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

(iii) Interests in equity-accounted investees

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

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

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

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

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

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

Name	Country of incorporation	% of ownership 2017	2016
Filgate Credit Enterprises Limited	Cyprus	**49.00%**	49.00%

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

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

(iv) Transactions with entities under common control

Acquisitions from entities under common control

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

Disposals to entities under common control

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

(v) Loss of control

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

(vi) Transactions eliminated on consolidation

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

(b) Foreign currency transactions and operations

(i) Foreign currency transactions

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

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

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

3 Significant accounting policies *continued*

(b) Foreign currency transactions and operations continued

Foreign currency transactions of Group entities located in Ukraine

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

(ii) Foreign operations

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

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

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

(c) Financial instruments

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

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

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

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

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

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

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

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

Loans and receivables

Loans and receivables are a category of financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are recognised initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition loans and receivables are measured at amortised cost using the effective interest method, less any impairment losses (refer to Note 3(i)*(i)*).

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

Cash and cash equivalents

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

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

Available-for-sale financial assets comprise equity securities.

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

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

(iv) Capital and reserves
Share capital
Ordinary shares are classified as equity. Incremental costs directly attributable to issue of ordinary shares are recognised as a deduction from equity, net of any tax effects.

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

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

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

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

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

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

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

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

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

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

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

3 Significant accounting policies *continued*

(d) Investment properties continued

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

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

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

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

(iii) Property under development (construction)

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

(e) Property and equipment

(i) Recognition and measurement

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

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

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

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

(ii) Reclassification to investment property

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

(iii) Subsequent costs

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

(iv) Depreciation

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

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

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

• vehicles and equipment	5 years
• fixture and fittings	2.5–5 years

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

(f) Intangible assets

(i) Recognition and measurement

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

(ii) Subsequent expenditure

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

(iii) Amortisation

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

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

- software 3–5 years

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

(g) Inventories

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

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

(h) Assets classified as held for sale

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

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

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

(i) Impairment

(i) Non-derivative financial assets

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

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

Financial assets measured at amortised cost

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

3 Significant accounting policies *continued*

(i) Impairment continued

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

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

Available-for-sale financial assets

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

(ii) Non-financial assets

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

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

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

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

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

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

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

(j) Provisions

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

(k) Revenue

(i) Rental income from investment property

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

(ii) Sale of services

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

(l) Leases

(i) Determining whether an arrangement contains a lease

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

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

(ii) Leased assets

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

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

(iii) Lease payments

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

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

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

(m) Finance income and costs

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

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

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

Foreign currency gains and losses arising on loans receivable and borrowings are reported on a net basis as either finance income or finance cost.

(n) Income tax expense

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

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

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

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

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

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

3 Significant accounting policies *continued*

(n) Income tax expense continued

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

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

A deferred tax asset is recognised for unused tax losses, tax credits and deductible temporary differences, to the extent that it is probable that future taxable profits will be available against which they can be utilised. Future taxable profits are determined based on the reversal of relevant taxable temporary differences. If the amount of taxable temporary differences is insufficient to recognise a deferred tax asset in full, then future taxable profits, adjusted for reversals of existing temporary differences, are considered, based on the business plans for individual subsidiaries in the Group. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised; such reductions are reversed when the probability of future taxable profits improves.

(o) Earnings per share

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

As at 31 December 2017 and 2016, there were no potential dilutive ordinary shares.

(p) Segment reporting

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

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

(q) New standards and interpretations not yet adopted

A number of new Standards, amendments to Standards and Interpretations are not yet effective as of 31 December 2017 and have not been applied in preparing these consolidated financial statements. Of these pronouncements, potentially the following will have an impact on the Group's operations. Management plans to adopt these pronouncements when they become effective.

Estimated impact of the adoption of IFRS 9 and IFRS 15

The Group is required to adopt IFRS 9 '*Financial Instruments: Classification and Measurement*' and IFRS 15 '*Revenue from Contracts with Customers*' from 1 January 2018. The estimated impact of the adoption of these standards on the Group's consolidated financial statements as at 1 January 2018 is based on assessments undertaken to date and is summarised below. The actual impacts of adopting the standards at 1 January 2018 may change because the new accounting policies are subject to change until the Group presents its first consolidated financial statements that include the date of initial application of these standards.

IFRS 9 '*Financial Instruments: Classification and Measurement*'. IFRS 9, published in July 2014, replaces the existing guidance in IAS 39 '*Financial Instruments: Recognition and Measurement*' and sets out requirements for classification and measurement of financial instruments, impairment of financial assets and accounting for hedging.

Classification and measurement

IFRS 9 contains three principal classification categories for financial assets: measured at amortised cost, fair value through other comprehensive income and fair value through profit or loss. IFRS 9 contains a new classification and measurement approach for financial assets that reflects the business model in which assets are managed and their cash flow characteristics. The standard eliminates the existing IAS 39 categories of held-to-maturity, loans and receivables and available-for-sale.

Under IFRS 9, derivatives embedded in contracts where the host is a financial asset in the scope of the standard are never bifurcated. Instead, the hybrid financial instrument as a whole is assessed for classification. Investments in equity instruments are measured at fair value.

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

Based on its assessment, the Group believes that the new classification requirements will not have significant impact on accounting of the Group's financial assets and financial liabilities.

Impairment
IFRS 9 replaces the 'incurred loss' model in IAS 39 with a forward-looking 'expected credit loss' (ECL) model. This will require considerable judgement about how changes in economic factors affect ECLs, which will be determined on a probability-weighted basis.

The new impairment model will apply to financial assets measured at amortised cost or FVOCI, accounts receivable under lease agreements, certain lending commitments and financial guarantee contracts. The new impairment model generally requires recognition of credit losses for all financial assets, even if they are newly created or acquired.

Under IFRS 9, loss allowances will be measured on either of the following bases:
- 12-month ECLs. These are ECLs that result from possible default events within the 12 months after the reporting date; and
- lifetime ECLs. These are ECLs that result from all possible default events over the expected life of a financial instrument.

Lifetime ECL measurement applies if the credit risk of a financial asset at the reporting date has increased significantly since initial recognition and 12-month ECL measurement applies if it has not. An entity may determine that a financial asset's credit risk has not increased significantly if the asset has low credit risk at the reporting date. However, lifetime ECL measurement always applies for trade receivables and contract assets without a significant financing component.

The Group has conducted a preliminary assessment of expected credit losses on financial assets in accordance with IFRS 9 and concluded that the additional impairment losses to be recognised by the Group in connection with the adoption of the new standard will not have significant effect on the Group's financial results and net assets.

Measurement of the impairment losses will be carried out as follows:
- for loans receivable and trade and other receivables, expected credit losses will be calculated on the basis of prior periods loss ratios, taking into account the effect of forecasted macroeconomic indicators for the period of existence of accounts receivable; and
- for cash and cash equivalents, expected credit losses will be calculated on the basis of external credit ratings and statistical information on default and repayment for similar financial instruments.

Disclosures
IFRS 9 will require extensive new disclosures, in particular about credit risk and expected credit losses. The Group's assessment included an analysis to identify data gaps against current processes and the Group is in the process of implementing the system and controls changes that it believes will be necessary to capture the required data.

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

The Group will take advantage of the exemption allowing it not to restate comparative information for prior periods with respect to classification and measurement (including impairment) changes. Differences in the carrying amounts of financial assets and financial liabilities resulting from the adoption of IFRS 9 generally will be recognised in retained earnings and reserves as at 1 January 2018.

IFRS 15 '*Revenue from Contracts with Customers*'. IFRS 15 establishes a comprehensive framework for determining whether, how much and when revenue is recognised. It replaces existing revenue recognition guidance, including IAS 18 *Revenue*, IAS 11 *Construction Contracts* and IFRIC 13 *Customer Loyalty Programmes*. The core principle of the new standard is that an entity recognises revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The new standard results in enhanced disclosures about revenue, provides guidance for transactions that were not previously addressed comprehensively and improves guidance for multiple-element arrangements. Since the revenue of the Group is mainly represented by the rental income in accordance with IAS 17 Leases and the amount of revenue from other services rendered is not significant, the expected impact of implementation is considered to be not significant.

IFRS 16 Leases. IFRS 16 replaces existing leases guidance including IAS 17 *Leases*, IFRIC 4 *Determining whether an Arrangement contains a Lease*, SIC-15 Operating Leases – Incentives and SIC-27 *Evaluating the Substance of Transactions Involving the Legal Form of a Lease*.

The standard is effective for annual periods beginning on or after 1 January 2019. Early adoption is permitted for entities that apply IFRS 15 at or before the date of initial application of IFRS 16.

IFRS 16 introduces a single, on-balance sheet lease accounting model for lessees. A lessee recognises a right-of-use asset representing its right to use the underlying asset and a lease liability representing its obligation to make lease payments. There are recognition exemptions for short-term leases and leases of low value items. Lessor accounting remains similar to the current standard – i.e. lessors continue to classify leases as finance or operating leases.

The Group has not yet analysed the likely impact of the new Standard on its financial position or performance.

3 Significant accounting policies *continued*

(q) New standards and interpretations not yet adopted continued

As a lessee, the Group can either apply the standard using a:

- retrospective approach; or
- modified retrospective approach with optional practical expedients.

The lessee applies the election consistently to all of its leases.

The Group plans to apply IFRS 16 initially on 1 January 2019, using the modified retrospective approach. Therefore, the cumulative effect of adopting IFRS 16 will be recognised as an adjustment to the opening balance of retained earnings at 1 January 2019, with no restatement of comparative information.

When applying the modified retrospective approach to leases previously classified as operating leases under IAS 17, the lessee can elect, on a lease-by-lease basis, whether to apply a number of practical expedients on transition. The Group is assessing the potential impact of using these practical expedients.

The Group is not required to make any adjustments for leases in which it is a lessor except where it is an intermediate lessor in a sub-lease.

Various Improvements to IFRSs. Various Improvements to IFRSs have been dealt with on a standard-by-standard basis. All amendments, which result in accounting changes for presentation, recognition or measurement purposes, will come into effect not earlier than 1 January 2018. The Group has not yet analysed the likely impact of the improvements on its financial position or performance.

4 Investment property

(a) Movements in investment property

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

(in thousands of USD)	Land held on freehold	Land held on leasehold	Buildings	Prepayment for investment property	Property under construction	Total
At 1 January 2016	6,000	44,722	99,260	23	10,305	160,310
Additions	–	954	–	–	994	1,948
Disposals	–	(1,173)	–	–	–	(1,173)
Fair value gains on revaluation	(985)	3,920	24,993	–	–	27,928
Currency translation adjustment	785	(5,369)	(7,553)	(3)	(1,210)	(13,350)
At 31 December 2016/1 January 2017	5,800	43,054	116,700	20	10,089	175,663
Additions	**–**	**396**	**–**	**–**	**978**	**1,374**
Disposals	**–**	**–**	**–**	**(3)**	**(634)**	**(637)**
Fair value gains on revaluation	**276**	**4,348**	**43,249**	**–**	**–**	**47,873**
Currency translation adjustment	**224**	**(1,251)**	**(1,659)**	**(1)**	**(321)**	**(3,008)**
At 31 December 2017	**6,300**	**46,547**	**158,290**	**16**	**10,112**	**221,265**

During the year ended 31 December 2017, acquisition of a land plot held on leasehold of USD 396 thousand occurred through finance lease (2016: acquisition and disposal of a land plot held on leasehold of USD 954 thousand and USD 1,173 thousand, respectively) (refer to Note 13).

As at 31 December 2017, in connection with loans and borrowings, the Group pledged as security investment property with a carrying value of USD 117,790 thousand (2016: USD 102,337 thousand) (refer to Note 23(a)).

During the year ended 31 December 2017, disposal of property under construction is represented by reversal of capitalised charges in respect of an agreement on customer share participation in the creation and development of engineering, transport and social infrastructure of Odessa due to win of the related court case (refer to Note 23(d)*(iv)*).

During the year ended 31 December 2017, 79 per cent of total construction services were purchased from one counterparty (2016: 53 per cent of total construction services).

(b) Determination of fair value

The fair value measurement, developed for determination of fair value of the Group's investment property, is categorised within Level 3 category due to significance of unobservable inputs to the entire measurement, except for certain land held on the leasehold which is not associated with completed property and is therefore categorised within Level 2 category. As at 31 December 2017, the fair value of investment property categorised within the Level 2 category is USD 29,100 thousand (2016: USD 26,800 thousand). To assist with the estimation of the fair value of the Group's investment property as at 31 December 2017, 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 Group and the lessee, and the remaining economic life of the property. When rent reviews or lease renewals are pending with anticipated reversionary increases, it is assumed that all notices and, when appropriate, counter-notices, have been served validly and within the appropriate time.

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

As at 31 December 2017, 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 2.00 to USD 150.00 per square metre, 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 95.4 per cent to 100.0 per cent, and discount rate ranging from 14.0 per cent to 22.5 per cent p.a., which represent key unobservable inputs for determination of fair value; and
- all relevant licenses and permits, to the extent not yet received, will be obtained, in accordance with the timetables as set out in the investment project plans.

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

- monthly rental rates, ranging from USD 1.00 to USD 131.40 per square metre, which are based on contractual and market rental rates, adjusted for discounts or fixation of rental rates in Ukrainian hryvnia at a pre-agreed exchange rate, occupancy rates ranging from 97.6 per cent to 100.0 per cent, and discount rates ranging from 18.4 per cent to 24.4 per cent p.a., which represent key unobservable inputs for determination of fair value; and
- all relevant licenses and permits, to the extent not yet received, will be obtained, in accordance with the timetables as set out in the investment project plans.

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

As at 31 December 2017, the fair value of investment property denominated in functional currency amounted to UAH 4,120,268 thousand and RUB 2,695,689 thousand (2016: UAH 4,115,139 thousand and RUB 1,475,176 thousand). The increase in fair value of investment property mainly results from increased rental rates invoiced in local currency due to the increase in the exchange rates applied to the USD equivalent of rental rates fixed in the rental contracts.

Sensitivity at the date of valuation

The valuation model used to assess the fair value of investment property as at 31 December 2017 is particularly sensitive to unobservable inputs in the following areas:

- If rental rates are 1 per cent less than those used in valuation models, the fair value of investment properties would be USD 1,738 thousand (2016: USD 1,309 thousand) lower. If rental rates are 1 per cent higher, then the fair value of investment properties would be USD 1,738 thousand (2016: USD 1,309 thousand) higher.
- If the discount rate applied is 1 per cent higher than that used in the valuation models, the fair value of investment properties would be USD 11,973 thousand (2016: USD 8,505 thousand) lower. If the discount rate is 1 per cent less, then the fair value of investment properties would be USD 13,907 thousand (2016: USD 9,783 thousand) higher.
- If the occupancy rate is 1 per cent higher than that used in the valuation model for shopping centre 'Prospect' and is assumed to be 100 per cent for other shopping centres, the fair value of investment properties would be USD 668 thousand higher (2016: if the occupancy rates are 1 per cent higher than that used in the valuation or are assumed to be 100 per cent for the shopping centre in Kiev, the fair value of investment properties would be USD 956 thousand higher). If the occupancy rates are 1 per cent less, then the fair value of investment properties would be USD 1,539 thousand (2016: USD 1,154 thousand) lower.

5 Loans receivable

Loans receivable as at 31 December are as follows:

(in thousands of USD)	2017	2016
Current assets		
Short-term loans receivable due from related parties	**8,491**	8,682
Accrued interest receivable due from related parties	**2,178**	1,865
Short-term loans receivable due from third parties	**296**	305
Impairment of loans receivable due from related parties	**(10,669)**	(10,547)
	296	305

5 Loans receivable *continued*

Loans receivable from related parties

In July 2011 the Parent Company granted a loan to Weather Empire Limited with the purpose of buying 1,077 shares in the Parent Company's share capital from Retail Real Estate S.A.

In July 2013 the shares of Weather Empire Limited were transferred to the Parent Company's major shareholders pro-rata to their ownership rights due to non-exercising of conversion rights by ELQ Investors II Ltd and later on or about 12 August 2013 were transferred in full to Retail Real Estate S.A.

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

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

As part of the above acquisition, the rights to receive certain loans payable by Filgate Credit Enterprises Limited to entities under common control in amount of USD 215,891 thousand were reassigned to the Group for a nominal amount of USD 1. These loans are unsecured, bear an interest rate of 9–10 per cent and are overdue as at 31 December 2017 and 2016. The fair value of these loans receivable is considered to be nil.

Included in loans receivable as at 31 December 2017 is a loan due from Filgate Credit Enterprises Limited amounting to USD 10,568 thousand (2016: USD 10,300 thousand), out of which the amount of USD 8,390 thousand is overdue. Full amount of this loan receivable was impaired as at 31 December 2017 and 2016.

6 VAT receivable

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

Management expects that long-term VAT receivable will be recovered in full by 2020.

7 Trade and other receivables

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

(in thousands of USD)	2017	2016
Trade receivables from related parties	**13**	1,384
Other receivables from related parties	**8,160**	8,963
Allowance for impairment	**(8,158)**	(10,338)
	15	9
Trade receivables from third parties	**1,238**	1,086
Other receivables from third parties	**1,182**	137
Allowance for impairment	**(71)**	(70)
	2,349	1,153
	2,364	1,162

As at 31 December 2016, trade receivables from related parties mainly comprised accounts receivable from related party, OKey Ukraine, under the common control of the ultimate controlling party. The Group ceased working with OKey Ukraine in August 2009. As the result of financial difficulties faced by this tenant, an allowance for impairment was recognised.

During the year ended 31 December 2017, accounts receivable from OKey Ukraine in the amount of USD 1,371 thousand were written-off against previously recognised allowance for impairment.

As at 31 December 2017, included in other receivables from related parties are receivables from Dniprovska Prystan PrJSC amounting to USD 7,796 thousand (2016: USD 8,598 thousand), which are overdue. In 2012, the court ruled to initiate bankruptcy proceedings against the mentioned related party and, as at 31 December 2017, the decision which would declare Dniprovska Prystan PrJSC insolvent has not yet been made. Full amount of receivable was impaired as at 31 December 2017 and 2016. During the year ended 31 December 2017, other receivables from Dniprovska Prystan PrJSC amounting to USD 802 thousand were written-off against previously recognised allowance for impairment.

8 Assets classified as held for sale

(a) Movements in assets classified as held for sale

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

(in thousands of USD)	Land held on leasehold	Buildings	Prepayment for investment property	Property under construction	Other assets	Total
At 1 January 2016	–	–	–	–	1,804	1,804
Currency translation adjustment	–	–	–	–	(214)	(214)
At 31 December 2016/1 January 2017	**–**	**–**	**–**	**–**	**1,590**	**1,590**
Currency translation adjustment	**–**	**–**	**–**	**–**	**(49)**	**(49)**
At 31 December 2017	**–**	**–**	**–**	**–**	**1,541**	**1,541**

Included in other assets classified as held for sale as at 31 December 2017, is a land plot with a carrying amount of USD 1,541 thousand (2016: USD 1,590 thousand), land lease rights for which were intended to be amended by one of the Group's subsidiaries, Comfort Market Luks LLC, in respect of allocation of part of such land plot to a third party in accordance with an investment agreement concluded between the parties. Based on this investment agreement, Comfort Market Luks LLC acts as an intermediary in construction of a hypermarket with the total estimated area of 11,769 square metres and a parking lot with a total estimated area of 20,650 square metres.

As at 31 December 2017, the construction of the hypermarket and a parking lot is finalised and, except for the lease rights for the abovementioned land plot to be allocated to a third party, the owner of the hypermarket, the investment agreement is considered to be fulfilled. Management expects that the lease rights for the land plot under the hypermarket will be transferred to the third party in 2018 subject to completion of formal legal procedures. As at 31 December 2017, advance payment received under this agreement (refer to Note 15) amounts to USD 1,639 thousand (2016: USD 1,692 thousand) and will be settled upon transfer of the lease rights for the land plot.

9 Cash and cash equivalents

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

(in thousands of USD)	2017	2016
Bank balances	**374**	2,935
Call deposits	**2,235**	2,018
	2,609	4,953

As at 31 December 2017, in connection with loans and borrowings, the Group pledged as security bank balances and call deposits with a carrying value of USD 29 thousand and USD 1,153 thousand, respectively (2016: USD 44 thousand and USD 1,159 thousand, respectively) (refer to Note 23(a)).

As at 31 December 2017, cash and cash equivalents placed with two bank institutions amounted to USD 2,482 thousand, or 95 per cent of the total balance of cash and cash equivalents (2016: USD 3,710 thousand, or 75 per cent). In accordance with Moody's rating, these banks are rated Caa3 and Aa3 as at 31 December 2017, respectively (2016: Caa2 and Aa3, respectively).

10 Share capital

Share capital as at 31 December is as follows:

	2017 Number of shares	2017 US dollars	2017 EUR	2016 Number of shares	2016 US dollars	2016 EUR
Issued and fully paid						
At 1 January and 31 December	**103,270,637**	**66,750**	**51,635**	103,270,637	66,750	51,635
Authorised						
At 1 January and 31 December	**106,000,000**	**68,564**	**53,000**	106,000,000	68,564	53,000
Par value, EUR	**–**	**–**	**0.0005**	–	–	0.0005

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

During the years ended 31 December 2017 and 2016, the Parent Company did not declare any dividends.

Notes to the Consolidated Financial Statements continued

11 Earnings per share

The calculation of basic earnings per share for the years ended 31 December 2017 and 2016 was based on the profit for the years ended 31 December 2017 and 2016 attributable to ordinary shareholders of USD 25,807 thousand and USD 23,493 thousand, respectively, and weighted average number of ordinary shares outstanding as at 31 December 2017 and 2016 of 103,270,637.

The Group has no potential dilutive ordinary shares.

12 Loans and borrowings

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

(in thousands of USD)	2017	2016
Non-current		
Secured bank loans	**33,502**	27,745
Unsecured loans from related parties	**25,263**	9,100
	58,765	36,845
Current		
Secured bank loans (current portion of long-term bank loans)	**9,616**	22,319
Unsecured loans from related parties (including current portion of long-term loans from related parties)	**9,855**	41,920
Unsecured loans from third parties	**20,420**	–
	39,891	64,239
	98,656	101,084

Terms and debt repayment schedule

As at 31 December 2017, the terms and debt repayment schedule of loans and borrowings 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%**	**2018–2020**	**16,062**
EBRD	**USD**	**1M LIBOR + 7.50%**	**2018–2020**	**12,679**
Raiffeisen Bank Aval	**UAH**	**18.00%**	**2018–2020**	**7,358**
EBRD	**USD**	**3M LIBOR + 8.00%**	**2018–2020**	**7,019**
				43,118
Unsecured loans from related parties				
Retail Real Estate OU	**USD**	**12.00%**	**2018–2020**	**23,288**
Retail Real Estate OU	**USD**	**10.50%**	**2018–2019**	**11,382**
Retail Real Estate OU	**USD**	**10.00%**	**2018–2019**	**200**
Loans from other related parties	**UAH/USD**	**0%–3.20%**	**2018**	**248**
				35,118
Unsecured loans from third parties				
Barleypark Limited	**USD**	**10.55%**	**2018**	**20,420**
				20,420
				98,656

As at 31 December 2016, the terms and debt repayment schedule of loans and borrowings 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%	2017–2020	17,650
EBRD	USD	1M LIBOR + 7.50%	2017–2020	15,485
EBRD	USD	3M LIBOR + 8.00%	2017–2020	8,454
Raiffeisen Bank Aval	UAH	18.00%	2017–2020	8,475
				50,064
Unsecured loans from related parties				
Bytenem Co Limited	USD	12.00%	2017	21,351
Barleypark Limited	USD	10.55%	2017	18,795
Retail Real Estate OU	USD	10.50%	2019	10,425
Loans from other related parties	UAH/USD	0.00%–10.00%	2017	449
				51,020
				101,084

As at 31 December LIBOR for USD is as follows:

	2017	2016
LIBOR USD 3M	**1.50%**	1.00%
LIBOR USD 1M	**1.38%**	0.77%

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

PJSC 'Bank 'St. Petersburg'

During the year ended 31 December 2017, the Group signed amendments to the loan agreements with PJSC 'Bank 'St. Petersburg' stipulating a decrease in the amount of loan principal payable for the period from June 2017 till February 2018 by USD 1,818 thousand.

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

In April 2018 and March 2018 the Group signed amendments to the loan agreements with PJSC 'Bank 'St. Petersburg' stipulating a decrease in the amount of loan principal payable for the period from March 2018 until April 2018.

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

EBRD

On 28 March 2017, the Group signed agreement with the EBRD pledging rights on future income under the agreement with the anchor tenant (refer to Note 23(a)).

On 31 March 2017, the Group terminated agreements with the EBRD on pledge of investment property of PrJSC Grandinvest and Voyazh-Krym LLC and pledge of investment in PrJSC Grandinvest (refer to Note 23(a)).

On 25 November 2016, the Group signed an additional agreement with the EBRD reassigning the loan payable to the EBRD from PrJSC Grandinvest to PrJSC Ukrpangroup for an amount of USD 3,737 thousand. The effective date of this agreement was 14 December 2016. The new agreement stipulated an increase in the annual interest rate by 1.5 per cent and changes to the repayment schedule of the loan principal. Upon reassignment, the loan principal in amount of USD 1,238 thousand was settled by the Group.

12 Loans and borrowings *continued*

Terms and debt repayment schedule continued

Barleypark Limited

Based on the terms of the loan agreement the loan is repayable on demand but not later than the final repayment date. On 30 June 2017, the Group signed amendment to the loan agreement with Barleypark stipulating prolongation of the maturity date till 31 July 2020. Subsequent to the reporting period end, the Group obtained the letter from the lender waiving the right to demand repayment of the loan during twelve months ending 31 December 2018. During the year ended 31 December 2017, following the changes in shareholding of Barleypark Limited, the counterparty ceased to be a related party of the Group and the loan was re-classified to unsecured loans from third parties.

Retail Real Estate OU

On 27 September 2016, the loan payable to Bytenem Co Limited was assigned to Retail Real Estate OU. On 30 June 2017, the Group signed amendment to the loan agreement with Retail Real Estate OU stipulating prolongation of the maturity date until 30 June 2020.

On 16 February 2017, the loan payable to Gingerfin Holdings was assigned to Retail Real Estate OU and prolonged until 1 January 2019.

As at 31 December 2017, the undrawn credit facilities from this related party amount to USD 9,607 thousand (31 December 2016: USD 9,607 thousand).

Reconciliation of movements of liabilities to cash flows arising from financing activities

Movements of liabilities for the years ended 31 December are as follows:

(in thousands of USD)	Loans and borrowings	Finance lease liabilities	Total
Balance at 1 January 2017	**101,084**	**6,857**	**107,941**
Repayment of borrowings	**(6,777)**	**–**	**(6,777)**
The effect of changes in foreign exchange rates	**(272)**	**(214)**	**(486)**
Additions to finance leases	**–**	**396**	**396**
Interest expense (Note 20)	**9,801**	**–**	**9,801**
Other finance costs	**46**	**659**	**705**
Interest paid	**(5,226)**	**(659)**	**(5,885)**
Balance at 31 December 2017	**98,656**	**7,039**	**105,695**

13 Finance lease liability

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

(in thousands of USD)	Future minimum lease payments 2017	Interest 2017	Present value of minimum lease payments 2017	Future minimum lease payments 2016	Interest 2016	Present value of minimum lease payments 2016
Less than six months	**405**	**404**	**1**	367	366	1
Between six and twelve months	**405**	**404**	**1**	367	366	1
Between one and two years	**811**	**807**	**4**	839	836	3
Between two and five years	**2,837**	**2,820**	**17**	2,836	2,816	20
More than five years	**38,823**	**31,807**	**7,016**	36,844	30,012	6,832
	43,281	**36,242**	**7,039**	41,253	34,396	6,857

The imputed finance costs on the liability are based on the Group's incremental borrowing rate ranging from 13.0 per cent to 17.2 per cent as at 31 December 2017 and 2016.

During the year ended 31 December 2017, as a result of a change in land lease rate indices and land lease payments calculation methodology imposed by the state authorities, the Group recognised a finance lease liability amounting to USD 396 thousand with no impact on profit or loss and recognised a finance lease asset for the amount of USD 396 thousand (refer to Note 4(a)) (2016: recognised an increase in finance lease liability amounting to USD 1,799 thousand resulting in a loss in profit or loss for the year ended 31 December 2016 in respect of land plot in Kryvyi Rig and recognised an additional finance lease asset for the amount of USD 219 thousand in respect of land plots in Kiev, Zaporizhzhya and Odessa).

Future minimum lease payments as at 31 December 2017 and 2016, are based on management's assessment that is based on actual lease payments effective as at 31 December 2017 and 2016, respectively, and expected contractual changes in the lease payments. The future lease payments are subject to review and approval by the municipal authorities and may differ from management's assessment.

The contractual maturity of land lease agreements ranges from 2018 to 2038. The Group intends to prolong these lease agreements for the period of usage of the investment property being constructed on the leased land. Consequently, the minimum lease payments are calculated for a period of 50 years.

14 Trade and other payables

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

(in thousands of USD)	2017	2016
Non-current liabilities		
Payables for construction works	**9,877**	4,616
Trade and other payables to third parties	**8**	12
	9,885	4,628
Current liabilities		
Payables for construction works	**21,124**	11,623
Trade and other payables to related parties	**1,137**	1,371
Trade and other payables to third parties	**2,997**	2,765
	25,258	15,759
	35,143	20,387

As at 31 December 2017, included in payables for construction works are USD denominated payables with the nominal value of USD 4,349 thousand with maturity on 30 June 2021 and bearing an interest rate of 10.00 per cent per annum.

Also, included in payables for construction works as at 31 December 2017 are EUR denominated payables under a commission agreement concluded with a third party with the nominal value of USD 2,039 thousand (2016: USD 2,838 thousand) with maturity on 15 September 2019. As at 31 December 2017 and 2016, these payables relate to construction works performed at shopping centre 'Prospect', are presented in accordance with their contractual maturity and measured at amortised cost under the effective interest rate of 6.54 per cent (2016: 6.38 per cent) per annum.

Further, included in payables for construction works as at 31 December 2017 are accrued financial charges under construction agreements with third parties amounting to USD 16,838 thousand. During the year 2017, 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. The Group agreed to reimburse the charges claimed. Part of charges payable in the amount of USD 12,153 thousand matures on 31 December 2018, part of USD 1,893 thousand mature on 30 June 2021 and bear an interest rate of 10.00 per cent, and the remaining part of charges payable of USD 2,792 thousand with the nominal value of USD 3,220 thousand mature on 30 June 2019 and is measured at amortised cost under the effective interest rate of 10.00 per cent per annum.

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

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

15 Advances received

Advances from customers as at 31 December are as follows:

(in thousands of USD)	2017	2016
Non-current		
Advances from third parties	**125**	325
	125	325
Current		
Advances received under investment agreement (refer to Note 8)	**1,639**	1,692
Advances from third parties	**3,259**	2,707
Advances from related parties	**24**	26
	4,922	4,425
	5,047	4,750

In September 2009, the Group received a prepayment from an anchor tenant for the period of ten years. As at 31 December 2017, the non-current portion of the prepayment amounts to USD 125 thousand and the current portion amounts to USD 175 thousand (2016: USD 325 thousand and USD 181 thousand, respectively). Remaining advances from third parties are mainly represented by prepayments from tenants for the period from one to two months.

16 Other liabilities

Other liabilities as at 31 December are as follows:

(in thousands of USD)	2017	2016
Non-current		
Deferred consideration	**20,000**	–
Other long-term liabilities	**91**	98
	20,091	98
Current		
Deferred consideration	**6,267**	24,317
Other liabilities	**–**	799
	6,267	25,116
	26,358	25,214

As at 31 December 2017, other long-term liabilities comprise mainly the amount of principal and other current liabilities comprise the amount of interest of the deferred consideration that is payable in respect of the acquisition of Wayfield Limited and its subsidiary Budkhol LLC, amounting to USD 20,000 thousand and USD 6,267 thousand, respectively (2016: other current liabilities mainly comprise the deferred consideration, amounting to USD 24,317 thousand, including accrued interest of USD 4,317 thousand).

On 30 June 2017, the Group signed an amendment to the share exchange agreement with Vunderbuilt in order to postpone the payment of deferred consideration to Bytenem Co Limited from 30 June 2017 to 30 June 2020. Deferred consideration is presented in accordance with its contractual maturity as at 31 December 2017 and 2016 and bears 9.75 per cent interest rate per annum.

As at 31 December 2016, other liabilities amounting to USD 799 thousand are represented by accrual of liability to Odessa City Council in respect of an agreement on customer share participation in the creation and development of engineering, transport and social infrastructure of Odessa, including penalties for late payment, in amount of USD 191 thousand. During the year ended 31 December 2017, Vektor Capital LLC has won the related case, according to which the due date of repayment of all fees was postponed until finalisation of construction of the shopping centre and respective accrual was reversed (refer to Note 23(d)(*iv*)).

17 Revenue

Revenue for the years ended 31 December is as follows:

(in thousands of USD)	2017	2016
Rental income from investment properties	**27,318**	22,872
Other sales revenue	**231**	218
	27,549	23,090

During the year ended 31 December 2017, 16 per cent of the Group's rental income was earned from two tenants (12 per cent and 4 per cent, respectively) (2016: 21 per cent, 15 per cent and 6 per cent, respectively).

The Group rents out premises in the shopping centres to tenants in accordance with lease agreements predominantly concluded for a period of 11-42 months, save for the hypermarkets and large network retails chains, which enter into long term lease agreements. In accordance with lease agreements, rental rates are usually established in USD and are settled in Ukrainian hryvnias and Russian Roubles using the exchange rates established by the National Bank of Ukraine and Central Bank of the Russian Federation, as applicable. However, taking into account the current market conditions, the Group provides temporary discounts to its tenants by applying lower exchange rates than those established by the National Bank of Ukraine or Central Bank of the Russian Federation, in arriving to the rent payment for the particular month.

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

The Group's lease agreements with tenants usually include 2–45 months cancellation clause. The Group believes that execution of the option to prolong the lease period upon expiration of non-cancellable period on the terms different to those agreed during the non-cancellable period, is not substantiated. Accordingly, upon calculation of rental income for the period the Group does not take into account rent payments, which are prescribed by the agreements upon expiration of the period during which the agreement cannot be cancelled.

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

(in thousands of USD)	2017	2016
Advertising (Note 19)	**746**	708
Repair, maintenance and building services (Note 18)	**481**	370
Land rent, land and other property taxes (Note 19)	**380**	253
Communal public services (Note 18)	**337**	338
Security services (Note 19)	**310**	259
	2,254	1,928

No direct operating expenses arising from investment property that did not generate rental income during 2017 and 2016 occurred.

18 Goods, raw materials and services used

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

(in thousands of USD)	2017	2016
Repair, maintenance and building services (Note 17)	**481**	370
Communal public services (Note 17)	**337**	338
Other costs	**159**	129
	977	837

19 Operating expenses

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

(in thousands of USD)	2017	2016
Management, consulting and legal services	**3,549**	2,209
Advertising	**746**	708
Office expenses and communication services	**450**	277
Allowance for bad debts	**425**	5
Land rent, land and property taxes	**380**	253
Security services	**310**	259
Independent auditors' remuneration	**97**	51
Tax services charged by independent auditors	**60**	3
Administrative expenses	**32**	66
Other assurance services charged by independent auditors	**13**	44
Other	**1,084**	670
	7,146	4,545

20 Finance income and finance costs

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

(in thousands of USD)	2017	2016
Gain on initial recognition of trade and other payables at fair value	**428**	920
Interest income	**240**	257
Finance income from derecognition of finance lease liability	**–**	1,799
Other finance income	**–**	119
Finance income	**668**	3,095
Financial charges under construction agreements (Note 14)	**(16,764)**	–
Interest expense (Note 12)	**(9,801)**	(10,293)
Loss on derecognition of financial instruments	**(2,828)**	–
Interest expense on deferred consideration	**(1,956)**	(1,955)
Foreign exchange loss	**(455)**	(4,086)
Other finance costs	**(741)**	(1,372)
Finance costs	**(32,545)**	(17,706)
Net finance cost	**(31,877)**	(14,611)

21 Income tax expense

(a) Income tax expense

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

(in thousands of USD)	2017	2016
Current tax expense	**1,252**	918
Deferred tax expense	**6,517**	4,821
Total income tax expense	**7,769**	5,739

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

While computing the deferred tax liability that arises on the temporary differences between carrying amounts and tax values of assets and liabilities of Voyazh-Krym LLC, registered in the Autonomous Republic of Crimea, as at 31 December 2017 and 2016, 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 per cent.

The applicable tax rates are 12.5 per cent for Cyprus companies and 20 per cent for Estonian companies, and nil tax for companies incorporated in the Isle of Man and British Virgin Islands.

(b) Reconciliation of effective tax rate

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

(in thousands of USD)	2017	%	2016	%
Profit before tax	**33,576**	**100%**	29,232	100%
Income tax expense at statutory rate in Ukraine	**6,044**	**18%**	5,262	18%
Effect of different tax rates on taxable profit in other jurisdictions	**(2,374)**	**(7%)**	(3,030)	(10%)
Non-deductible expenses	**7,797**	**23%**	2,939	10%
Change in unrecognised deferred tax assets	**(4,337)**	**(12%)**	(1,734)	(6%)
Write-off of deferred tax assets	**145**	**0%**	–	–
Foreign currency translation difference	**494**	**1%**	2,302	8%
Effective income tax expense	**7,769**	**23%**	5,739	20%

(c) Recognised deferred tax assets and liabilities

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

	Assets		Liabilities		Net	
(in thousands of USD)	2017	2016	2017	2016	2017	2016
Investment property	**31**	–	**(23,095)**	(16,316)	**(23,064)**	(16,316)
Property and equipment	**–**	1	**(6)**	–	**(6)**	1
Trade and other receivables	**43**	440	**(40)**	(22)	**3**	418
Assets classified as held for sale	**–**	–	**(277)**	(286)	**(277)**	(286)
Trade and other payables	**733**	811	**–**	–	**733**	811
Short-term borrowings	**677**	3,184	**(667)**	(3,178)	**10**	6
Other long-term payables	**6**	8	**–**	(349)	**6**	(341)
Tax loss carry-forwards	**17,504**	12,177	**–**	–	**17,504**	12,177
Deferred tax assets (liabilities)	**18,994**	16,621	**(24,085)**	(20,151)	**(5,091)**	(3,530)
Offset of deferred tax assets and liabilities	**(18,994)**	(16,621)	**18,994**	16,621	**–**	–
Net deferred tax assets (liabilities)	**–**	–	**(5,091)**	(3,530)	**(5,091)**	(3,530)

(d) Movements in recognised deferred tax assets and liabilities

Movements in recognised deferred tax assets and liabilities during the year ended 31 December 2017 are as follows:

(in thousands of USD)	Balance as at 1 January 2017 asset (liability)	Recognised in profit or loss	Recognised in OCI	Foreign currency translation adjustment	Balance as at 31 December 2017 asset (liability)
Investment property	**(16,316)**	**(7,283)**	**–**	**535**	**(23,064)**
Property and equipment	**1**	**(7)**	**–**	**–**	**(6)**
Trade and other receivables	**418**	**(424)**	**–**	**9**	**3**
Assets classified as held for sale	**(286)**	**–**	**–**	**9**	**(277)**
Trade and other payables	**811**	**(56)**	**–**	**(22)**	**733**
Short-term borrowings	**6**	**4**	**–**	**–**	**10**
Other long-term payables	**(341)**	**355**	**–**	**(8)**	**6**
Tax loss carry-forwards	**12,177**	**894**	**5,119**	**(686)**	**17,504**
Deferred tax assets (liabilities)	**(3,530)**	**(6,517)**	**5,119**	**(163)**	**(5,091)**

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

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

(e) Unrecognised deferred tax assets

Deferred tax assets as at 31 December 2017 have not been recognised in respect of the following items:

(in thousands of USD)	Balance as at 1 January 2017	Change in tax-loss carry forwards	Utilisation of previously unrecognised temporary differences	Foreign currency translation adjustment	Balance as at 31 December 2017
Trade and other receivables	**550**	**–**	**(591)**	**41**	**–**
Tax loss carry-forwards	**28,711**	**562**	**(7,712)**	**(199)**	**21,362**
	29,261	**562**	**(8,303)**	**(158)**	**21,362**

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

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

During 2017, a Group entity submitted amended CPT declaration that led to an increase in tax-loss carry forwards by USD 562 thousand (2016: certain Group entities submitted amended CPT declarations that led to a decrease in tax-loss carry forwards by USD 814 thousand).

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

During the year ended 31 December 2017, unrecognised temporary differences of USD 3,404 thousand (2016: USD 1,708 thousand) relate to items recognised in other comprehensive income.

22 Financial risk management

(a) Overview

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

- credit risk;
- liquidity risk; and
- market risk.

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

(b) Risk management framework

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

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

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

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

(c) Credit risk

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

(i) Trade and other receivables

The Group's exposure to credit risk is influenced mainly by the individual characteristics of each customer. However, management also considers the demographics of the Group's customer base, including the default risk of the industry and country, in which customers operate, as these factors may have an influence on credit risk, particularly in the currently challenging economic circumstances. There is no significant concentration of receivables from a single customer. In 2017 and 2016, 100 per cent of the Group's revenue is attributable to sales transactions with customers in Ukraine and the Republic of Crimea.

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

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

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

(ii) Guarantees

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

(iii) Exposure to credit risk

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

In addition to the credit risk, the Group is exposed to the risk of non-recoverability of VAT receivable, prepayments made and other assets amounting in total to USD 2,454 thousand as at 31 December 2017 (2016: USD 3,183 thousand).

(iv) Impairment losses

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

(in thousands of USD)	2017 Gross	2017 Impairment	2016 Gross	2016 Impairment
Not past due	**1,478**	**–**	1,082	–
Past due 0–30 days	**505**	**–**	13	–
Past due 31–60 days	**294**	**–**	5	–
Past due 61–90 days	**30**	**–**	–	–
Past due 91–360 days	**18**	**–**	46	–
More than one year	**8,268**	**(8,229)**	10,424	(10,408)
	10,593	**(8,229)**	11,570	(10,408)

Allowance for impairment of financial assets is as follows:

(in thousands of USD)	2017	2016
Allowance for impairment of trade and other receivables	**8,229**	10,408
Allowance for impairment of loans receivable	**10,669**	10,547
Allowance for impairment of available-for-sale financial assets	**20,727**	20,727
	39,625	41,682

Additionally, as at 31 December 2017 allowance for impairment of prepayments made and other assets amounting to USD 417 thousand was recognised (31 December 2016: nil).

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

(in thousands of USD)	2017	2016
Balance at 1 January	**41,682**	81,509
Impairment loss recognised	**268**	5
Bad debt write-off	**(2,330)**	(39,761)
Foreign currency translation differences	**5**	(71)
Balance at 31 December	**39,625**	41,682

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

(d) Liquidity risk

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

The following are the contractual maturities of financial liabilities, including interest payments as at 31 December 2017:

		Contractual cash flows					
(in thousands of USD)	Carrying amount	Total	2 months or less	2–12 months	1–2 years	2–5 years	More than 5 years
Secured bank loans	**43,118**	**52,289**	**1,695**	**12,306**	**13,645**	**24,643**	**–**
Unsecured loans from related parties	**35,118**	**41,603**	**9,710**	**2,234**	**2,414**	**27,245**	**–**
Unsecured loans from third parties	**20,420**	**20,420**	**20,420**	**–**	**–**	**–**	**–**
Finance lease liability	**7,039**	**43,281**	**135**	**675**	**811**	**2,837**	**38,823**
Trade and other payables	**35,143**	**37,845**	**10,948**	**14,367**	**884**	**11,646**	**–**
Other liabilities	**26,358**	**31,230**	**6,267**	**1,950**	**2,041**	**20,972**	**–**
	167,196	**226,668**	**49,175**	**31,532**	**19,795**	**87,343**	**38,823**

22 Financial risk management *continued*

(d) Liquidity risk continued

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

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

(e) Market risk

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

(i) Currency risk

Group entities located in Ukraine

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

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

Exposure to currency risk

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

	2017		2016	
(in thousands of USD)	USD	EUR	USD	EUR
Cash and cash equivalents	**25**	**–**	25	109
Secured bank loans	**(35,760)**	**–**	(41,589)	–
Unsecured loans from related parties	**(200)**	**–**	(185)	–
Trade and other payables	**(4,349)**	**(91)**	(220)	(518)
Net short position	**(40,284)**	**(91)**	(41,969)	(409)

Sensitivity analysis

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

	2017		2016	
(in thousands of USD)	Profit or loss	Equity	Profit or loss	Equity
USD	**(3,303)**	**(3,303)**	(3,441)	(3,441)
EUR	**(7)**	**(7)**	(34)	(34)

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

Intra-group borrowings

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

The exposure to foreign currency risk on these borrowings is USD 290,144 thousand and USD 274,599 thousand as at 31 December 2017 and 2016, respectively. The effect of translation of these loans payable by Ukrainian subsidiaries resulted in a foreign exchange loss of USD 4,329 thousand, including tax effect, recognised directly in other comprehensive income for the year ended 31 December 2017 (2016: USD 28,356 thousand).

A 10 per cent weakening of the Ukrainian hryvnia against the USD would have increased other comprehensive loss for the year ended 31 December 2017 and decreased equity as at 31 December 2017 by USD 23,792 thousand (2016: USD 22,517 thousand). This analysis assumes that all other variables, in particular interest rates, remain constant.

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

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

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

Exposure to currency risk

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

	2017		2016	
(in thousands of USD)	USD	UAH	USD	UAH
Cash and cash equivalents	–	–	850	–
Trade and other payables	–	–	–	(1,320)
Net short position	–	–	850	(1,320)

Sensitivity analysis

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

	2017		2016	
(in thousands of USD)	Profit or loss	Equity	Profit or loss	Equity
UAH	–	–	106	106
USD	–	–	(68)	(68)

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

(ii) Interest rate risk

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

Refer to Notes 5, 12, 13, 14 and 16 for information about maturity dates and effective interest rates of fixed rate and variable rate financial instruments. Re-pricing for fixed rate financial instruments occurs at maturity of fixed rate financial instruments.

Profile

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

(in thousands of USD)	2017	2016
Fixed rate instruments		
Loans and borrowings	**78,918**	77,099
Other liabilities	**26,267**	24,317
Finance lease liability	**7,039**	6,857
Payables for construction works	**6,242**	–
	118,466	108,273
Variable rate instruments		
Loans and borrowings	**19,698**	23,939
	19,698	23,939

Fair value sensitivity analysis for fixed rate instruments

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

22 Financial risk management *continued*

(e) Market risk continued

Cash flow sensitivity analysis for variable rate instruments

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

	2017		2016	
(in thousands of USD)	Profit or loss	Equity	Profit or loss	Equity
Loans and borrowings	**(162)**	**(162)**	(196)	(196)
	(162)	**(162)**	(196)	(196)

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

(iii) Fair values

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

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

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

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:

	2017		2016	
(in thousands of USD)	Carrying amount	Fair value Level 2	Carrying amount	Fair value Level 2
Financial liabilities not measured at fair value				
Non-current				
Secured bank loans	**33,502**	**34,602**	27,745	26,921
Unsecured loans from related parties	**25,263**	**26,145**	9,100	9,521
Deferred consideration	**20,000**	**21,692**	–	–
	78,765	**82,439**	36,845	36,442
Current				
Secured bank loans (current portion of long-term bank loans)	**9,616**	**9,923**	22,319	22,881
Unsecured loans from related parties (including current portion of long-term loans from related parties)	**9,855**	**10,127**	41,920	42,495
Unsecured loans from third parties	**20,420**	**20,420**	–	–
Deferred consideration	**6,267**	**6,797**	24,317	24,635
	46,158	**47,267**	88,556	90,011
	124,923	**129,706**	125,401	126,453

Management believes that for all other financial assets and liabilities, not included in the table above, the carrying value approximates the fair value as at 31 December 2017 and 2016. Such fair value was estimated by discounting the expected future cash flows under the market interest rate for similar financial instruments that prevails as at the reporting date. The estimated fair value is categorised within Level 2 of the fair value hierarchy.

(f) Capital management

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

23 Commitments and contingencies

(a) Pledged assets

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

(in thousands of USD)	2017	2016
Investment property (Note 4(a))	**117,790**	102,337
Call deposits (Note 9)	**1,153**	1,159
Bank balances (Note 9)	**29**	44
	118,972	103,540

As at 31 December 2017, the Group has also pledged the following:

- Future rights on income of Prisma Alfa LLC and Comfort Market Luks LLC under all lease agreements and rights on future income of PrJSC Ukrpangroup under agreement with anchor tenant;
- Investments in the following subsidiaries: PrJSC Ukrpangroup, Comfort Market Luks LLC and PrJSC Livoberezhzhiainvest; and
- Property rights under the Investment Agreement between PrJSC Grandinvest, PrJSC Livoberezhzhiainvest and Voyazh-Krym LLC.

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

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

(b) Construction commitments

The Group entered into contracts with third parties to construct two shopping centres in Kiev and a shopping centre in Odessa for the amount of USD 19,209 thousand as at 31 December 2017 (2016: USD 20,584 thousand).

(c) Operating lease commitments

The Group as lessor

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

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

(in thousands of USD)	2017	2016
Less than one year	**4,723**	4,087
Between one and five years	**3,852**	2,813
More than five years	**2,975**	–
	11,550	6,900

(d) Litigations

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

(i) Legal case in respect of Assofit Holdings Limited

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

In the seventh award delivered on 5 May 2016, the tribunal of the London Court of International Arbitration has found that Stockman is in breach of the Call Option Agreement and has taken 'steps deliberately to dissipate and misappropriate Assofit's assets'. As a result, the tribunal has ordered Stockman to transfer, or procure the transfer of, the Option Shares to Arricano within 30 days of the award. Upon registration of the transfer, Arricano shall pay to Stockman the Option Price minus damages, which when netted out brings the balance to nil. In the event that Stockman does not transfer, or procure the transfer of the Option Shares, Arricano may elect instead to claim damages in lieu of the share transfer.

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

23 Commitments and contingencies *continued*

(d) Litigations continued

In July 2017, the hearing regarding challenges of the fifth, the sixth and the seventh award by Stockman has taken place. By judgement dated 30 November 2017, the High Court of England and Wales dismissed the claims filed by Stockman challenging the fourth, fifth and seventh awards, and subsequently, on 5 January 2018, dismissed Stockman's application to appeal such judgement.

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

In September 2014, Assofit Holdings Limited transferred the shares of Prisma 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 Prisma Beta LLC of USD 32,000 thousand, exercised its right to recover the abovementioned loan by means of reposession of ownership rights to the Sky Mall shopping centre which was pledged to secure this loan in September 2014. As at the date that these consolidated financial statements are authorised for issuance, shares of Prisma Beta LLC and ownership rights for the Sky Mall shopping centre remain to be alienated.

As at 31 December 2017 and 2016, the Group holds 49.97 per cent of nominal voting rights in Assofit without retaining significant influence. In prior years' consolidated financial statements of the Group until 31 December 2013, investment in Assofit was recognised in the statement of financial position as available for-sale financial asset at its carrying amount of USD 20,727 thousand. Due to loss of the legal control over the major operating asset being the Sky Mall shopping centre in September 2014, management believes that investment in Assofit is fully impaired as at 31 December 2017 and 2016.

(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 Kiev City Council, according to which the latter has approved the allocation to Mezokred Holding LLC of a land plot in Obolon District of Kiev for the construction of a hypermarket and entitled Mezokred Holding LLC to lease this land plot for a period of 25 years. During 2016 and 2017, the court of first, appeal and cassation instances ruled in favour of Mezokred Holding LLC.

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

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

As at the date that these consolidated financial statements are authorised for issuance, the final hearing has not taken place yet.

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 centre stated at USD 26,700 thousand as at 31 December 2017.

(iv) Legal case in respect of Vector Capital LLC

On 3 October 2016, the claim was filed against Vektor Capital LLC by Odessa City Council to recover indebtedness in respect of the agreement on customer share participation in the creation and development of engineering, transport and social infrastructure of Odessa. During year ended 31 December 2017, Vektor Capital LLC has won the related case, according to which the due date of repayment of all fees was postponed until finalisation of construction of the shopping centre. In February 2018 the related case was closed.

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

(e) Taxation contingencies

(i) Ukraine

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

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

(ii) Republic of Crimea and the Russian Federation

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

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

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

Transfer pricing legislation enacted in the Russian Federation starting from 1 January 2012 provides for major modifications making local transfer pricing rules closer to OECD guidelines, but creating additional uncertainty in practical application of tax legislation in certain circumstances.

These transfer pricing rules provide for an obligation for the taxpayers to prepare transfer pricing documentation with respect to controlled transactions and prescribe the basis and mechanisms for accruing additional taxes and interest in case prices in the controlled transactions differ from the market level.

The transfer pricing rules apply to cross-border transactions between related parties, as well as to certain cross-border transactions between independent parties, as determined under the Russian Tax Code (no threshold is set for the purposes of prices control in such transactions). In addition, the rules apply to in-country transactions between related parties if the accumulated annual volume of the transactions between the same parties exceeds a particular threshold (RUB 1 billion in 2014 and thereon).

The compliance of prices with the arm's length level could be as well subject to scrutiny on the basis of unjustified tax benefit concept.

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.

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

(iii) Republic of Cyprus

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 respective parties in full. Since as at the date of issue of these consolidated financial statements the management did not proceed with the implementation of their plans, the transactions will not be complete in the view of VAT authorities, and the Group may be liable to pay VAT of approximately USD 1,947 thousand plus related interest and penalties.

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

24 Related party transactions

(a) Control relationships

The Group's largest shareholders are Retail Real Estate OU, OU Ekspert Kapital, Dragon – Ukrainian Properties and Development plc, Deltamax Group OU, Rauno Teder and Jüri Põld. The Group's ultimate controlling party is Estonian individual Hillar Teder. Hillar Teder indirectly controls 55.45 per cent of the voting shares of the Parent Company. As at 31 December 2017, apart from this, the adult son of Hillar Teder, Mr. Rauno Teder, controls 7.48 per cent of the voting shares of the Parent Company.

Subsequent to the reporting period end, on 29 January 2018, Rauno Teder has informed that he became the beneficial owner of DeltaMax Group OÜ, which holds 8,816,000 ordinary shares in the Parent Company and thus increased his interest to 16,343,321 ordinary shares in the Parent Company (representing 15.82 per cent of the Parent Company's issued share capital).

(b) Transactions with management and close family members

Key management remuneration

Key management compensation included in the statement of profit or loss and other comprehensive income for the year ended 31 December 2017 is represented by salary and bonuses of USD 813 thousand (2016: USD 711 thousand).

24 Related party transactions *continued*

(c) Transactions and balances with entities under common control

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

(in thousands of USD)	2017	2016
Short-term loans receivable	**10,669**	10,547
Trade receivables	**13**	1,384
Other receivables	**8,160**	8,963
Provision for impairment of trade and other receivables and loans receivable from related parties	**(18,827)**	(20,885)
	15	9
Long-term loans and borrowings	**25,263**	9,100
Short-term loans and borrowings	**9,855**	41,920
Trade and other payables	**1,137**	1,371
Advances received	**24**	26
Other liabilities	**26,267**	24,317
	62,546	76,734

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

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

(in thousands of USD)	2017	2016
Interest expense	**(5,654)**	(6,320)
Other finance costs	**(18)**	(40)
Operating expenses	**–**	(89)
Other finance income	**–**	18

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

(d) Guarantees issued by related parties

The Group's related parties issued guarantees securing loans payable by Ukrainian subsidiaries of Arricano Real Estate PLC to the EBRD (loans payable by Comfort Market Luks LLC, Ukrpangroup PrJSC) and PJSC 'Bank 'St. Petersburg' (loans payable by Livoberezhzhiainvest PrJSC). The guarantees cover the total amount of outstanding liabilities in relation to EBRD loans as at 31 December 2017 of USD 19,698 thousand (2016: USD 23,939 thousand) and in relation to PJSC 'Bank 'St. Petersburg' as at 31 December 2017 of USD 16,062 thousand (2016: USD 17,650 thousand).

(e) Acquisitions from entities under common control

There were no acquisitions from entities under common control during the year.

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

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

25 Subsequent events

Subsequent to the reporting period end, on 29 January 2018, Rauno Teder has informed that he became the beneficial owner of DeltaMax Group OÜ, which holds 8,816,000 ordinary shares in the Parent Company and thus increased his interest to 16,343,321 ordinary shares in the Parent Company (representing 15.82 per cent of the Parent Company's issued share capital).

In April 2018 and March 2018 the Group signed amendments to the loan agreements with PJSC 'Bank 'St. Petersburg' stipulating a decrease in the amount of loan principal payable for the period from March 2018 till April 2018.

Board of Directors
Mykhailo Merkulov
Juri Pold
Philip Peter Scales
Michael Zampelas
Volodymyr Tymochko

Secretary
Asoted Secretarial Limited

Independent Auditors
KPMG Limited

Nominated Advisor
Smith & Williamson Corporate Finance Limited

Bankers
AS SEB Pank, Estonia
Hellenic Bank Public Company Ltd (closed in November 2017)
OJSC Bank St. Petersburg, Russian Federation
OJSC 'Krayinvest', Russian Federation
Bank VTB, Russian Federation
PJSC Raiffeisen Bank Aval, Ukraine
Bank of Cyprus Public Company LTD (opened after 31 December 2017)
JSC «GENBANK», Russian Federation (opened after 31 December 2017)
TASCOMBANK JSC, Ukraine (opened after 31 December 2017)

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