



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 147,300 sq.m of gross leasable area, a 49.97% shareholding in Assofit and land for a further three sites under development.

Our Portfolio at a Glance



Completed Portfolio


Consisting of five shopping centres located in the cities of Kryvyi Rih, Zaporizhzhia, Simferopol and Kyiv. Spread over 147,300 square metres offering consumers a range of domestic and international retail brands.

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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 Kyiv and one is in Odesa.

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Investment

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

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Strategic Report

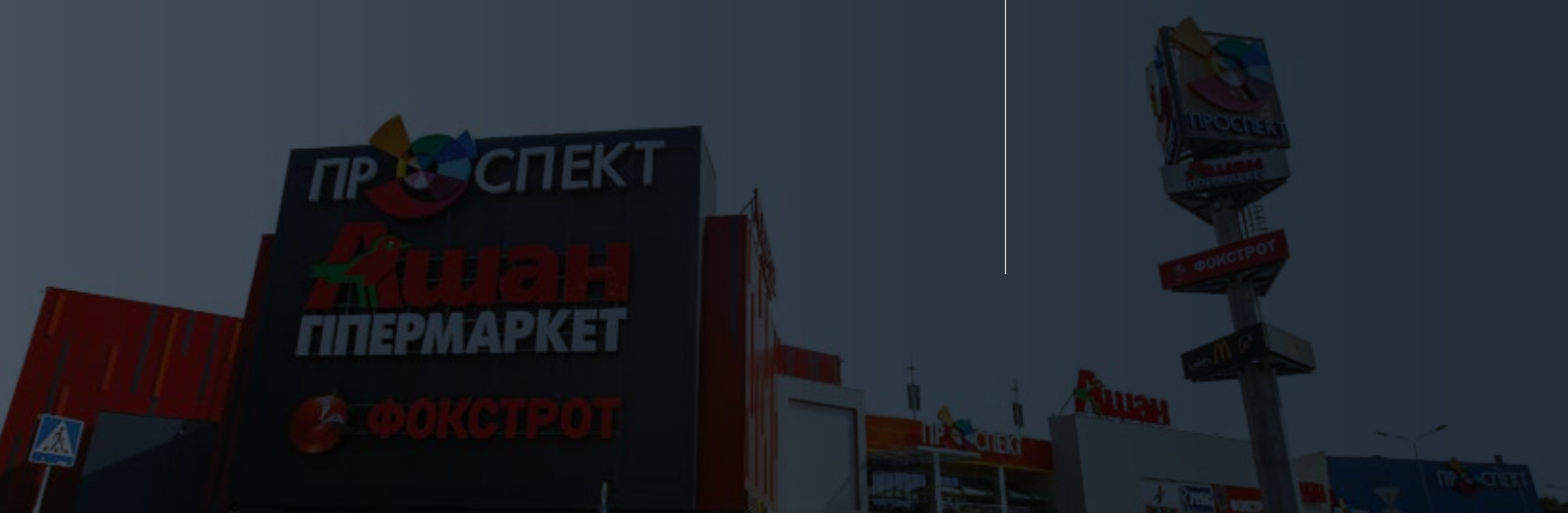
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2018 Highlights

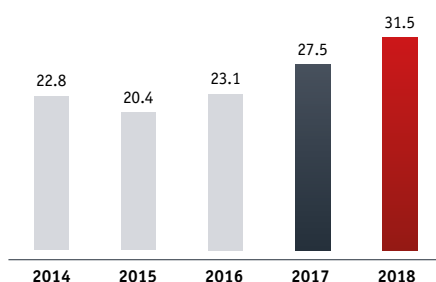
- Recurring revenues increased by 14% to USD 31.5 million (2017: USD 27.5 million)
- Net operating income (excluding revaluation gains) increased by 19% to USD 20.9 million (2017: USD 17.6 million)
- 17% uplift in the valuation of the Company's portfolio to USD 258.5 million as at 31 December 2018 (2017: USD 221.3 million)
- Very nearly fully let with occupancy rates for 2018 increasing to 99.70% against 98.65% in 2017
- As at 31 December 2018, total bank borrowings down by 16% to USD 36.3 million (2017: USD 43.1 million)
- As at 31 December 2018, total borrowings down by 2 % to USD 96.5 million (2017: USD 98.7 million)
- Net asset value increased by 80% to USD 94.0 million as at 31 December 2018 (2017: USD 52.2 million)
- New Board appointments: Urmas Somelar as a Non-executive Chairman; and Frank Lewis as an Independent Non-executive Director.

Post year-end

- Post year-end secured new USD 5.15 million loan facility with Raiffeisen Bank Aval JSC, to finance in part the construction of the Lukyanivka shopping and entertainment centre in Kyiv.

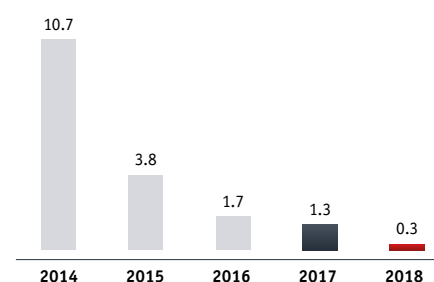
Revenue
(in mln USD)

USD 31.5m



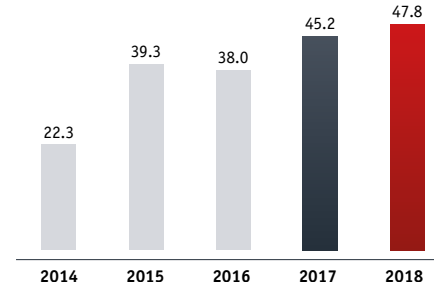
Vacancy rate
(in % from total GLA)

0.3%



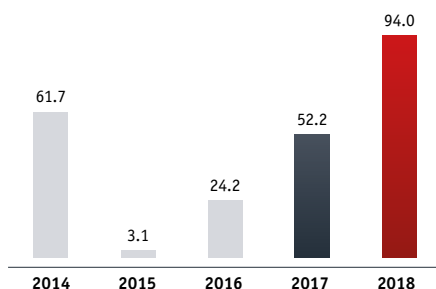
Footfall
(mln visitors)

47.8m



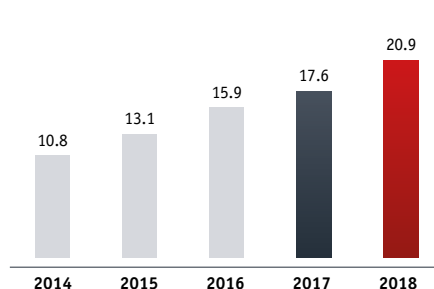
Net Asset Value (NAV)
(in mln USD)

USD 94.0m



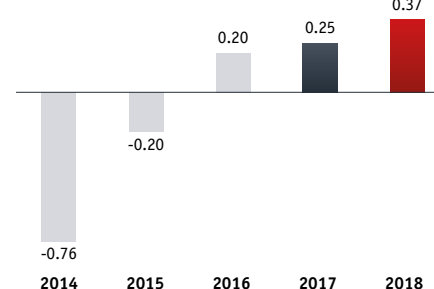
Net Operating Income (NOI)
(in mln USD, excl. revaluation gains and allowance for bad debts)

USD 20.9m



Earnings per share (EPS)
(in USD per share)

USD 0.37



Chairman's Statement



2018 saw Arricano increase rental income by 15% to USD 25.6 million and grow net operating income by 19% to USD 20.9 million. This would be a good performance by a mature business in a stable market environment; given the context of achieving it against the challenges facing businesses in the Ukraine, it is an excellent performance and builds upon a similarly strong performance in the prior year.

A stylized handwritten signature in white ink, appearing to read 'Urmas Somelar'.

Urmas Somelar
Non-Executive Chairman

Whilst the social and economic conditions continue to be challenging, the Group has performed strongly relative to domestic peers. In particular, Arricano has differentiated itself by continuing to develop the portfolio, expanding in 2014 through the opening of the Prospekt Mall and more recently securing a new loan in February 2019 with Raiffeisen Bank Aval JSC to fund in part the development of the Lukyanivka site in Kyiv.

Across the Group's shopping and entertainment centres the Group has continued to lead in innovative marketing solutions and digital communications. As always, Arricano has sought to work collaboratively between consumer, retailer and landlord on the basis that sharing data openly will generate increased growth and customer satisfaction. Trust and effective collaboration are at the heart of the multiple initiatives that are ongoing across the portfolio. Marketing B2C strategy is focused on enhancing quality and quantity of communication. Total media capacity of malls in SMM channels is about 200 thousand followers with an average monthly reach more than 4 million people, which make the digital resources of the Group an efficient media platform and communication tool.

These efforts are reflected in the significant increase in visitor numbers achieved over the year, up by 6% to 47.8 million visitors. The Group is consistently achieving impressive increases in visitor numbers year on year and this is primarily driven by the focus on making each shopping and entertainment centre a place which consumers want to visit not simply to shop at but also to relax and socialise.

An important part of Arricano's appeal is due to the retail mix in each centre. The management team is focused on constantly refreshing the retail mix so that each site continues to offer new brands and experiences alongside keeping traditional favourites. The popularity of the shopping and entertainment centres means demand has remained strong. This is reflected in occupancy across the portfolio improving

to 99.7%, up from 98.7% at 31 December 2018, demonstrating Arricano's ability to both attract new and keep existing tenants. In 2018, the Company signed 137 new lease agreements relating to 20,157 sq.m of retail space.

As at 31 December 2018, Arricano had over 147,300 sq.m of completed assets spread across five completed shopping centres. In addition, the Group also owns lease rights for 14 ha. of development land divided into three specific sites which are at varying stages of development. These are in Lukyanivka and Petrivka (both Kyiv), as well as Rozumovska (Odesa).

Regarding the 49.97% shareholding in Assofit Holdings Limited ('Assofit'), a holding company, which held the Sky Mall shopping centre, the Company continues to pursue Stockman Interhold S.A. ('Stockman') concerning its call option over the balance of the shares of Assofit. The Company announced in January 2018 that the High Court of Justice in London (the 'High Court') had dismissed an application made by Stockman for permission to appeal the High Court's earlier judgement in which it had previously dismissed Stockman's various challenges to the Fourth, Fifth and Seventh Awards (the 'LCIA Awards') rendered in the London Court of International Arbitration proceedings between Arricano and Stockman.

During 2018, Arricano was nominated for, and won a series of, industry awards reflecting the Group's leadership across multiple areas. Of particular note, was the achievements of Sun Gallery and City Mall in being winners at the VII National Retail Award of Ukraine Retail Awards 'Consumer Choice - 2018', sponsored by PwC Ukraine.

On behalf of the Board I would like to thank every employee and stakeholder connected to Arricano for their contribution and commitment to the business during 2018 and I look forward to working together towards achieving another successful year in 2019.

Visitors

47.8m
+6%

Rental Income

USD 25.6m
+15%

We expect 2019 to be a good year for the Group. Arricano is now consistently profitable and we are again looking to expand the portfolio with the development of the market leading and highly innovative Lukyanivka project. This, together with our ongoing success in increasing the consumer appeal of our shopping centres, demonstrated by the increase in visitor numbers and our success in working collaboratively with retailers both physically and digitally, makes the Board confident of delivering another strong trading performance in 2019.

Urmaz Somelar
Non-Executive Chairman
16 April 2019

"Arricano has delivered a very strong performance, increasing revenues and net operating income by 14% and 19%, respectively. The Group is in a stable position from which it is planning to expand and we expect 2019 will be another year of continued progress with a focus on working collaboratively with consumers visiting our shopping centres and our retail tenants.

Chief Executive Officer's Report



Arricano has now been consistently building momentum since addressing the challenges faced by all Ukrainian businesses in 2014. Despite the upheaval caused socially and economically, consumers have continued to come to our shopping and entertainment centres. In 2014, visitor numbers fell to 22.3 million then grew by over 20% p.a. to 47.8 million visitors in the year under review, demonstrating our recovery and the ongoing increasing popularity of our malls.

A stylized, handwritten signature in white ink, consisting of fluid, overlapping loops and strokes.

Mykhailo Merkulov
Chief Executive Officer

This has come in part from our focus on making our shopping and entertainment centres places where people want to come to, not just to shop at but also to meet friends and relax. In this aim we have been successful. Our next aim is to combine our physical success with digital success, we describe it as 'phygital competence' (physical + digital).

From a trading perspective 2018 was a good year. The business has delivered across nearly all metrics. We have increased profits, reduced debt, vacancy is down to just 0.3% and we achieved a net asset value increase of 80% to USD 94.0 million.

Results

Recurring revenues for the period were up 14% at USD 31.5 million (2017: USD 27.5 million). As a result, the Net Operating Income ('NOI') from operating properties excluding revaluation gain was up 19% at USD 20.9 million, compared to USD 17.6 million in 2017.

The portfolio of assets was externally and independently valued as at 31 December 2018 by Expandia LLC, part of the CBRE Affiliate Network. The portfolio was valued at USD 258.5 million (31 December 2017: USD 221.3 million), the increase in the value of the portfolio was primarily driven by the increase in rental income and through conservative operational cost management.

Profit before tax increased by almost 40% to USD 46.6 million (2017: USD 33.6 million). This increase was achieved through a combination of improved recurring revenues and a reduction in finance costs.

Bank debt at the year-end was USD 36.3 million down 16% from USD 43.1 million at the prior year end, with the majority of borrowings at the project level at an average interest rate of 12%. Loans mature between 2019 and 2023 and the Group's bank loans to investment property value ratio is 14%. In addition, there was USD 2.4 million of restricted cash, cash equivalents, and restricted deposits, as at 31 December 2018 (2017: USD 1.2 million).

The market

In 2018 sales of electronic and home appliances increased by more than 9.5% with the bestselling items being smartphones and mobiles phones, up by 37%. The market trend in Ukraine, as it is in Europe, is towards digitalisation in all aspects of consumer's lives. Our challenge has been to respond creatively and combine the physical social spaces of our malls with digital communication and move to help our retailers provide omnichannel offers.

Our media platform now has in excess of 200,000 active subscribers and has recorded millions of views. Content is coming from a variety of sources. In 2018, a particularly popular video experiment borrowed from the Harry Potter films and projected ghosts flying through our Prospekt mall. The response resulted in thousands of views without any advertising and made clear the potential to do more to link this style of interaction with sales promotions. As always our approach is to work collaboratively with retailers and consumers, sharing data together and building trust and respect with the aim of everyone achieving their goals through working together. As a result, the number of tenants working with e-commerce has nearly doubled from 39 to 72.

As previously announced, we invested in an online portal for tenants providing a broad range of tools for tenants' use from access to administrative resources, to a range of potential revenue generating opportunities for tenants to participate in.

Merchandising mix is at the heart of every successful mall. Knowing our customers and understanding their aspirations is key. 42.1% of our revenue from tenants across our 5 malls are from fashion stores with the balance of revenue being: 6.4% health and beauty; 8.3% restaurants and food; 9.0% entertainment/services; 10.1% accessories, jewellery and homeware; 10.4% electronics; and 13.7% hypermarkets. In the third quarter of 2018, there was a focus on strengthening our presence in fashion, including men's fashion, with each shopping mall introducing 2-3 new popular clothing stores, both Ukrainian and international brands.

These efforts are clearly producing results given the 6% increase in visitor numbers during the year. Alongside achieving a good mix of tenants, an important reason behind the popularity of the Group'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 in which to meet, eat and relax.

In terms of the new developments, the Group is progressing projects in Odesa and Lukyanivka, Kyiv. The main focus is on development of the Lukyanivka project; construction is underway with initial financing completed in February 2019 and the project remains on track to complete in 2021.

Outlook

These results reflect the success of our hard work over the last 5 years. Our malls are market leading and, to maintain this position, we are focused on the future. It is clear shopping is going through an evolution here as it is elsewhere, as the convenience of online purchases is altering traditional habits. Rather than this be a challenge we see it as an opportunity and we are responding accordingly. Our work with consumers and retailers on digital communications is proving successful not only in creating new experiences but also in strengthening the relationships we enjoy with both these groups. This, together with all the other elements of our business means we are confident of being able to continue to increase revenues in 2019 in line with management expectations.

Mykhailo Merkulov
Chief Executive Officer
16 April 2019

Merchandising Mix

(% of revenue, mln USD)

USD 31.5m

6.4% (vs 6.9% in 2017)

Health and beauty

8.3% (vs 8.0% in 2017)

Food/Restaurants

9.0% (vs 8.9% in 2017)

Services/Entertainment

10.1% (vs 9.9% in 2017)

Accessories,
jewellery, homeware

10.4% (vs 9.5% in 2017)

Electronics

42.1% (vs 41.8% in 2017)

Fashion

13.7% (vs 15.1% in 2017)

Hypermarket

Operating Portfolio

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

SUN GALLERY (KRYVYI RIG)

Sun Gallery, which opened in 2008, is one of the largest shopping malls in Kryvyi Rig. It is located at 30-richchia Peremohy Square, in the Saksahanskyi district in the north-eastern part of Kryvyi Rig.

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 Dovhyntsiivskyi district.

The shopping centre is on two levels, spanning a total GLA of approximately 37,600 sq.m. There are approximately 141 tenants, including a children's entertainment zone and a food court with restaurants and cafes. During 2018, 19 new agreements were signed, bringing new brands to the Sun Gallery, including brands that were previously unavailable in the region.

KEY STATISTICS

GLA

c. 37,600 sq.m

Vacancy rate as at
31 December 2018

0.2 per cent.

Average monthly rental rate 2018*

USD 14.6/sq.m

Average monthly visitors 2018

0.4 million

Bank debt at 31 December 2018

USD 5.5 million

Valuation at 31 December 2018

USD 30.3 million

* Excluding hypermarket.





CITY MALL (ZAPORIZHZHIA)

KEY STATISTICS

GLA

c. 21,500 sq.m

Vacancy rate as at
31 December 2018

0.0 per cent.

Average monthly rental rate 2018*

USD 29.1/sq.m

Average monthly visitors 2018

0.5 million

Bank debt at 31 December 2018

USD 6.3 million

Valuation at 31 December 2018

USD 30.5 million

City Mall, which opened in 2007, is one of the largest shopping centres in Zaporizhzhia with a total GLA of approximately 21,500 sq.m on a single level. The shopping centre is located on the Dnipro river approximately 3km from Zaporizhzhia city centre, between two densely populated areas of Zaporizhzhia in the Alexandrovskyy administrative district (1b Zaporizska street), with convenient accessibility by public and private transport.

City Mall comprises a gallery and hypermarket with approximately 93 international and local tenants, including a food court, a children's entertainment zone and car parking, which is shared with DIY superstore Epicenter. City Mall's anchor tenants are the hypermarket Auchan, which is the largest in the city, McDonald's and the

electronics store Comfy. During 2018, 15 new contracts were signed bringing new brands to the City Mall, including brands that were previously unavailable in the region. Building on the fourth successive year of nil vacancy rates, the tenant portfolio continues to be strengthened, with fashion and electronic stores.

* Excluding hypermarket.



SOUTH GALLERY (SIMFEROPOL)

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

South Gallery shopping centre (Phases I and II) is situated on a land plot with a total area of 10.2 ha. Phase I, which opened in 2009, of the shopping centre tenants include Auchan (international hypermarket chain), with a small gallery. Since the completion of Phase II in

February 2014 the mall has become a regional destination shopping centre with a total GLA of 33,400 sq.m.

During 2018, 50 new lease contracts were signed, including fashion, electronics and other stores.

KEY STATISTICS

GLA
33,400 sq.m

Vacancy rate as at
31 December 2018
0.01 per cent.

Average monthly rental rate 2018*
USD 21.9/sq.m

Average monthly visitors 2018
0.8 million

Bank debt at 31 December 2018
USD Nil

Valuation at 31 December 2018
USD 49.6 million

* Excluding hypermarket.

RAYON (KYIV)

KEY STATISTICS

GLA

c. 23,900 sq.m

Vacancy rate as at
31 December 2018

0.35 per cent.

Average monthly rental rate 2018*

USD 20.1/sq.m

Average monthly visitors 2018

0.57 million

Bank debt at 31 December 2018

USD 15.6 million

Valuation at 31 December 2018

USD 44.1 million

* Excluding hypermarket.

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

The shopping centre has a GLA of approximately 23,900 sq.m on two levels, with approximately 860 parking spaces. The concept for RayON is a district shopping centre, which focuses on food, clothing and convenience products. The shopping centre is anchored by a Silpo foods supermarket, one of the biggest supermarket chains in Ukraine and a member of the Fozzy group. Electronics supermarket Comfy also operates within the shopping centre.

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

During 2018, 27 new lease contracts were signed, including fashion and electronics stores.



PROSPEKT (KYIV)

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

The SEC consists of a two-storey retail and leisure complex with a GLA of approximately 30,900 sq.m. and parking with 1,350 parking spaces. The centre opened at the end of 2014.

2018 saw the successful continuation of free training sessions for shop personnel, building

on demand from the previous years. During 2018, 26 new lease contracts were signed. Brands such as ProSport and Eldorado were introduced as tenants, with international brands such as Puma, Lush, Orsay, Parfois, and Love Republic also joining the centre.

KEY STATISTICS

GLA
c. 30,900 sq.m

Vacancy rate as at
31 December 2018
0.7 per cent.

Average monthly rental rate 2018*
USD 16.9/sq.m

Average monthly visitors 2018
1.7 million

Bank debt at 31 December 2018
USD 8.9 million

Valuation at 31 December 2018
USD 56 million

* Excluding hypermarket.



Development Properties

Lukyanivka (Kyiv)

The Lukyanivka development property is located on the right bank of Kyiv in the Shevchenkivskyi administrative district. The land plot has a total area of 4.19 hectares. The Group is constructing its flagship complex in the central business district of Kyiv, with a more upmarket vision in terms of concept and tenant mix. The Lukyanivka development property allows for the construction of a multi-functional complex, consisting of shopping and leisure, office and residential centres including, inter alia, a hypermarket, shops and shopping galleries, a leisure and entertainment area, a food court restaurants and a service area. The property will also have two underground parking levels and several office and residential buildings, 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 over 50,000 sq.m.

The Group obtained the relevant construction permit in June 2013. Construction is underway with initial financing completed in February 2019 and the project remains on track to complete in 2021.

Land plot:	4.19 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. 71,339 sq.m for the shopping centre (plus c. 38,480 sq.m GBA for parking)
Gross leasable area (GLA):	c. 50,000+ sq.m
Parking spaces:	To include roof parking and underground parking
Type:	City shopping centre (pocket hypermarket anchored) with office and residential spaces
Actual construction start date:	Q4 2013
Forecast opening date:	2021

Rozumovska (Odesa)

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

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

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

Petrivka (Kyiv)

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



The Group's revenue mainly consists of rental income from the portfolio of the completed properties. During the year ended 31 December 2018 the Company's rental income amounted to USD 25.6 million (2017: USD 22.1 million).

A handwritten signature in white ink, appearing to read 'L. Reinberg', written in a cursive style.

Lauri Reinberg
Chief Financial Officer

The total fair valuation of the Company's portfolio increased by 17% to USD 258.5 million as at 31 December 2018 (2017: USD 221.3 million).

The main reasons for the increase of fair value of the Group's portfolio were successful rotations of lessees, increase in rental rates and close control of costs. Operating expenses during the period were USD 7.4 million, compared to USD 7.1 million in the previous year.

As a result of the above, profit from operating activities was USD 63.2 million (2017: USD 65.4 million) reflecting a smaller increase in revaluation gains compared to the prior year.

Finance expenses in 2018 reduced significantly to USD 17.5 million (2017 USD 32.5 million), while finance income increased to USD 0.9 million (2017 USD 0.7 million).

The Company's net profit for the year ended 31 December 2018 was USD 38.1 million (2017: USD 25.8 million).

"The Company's net profit for the year ended 31 December 2018 was USD 38.1 million (2017: USD 25.8 million)."

Net Asset Value as at 31 December 2018 was USD 94.0 million (2017: USD 52.2 million), resulting in an Adjusted Net Asset Value per Share, up 78%, of USD 0.91 (2017: USD 0.51).

Total assets, as at 31 December 2018, amounted to USD 268.2 million (2017: USD 230.9 million), an increase of 16% from the previous year. This mainly related the increase in investment property value.

Cash balances as at 31 December 2018, including cash equivalents and current deposits, amounted to USD 4.2 million (2017: USD 2.6 million).

As at 31 December 2018, the Group had USD 96.5 million (2017: USD 98.7 million) of outstanding borrowings

Net Asset Value

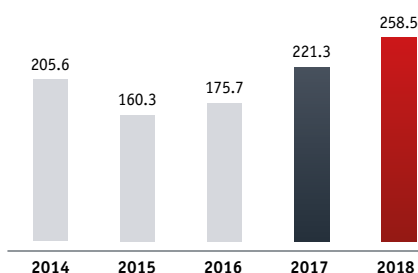
USD 94.0m
+80%

Cash balances

USD 4.2m
+62%

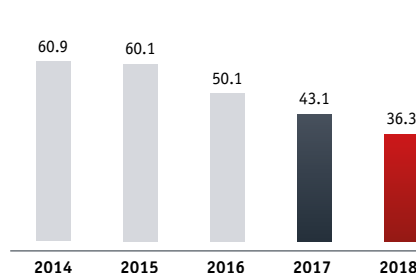
Valuation of the Property Portfolio (in mln USD)

USD 258.5m



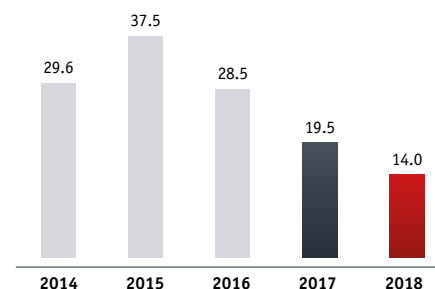
Bank loans (in mln USD)

USD 36.3m



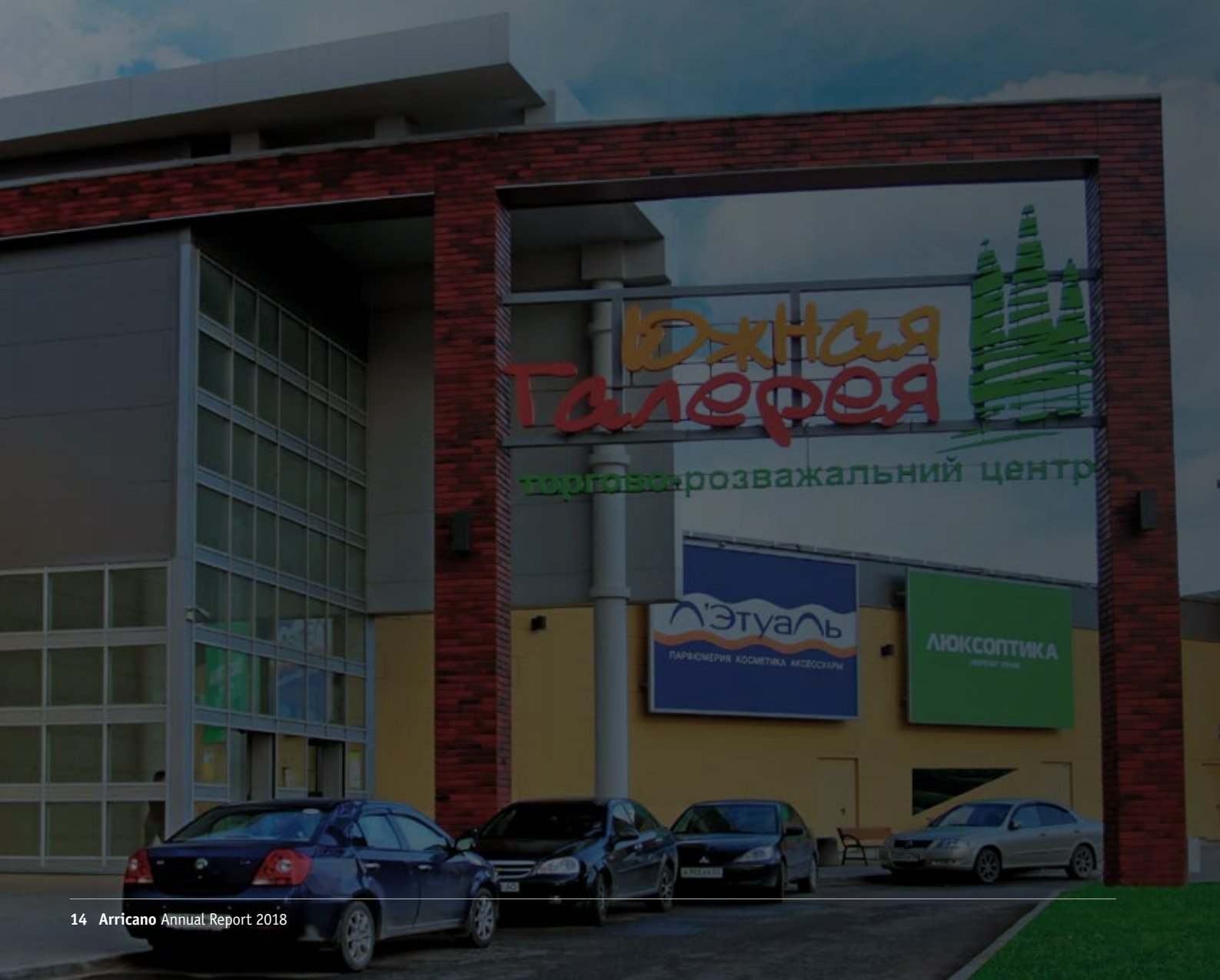
Bank loan to Investment property value ratio (excluding unsecured related and third parties borrowings) (in %)

14%



Management 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 2018.



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.

The Company's purpose is to:

- Develop and operate the highest quality commercial real estate properties in CEE urban centres providing high quality user experience for its B2C clients and profit potential to its B2B partners;
- Become a reliable investment platform for international investors in the CEE/UA market;
- Become a benchmark for innovation in retail real estate attracting leading partners and potentially monetising B2C customer data.

Retail is a fast moving world and the Company is focused on anticipating future trends and ensuring that Arricano's centres maintain their strong appeal.

The key challenges to the Group's business are:

- Low purchasing power of Ukrainian people, which ultimately limits the Group's opportunities for establishing higher rent rates;
- Political situation and economic environment in Ukraine.

Mitigating steps taken by the Company enable these risks to be kept under control and limit their exposure where possible.

In particular, the Group is focused on innovation and operational excellence and it:

- Upgrades the product and tenant-mix to reflect the market and changing consumer behaviour in order to constantly increase earnings per square meter;
- Keeps innovating in automation to reduce operational and administrative costs;
- Aims to be a trendsetter in providing tenants with up-to-date infrastructure to assist them in increasing their turnover;
- Accelerates development of digital media channels to utilize their revenue driving opportunities.

Also the Group is focused on growth and portfolio optimisation:

- By increasing the portfolio size with new concept real estate objects following the growing demand of a multifunctional lifestyle space;
- By adding new space to the existing projects with high growth potential;
- Through improving geographical diversification to enhance the sustainability of the business model and investment attractiveness.

The Group is focused on securing funding for developing new projects and refinancing the existing projects from International Financial Institution, international and local banks as well as from improved efficiency of own funds.

Financial results

The Group's financial results for the year ended 31 December 2018 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 2018 amounted to USD 38,103 thousand (2017: USD 25,807 thousand). This increase was mainly due to the USD 14,999 thousand decrease in finance costs and USD 3,971 thousand increase in revenue, offset by the USD 5,624 thousand decrease in the gain on revaluation of investment property.

The Group's revenue mainly consists of rental income from the portfolio of completed properties. During the year ended 31 December 2018 the Group's rental income amounted to USD 25,566 thousand (2017: USD 22,136 thousand). The increase in revenue is attributable mainly to the increase in rental rates and foreign exchange rates used for billing tenants.

In the year ended 31 December 2018, the Group generated positive cash flows from operating activities amounting to USD 17,295 thousand (2017: USD 11,559 thousand). These cash flows were mainly used for repayments of loans and borrowings amounting to USD 22,396 thousand for the year ended 31 December 2018 (2017: USD 6,777 thousand).

Net Asset Value as at 31 December 2018 was USD 94,032 thousand (2017: USD 52,182 thousand), resulting in an Adjusted Net Asset Value per share of USD 0.91 (2017: USD 0.51). 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 258,537 thousand as at 31 December 2018 (2017: USD 221,265 thousand). The main reasons for increase in fair value of the Group's portfolio were increase in rental rate, successful rotations of lessees and increase in the currency exchange rates used for billing tenants.

As at 31 December 2018, the Group's current liabilities exceeded current assets by USD 68,988 thousand. At the same time, the Group had positive equity of USD 94,032 thousand, generated net profit of USD 38,103 thousand and positive cash flows from operating activities amounting to USD 17,295 thousand. Based on representations received from entities under common control, management believes that the Group will not be required to settle the outstanding accrued interest and other payables to related parties in the amount of USD 21,360 thousand that are included within short-term liabilities during the year ended 31 December 2019. Subsequently to the year end a Group company has received a new loan facility of USD 5.15 million. 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.

Management Report continued

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 21 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 the 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, management standards and procedures, aims to develop a disciplined and constructive control environment in which all employees understand their roles and obligations.

The Group has an established framework of internal financial controls, the effectiveness of which is regularly reviewed by the Board and the Audit Committee in light of an ongoing assessment of significant risks facing the Group.

The Board has ultimate responsibility for the Group's system of internal control and for reviewing its effectiveness. However, any such system of internal control can provide only reasonable, but not absolute, assurance against material misstatement or loss. The Board considers that the internal controls in place are appropriate for the size, complexity and risk profile of the Group.

The principal elements of the Group's internal control system include:

- Close management of the day-to-day activities of the Group by the Executive Director;
- An organisational structure with defined levels of responsibility, which promotes entrepreneurial decision-making and rapid implementation while minimising risks;
- A comprehensive annual budgeting process producing a detailed integrated profit and loss, balance sheet and cash flow, which is approved by the Board;

- Detailed monthly reporting of performance against budget;
- Central control over key areas such as capital expenditure authorisation and banking facilities;
- Multi-stage system of internal approval of documentation to be executed and actions to be performed by the Group.

The Group continues to review its system of internal control to ensure compliance with best practice, while also having regard to its size and the resources available.

The Board is committed to maintaining appropriate standards for all the Group's business activities and aiming to set out these standards in written policies of the Group. The Group has adopted Rules Applicable to Approval of the Main Documents (a Document Approval Policy), a Tender Policy, an IT Policy as well as a number of other policies related to daily operations.

All material contracts are required to be reviewed by the Chief Financial Officer and the Chief Executive Officer.

The executive management regularly identifies the key risks, they are re-assessed, and potential mitigating actions are considered and implemented to help protect against those risks.

The CEO regularly provides to the Board the business updates which, alongside other measures enables the Board to assess and manage risk and to get assurance that the risk management and related control systems in place are effective.

The Group, through its training, 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 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 1,574 thousand as at 31 December 2018 (2017: USD 2,454 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.

One of the challenges and risks mitigating steps is ensuring compliance and high corporate governance. In order to implement that, the Group:

- Keeps improving the structure of the company management and corporate governance to achieve an optimised balance of maximum speed and efficiency, with proper control and risk mitigation;
- Promotes a strong results oriented corporate culture;

- Minimises present and anticipated risks in the regions of activity and expected regulators behaviour;
- Watches the industry and global trends to comply with present and to address emerging regulators requirements.

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 the tenants mix of the malls through the attraction of well-known European and local retailers. Moreover, the Group provides significant marketing and PR support for tenants in order to increase their turnover.

The Group is the owner of the entities owning and operating five trade centres with total gross leasable area ('GLA') of over 147,300 square meters, located in Kyiv, 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 Kyiv. During the year ended 31 December 2018 the development was financed by internal resources. In the current 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 2018.

Share capital

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

Future developments of the Group

Arricano continues to outperform the market in the context of the wider environment. The increase in occupancy to 99.7% during 2018 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, a 'Customer Experience' year in 2017 and 'Phygital (Physical plus Digital)' year in 2018, the year 2019 is declared to be a year of mutual respect and strengthening of long-term relationships with partners. 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.

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 24 of the consolidated financial statements.

Related party transactions

Disclosed in note 23 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
Director



Frank Lewis
Director

Limassol, 16 April 2019

Management Analysis of Corporate Governance

The Group intends to maintain high standards of corporate governance and transparency throughout all of its activities and communications.

The Board of Directors of the Company has decided to apply the Quoted Companies Alliance's Corporate Governance Code (the 'QCA Code'). The information below sets out the details of the Company's compliance with the QCA Code and details where it departs.

Board composition

The members of the Company's Board of Directors as at 31 December 2018 and at the date of this report are presented on page 20. During the year ended 31 December 2018 the Board comprised of four (until 30 November 2018) and five (starting from 30 November 2018) Non-Executive Directors and one Executive Director. The Board has determined that Mr. Philip Scales (Non-executive Chairman until 27 September 2018), Mr. Urmas Somelar (Non-executive Chairman from 27 September 2018), Frank Lewis (Non-executive director from 30 November 2018) and Mr. Michael Zampelas (Non-executive Director) are independent in character and judgement and that there are no relationships or circumstances which could materially affect or interfere with the exercise of their independent judgement.

Philip Scales, formerly the Independent Non-Executive Director and the Chairman of the Board, was responsible for the running of the Board until he stepped down from the Board with effect from 27 September 2018.

Starting from the same date, Urmas Somelar was appointed as the Independent Non-Executive Director and entered into the role of the Chairman of the Board performing the obligation of running the Board.

The role of Non-executive Chairman provides that this person is continuously communicating with the CEO of the Group, mentoring him and providing valuable advice.

Mykhailo Merkulov, the Chief Executive Officer, has executive responsibility for running the Group's business and implementing the Group's strategy.

Subsequent to the year end, on 30 January 2019 Mr. Juri Pold was appointed as an Executive Director.

Re-election

The directors, which are appointed by the Board of Directors are subject for re-election by the shareholders at the Annual General Meeting. The Company may remove any Director by ordinary resolution and taking into consideration the terms and conditions of each Director's letter of engagement, including the specific advance notice.

Board meetings

The Board had 11 meetings during the year in order to review, discuss and take decisions on Group's strategy and performance.

The Board members regularly communicate with each other including the CEO as well as attending Board meetings. Generally, each non-executive director is expected to devote approximately 20 days to the Group per annum.

All Directors receive regular and timely information on the Group's operational and financial performance. Relevant information is circulated to the Directors from time to time in advance of the meetings. All Directors have direct access to the advice and services of the Company Secretary and are able to take independent professional advice in the furtherance of the duties, if necessary, at the Company's reasonable expense.

The Board has established an Audit and a Remuneration committee, with specific duties and responsibilities. The directors do not consider that, given the size of the Board, it is appropriate at this stage to have a Nomination committee. However, this will be kept under regular review by the Board.

The attendance record of each director in 2018 is the following:

	Board Meetings	Audit Committee Meetings	Remuneration Committee Meetings
Mykhailo Merkulov	11		
	8	1	
	1 attended through alternate	1 attended through alternate	1
Michael Zampelas			
	9		
	1 attended through alternate	2	1
Volodymyr Tymochko			
Juri Pold	5		
Philip Scales (resigned on 27 September 2018)	7	2	
Urmas Somelar (appointed on 27 September 2018)	4		1
Frank Lewis (appointed on 30 November 2018)	3		

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 2018 and at the date of signing of these consolidated financial statements is as follows:

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

Risk Management and internal controls

The Board has overall responsibility for establishing and maintaining sound risk management and internal control systems. The Board monitors these risks and systems regularly to ensure they continue to be effective and fit-for-purpose. The information on risk management and internal controls, on how the Group carried out an assessment of the principal risks facing it, the explanation of these risks and how they are being mitigated can be found in the Director's Report on page 16.

Board of Directors

The Board is satisfied that between the Directors it has an effective and appropriate balance of skills and experience, personal qualities and capabilities including in the areas of rent, retailing, development, finance, banking, compliance, innovation and marketing so that it allows the Board to deliver the strategy of the company for the benefit of the shareholders over the medium to long-term.

The Company may remove any Director by ordinary resolution and taking into consideration the terms and conditions of each Director's letter of engagement, including the specific advance notice.

The details on relevant experience, skills, personal qualities and capabilities that each director brings to the Board of the Directors are set out below.

Board evaluation

The Board takes into account performance of its individual Directors internally before taking decisions on their re-appointment, to ensure that their performance is and continues to be effective, that where appropriate they maintain their independence and that they are demonstrating continued commitment to the role.

In addition, the Board evaluates performance of the Chief Executive Officer by taking into consideration fulfillment of the Company's annual goals. The Company did not adopt a strict performance evaluation procedure because it believes that its internal approaches of succession planning and the processes by which the Board and other senior management appointments are determined results in the achievement of the Company's goals and constant growth.

Corporate culture

The Group promotes a strong innovative results oriented corporate culture. The culture of the Group is to go the extra mile for its customers, suppliers and shareholders.

The Board aims to lead by example and do what is in the best interests of the Company.

The Group maintains its focus on motivated and inspired people and ensuring competitive compensation through an effective pay system based on results.

In order to increase the tenants and visitors bases which are loyal to the Group, it is vital that all the Group employees act in a way that reflects the values of the Group business.

The corporate behaviour guidelines, which are read by all employees as part of their induction, provide further specific details of aforementioned values and principles of ethical behaviour promoted within the Group.

The Board authorised the CEO to manage the Group's day-to-day business. The CEO regularly arranges meetings both with the senior top management and with other Group staff and articulates how the Group's objectives, strategy and business model should be consistent with the Group's corporate culture. Also the CEO and the senior top management team receives feedback from the Group's employees on their vision on how corporate values are used in the operational activities and how they may improve the effectiveness on the Group's performance.

Board of Directors



Urmas Somelar

Independent Non-Executive Director,
Chairman (appointed on 27 September 2018)

Background

Urmas Somelar currently acts as a management consultant, working through his private company US Juhtimise. Previously Urmas worked for over 20 years in banking, predominantly in the credit and credit risk areas. He has extensive knowledge of credit analysis, corporate restructuring and repossessed asset turnaround. Between 2009 and 2015 Urmas built up and led different units within the Swedbank Group, working in the Baltics as well as Russia and Ukraine. Between 2015 and 2017, Urmas acted as the CEO at Riigi Kinnisvara, an Estonian state real estate property and facility management company, which owns and manages more than 1.2 million square metres of office and specialised property.

Mr. Somelar's significant banking experience benefits the Group in terms of streamlining the Group's strategy, in growing the business in Ukraine and internationally.

His experience comes from the top managerial level engagements in multinational bank in different East European countries and top executive in Estonian State real estate company catering for premises needs for majority of Estonian state sector needs.

Mr. Somelar's skillset and personal qualities include interdisciplinary knowledge of managerial, finance and legal aspects of midcap/large companies, hands-on knowledge of restructuring and re-orienting companies, strong strategic and analytical thinking, high integrity and ability to work within different cultural environments.

Expertise and focus

Mr. Somelar leads and bringing together skills, qualities and experience of the other members of the Board, to provide oversight and scrutiny of the performance of the executive management team, constructively challenging and inspiring them to continue to improve the performance of the Company at all levels, Mr. Somelar is an experienced leader, he combines management consultancy services provided via his company to fintech and biotech startups with frequent participation in management professionals roundtables, internet community discussions and knowledge refreshment courses.

Michael Zampelas, a Non-Executive Director of the company, has passed away. The Board extends its deepest condolences and sympathies to Michael's family.

Mykhailo Merkulov

Executive Director, CEO

Background

Mykhailo Merkulov graduated from Romano-Germanic Philology Department of Kharkiv State University in 1996, and received an MBA from Manchester Business School in the UK in 2007. Mykhailo has 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 9 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 Immortent AG in Ukraine, a specialist in real estate financing, infrastructure financing and project development, as a Managing Director. In 2011 he became Regional Director for the Group's Eastern European markets (Ukraine, Poland, Bulgaria, Serbia, and Slovenia). As of September 8, 2014, Mykhailo Merkulov has been appointed to the position of the Chief Executive Officer of Arricano Real Estate plc and as of 16 April 2015 was appointed to hold the position of the Director of the Board. His competence covers strategic planning and the Company's business operations control.

Expertise and contribution

Mr. Merkulov having vast operational, banking and commercial real estate development experience and track record provides the Company with executive management services. As he is the only executive director on the Board, he provides current trading information to the Board for decision-making and strategy formation. He revises the Company's business model on a regular basis, offers alterations of operational modes and is responsible for execution. Mr. Merkulov's previous management experience, developed in a multinational cultural environment will help him lead the management team and foster talent development. Encouraging the development of new technology for the company, Mr. Merkulov has recently developed an in-depth understanding of trends and future requirements of commercial real estate which is helping the Board steer the Company into the future and to maintain industry leadership. At the same time after several years of testing new retail tech he has become a high level expert of new tech efficiency in commercial public spaces and is now being invited to every major related conference in the region.

Mr. Merkulov as an executive director is constantly learning from meeting external experts in niche technologies in retail tech, building management intellectual systems. He regularly visits and studies more developed markets, and attends the most advanced global conferences on the subject. He is an active member of industry and international communities and retail related start-up initiatives. He maintains the corporate business library and promotes an active and healthy lifestyle, initiating the Group's involvement into regional sports activities.

Volodymyr Tymochko

Non-Executive Director

Background

Volodymyr Tymochko is a Managing Director of Private Equity, and a Partner at Dragon Capital. At this position he is responsible for investment management of AIM-listed DUPD and a number of private property investment companies with over 20 active real estate projects in Ukraine. In 2007, Volodymyr was appointed as 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.

Expertise and contribution

Mr. Tymochko was appointed as the investor Director representing interests of one of the Company's shareholders, DUPD, and uses his skills and experience to ensure that the Company delivers the maximum shareholder value with the adequate risk appetite.

Being a member of the Audit Committee, Volodymyr ensures the integrity of financial information, and robustness of the risk management systems.

Volodymyr uses his awareness with the local market conditions and market practice, taxation and legal requirements in order to evaluate the accuracy of calculations and forecasts, for example, when considering and approving the Group's budget and competitiveness of the remuneration arrangements when performing the duties of the Remuneration Committee member.

Volodymyr is actively involved in investment management of new and existing real estate investments in Ukraine, which grants him most current legal, commercial, HR and financial experience relevant for various business matters the Company and its shareholders encounter.



Juri Pold

Non-Executive Director

Background

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 a 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 till 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 Center 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.

Expertise and contribution

Juri has a wide experience in working in Ukraine and in other countries, particularly in solving administrative issues in prospective development projects. 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 Group's strategic development and expansion.

Mr. Pold was appointed as the investor Director representing interests of the Company's majority shareholder, Retail Real Estate OU, and also Juri holds a number of the Company's shares. He uses his experience, skills and personal qualities to ensure that the Company delivers the maximum shareholder value with the adequate risk appetite.

In addition, Juri brings difficult issues to the attention of the shareholders; such as promoting the goodwill and protection of shareholders' interests, the review and evaluation of present and future opportunities, monitoring the implementation of policies, strategies and business plans. Juri uses his experience in construction and investments in order to support the Group's development strategies. Juri keeps his skillset up-to-date in close contact with the Group and Group's shareholders. He actively reviews the agendas for conferences and joins online workshops in order to gain an insight regarding essential management skills. Juri brings technical consultancy services and management, he participates in professional sessions, panels, and communicates with leaders of various business organisations.

Frank Lewis

Independent Non-Executive Director
(appointed on 30 November 2018)

Background

Frank Lewis has a wealth of public company experience, having served as a Non-Executive Chairman and Director for a number of international publicly-quoted entities with interests across Europe, Far East, Middle East and Africa, which has given him a sound understanding of different business cultures and working practices, as well as considerable expertise in numerous business sectors.

In addition to his non-executive roles, Frank had over 25 years of public and private company boardroom-level experience, including acting as a Finance Director, CEO and Chairman, during which time he has been involved in numerous areas of business, including strategic planning, growth management, IPOs, corporate governance and regulatory compliance.

He is a Fellow of the Institute of Chartered Accountants in England & Wales, and was previously a member of the AIM Advisory Council, which advises the London Stock Exchange on matters relating to the AIM market.

Expertise and contribution

Mr. Lewis provides assistance to the Group with policy making, compliance and strategy development, with a particular focus on ensuring company compliance with corporate governance and with London Stock Exchange Rules and Regulations. He is a highly experienced non-executive Board Director. He regularly attends seminars, conferences and meetings on accounting, corporate governance, stock exchange rules, Company Law and the role of the Board of Directors.

Senior Management



Mykhailo Merkulov
Chief Executive Officer

Mykhailo graduated from Romano-Germanic Philology Department of Kharkiv 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 ImmorentAG 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.

Lauri Reinberg
Chief Financial Officer

Lauri Reinberg has more than 20 years of experience in financial management and planning on Eastern European real estate markets.

Lauri joined the Arricano team in October 2017 as the Head of Financial Control. Prior to his role at Arricano, Lauri served as CFO of Pocopay, a large digital banking company based in Estonia.

Over 14 years he had been holding numerous senior finance roles at the Financial Department of Swedbank, including the CFO of Financial Restructuring and Recovery and the CFO of Swedbank's Russian operations. Between 2007 and 2009, Lauri served as CFO of Retail Real Estate S.A. in Ukraine (formerly named Expert Capital S.A.).

Lauri received his Master of Science degree in Business Administration from Estonian Business School in 2002 and Bachelor of Science degree from University of Tartu in 1995.

As CFO, Lauri Reinberg is responsible for the oversight of Arricano's finance, accounting, financial planning & analysis, tax and treasury areas of the business.

Svitlana Renkas
Head of Legal Department
(Residents)

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

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

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

Tetiana Klimuk
Head of Legal Department
(Non-residents)

Mrs. Tetiana Klimuk heads the Legal Department dealing with non-residents since April 2018.

Mrs. Klimuk has more than 9 years of legal practice experience, in particular in corporate and commercial law, banking and financial law, legal compliance, legal assistance of corporate governance procedures, had practice in legal department of Ukrainian bank, in legal department of large media-holding and provided consulting services in education projects.

Tetiana combines her in-depth understanding of the business needs of the main players in commercial real estate development with work with the challenges faced by this business both at local and international levels in order to provide the Group with the most efficient legal support in its constant financial growth.

Mrs. Klimuk and her team are focused on processes and procedures connected with listing of Arricano's shares on the AIM LSE, legal support for the corporate matters and economic activities with involvement of non-residents of the Arricano Group, provide full scope legal support in work with the banks, in financing and refinancing transactions, legal support on risk management matters, contract negotiation and cross-border transactions.

Mrs. Klimuk joined the Arricano Group in July 2011.

She earned law background from the National University 'Kyiv-Mohyla Academy' and obtained Master of Law degree (earlier she also received Bachelor of Law and the Specialist of Law degrees with honours).



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 Kyiv – 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, Kyiv.

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 Kyiv National University of Trade and Economics.

Olexander Nemer Director of IT Department

From November 2015, Olexander Nemer heads IT department of Arricano. Area of his responsibility includes issues of designing the company development strategy and tactics in IT area, management of in-house IT projects, design and organization 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.

Nemer Olexander in 2004 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.

Nikolai Yakimenko Acting Head of Developing Department, acting Director of Operations and Maintenance

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 'Lukyanivka' project. Since February 2016, Mr. Yakimenko 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 'Kyiv National Economic University named after Vadym Hetman' (Ukraine), where he obtained a master's degree in 'Investment Management'.

Audit Committee Report

This report addresses the responsibilities, the membership and the activities of the Audit Committee during the year ended 31 December 2018.

Responsibilities

The Audit Committee is responsible for ensuring that Group maintains a strong control environment. It provides effective governance over the Group's financial reporting, including oversight and review of the systems of internal control and risk management and of the performance of external audit functions.

Membership

Since October 2013, the Board of Directors established the operation of the Audit Committee. As at 31 December 2018 the Audit Committee comprised of three Non-Executive Directors. The audit committee is chaired by Mr. Michael Zampelas; Mr. Volodymyr Tymochko and Mr. Somelar are the other members (Mr. Philip Scales was a member of the Audit Committee until 27 September 2018). Following the resignation of Mr. Philip Scales, Mr. Somelar became the third member of the Audit Committee.

Activities

The Audit Committee held two formal meetings and had conducted the respective preparational and analytical work during the fiscal year 2018 in order to provide confidence to shareholders on the integrity of the financial results of the Group, expressed in the annual report and accounts and other relevant public announcements of the Group. The members of the Audit Committee had the opportunity to challenge both the external auditors and the management of the Group.

The Group's external auditor was invited to attend the Committee meeting on 25th of April 2018 and 26th of September 2018. The meetings of the Committee are designed to facilitate and encourage communication among the Committee,

the Group and the Group's independent auditor. The Committee discussed with the independent auditor the overall scope and plans for their respective audits. The Committee meets the independent auditor, with and without management present, to discuss the results of their examinations, their evaluations of the Company's internal control and the overall quality of the Company's financial reporting.

External auditor

The Committee is responsible for the relationship with the Group external auditor.

Financial reporting

The Committee reviews and approves interim Group Consolidated financial statements as well as Group Annual Consolidated financial statements.

The Group's Auditor, presents to the Audit Committee, the key audit matters of the Annual Consolidated financial statements. The Audit Committee reviews and addresses issues if necessary.

Internal Controls and Risk Management, Whistleblowing and Fraud

The Audit Committee oversees internal financial controls, risk management policies and procedures. The Group adopted the system of internal control policies and procedures. During the year 2018, the Group has worked on the internal anti-bribery policy which was adopted in 2019.

The Committee's principal duties are to:

- make recommendations to the Board on the appointment, re-appointment or removal of the external auditor and the amount of its remuneration;
- evaluate the qualifications, performance and independence of the Group's Independent Auditor and determine whether to re-engage the current Independent Auditor. In doing so, the Audit Committee considers the quality and efficiency of the services provided by the auditors, the auditors capabilities and the auditors' technical expertise and knowledge of the Group's operations and industry;
- discuss and agree the scope of the audit and review the auditor's management letter and the Group's response;
- review half-year and annual financial statements and formal announcements relating to the financial performance;
- review the adequacy and effectiveness of the Group's internal financial controls, and internal control and risk management systems;
- consider compliance with relevant laws and regulations.

Conclusion

In 2019 and beyond, the Committee will continue to adapt to new reporting and regulatory requirements. In addition, the evolving financial and risk management environment will inform our future decisions.

Remuneration Committee Report

The report for the year ended 31 December 2018 sets out the details of the remuneration policy for the Directors and discloses the amounts paid during the year.

Remuneration Committee

Since October 2013, the Board of Directors established the operation of the Remuneration Committee. The Remuneration Committee comprises of three Non-Executive Directors. The remuneration committee is chaired by Mr. Michael Zampelas starting from 27 September 2018 (Mr. Philip Scales chaired the Remuneration Committee until 27 September 2018). Mr. Urmas Somelar and Mr. Volodymyr Tymochko are the other members.

The responsibility of the Remuneration Committee is to inform, advise and support the Board regarding the design, revision and implementation of the remuneration policy in order to attract, retain and to motivate the high-quality individuals with the optimum mixture of competencies, ability, experience and skill to deliver strategy. To achieve the above purpose, the Committee may consider the following categories of remuneration: annual fees, associated benefits and performance based bonuses.

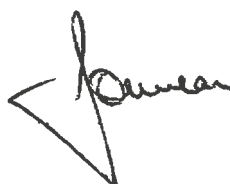
The members of the Remuneration Committee had 1 formal meeting and had conducted the respective preparational and analytical work during the year ended 31 December 2018 in order to inform, advise and support the Board regarding the implementation of the remuneration principles, propose the remuneration of the members of the Board and to approve the annual bonus of the CEO, based on the achievement of the Group's annual goals.

Directors remuneration

The remuneration of the Board of directors for the year ended 31 December 2018 amounted to USD 357 thousand (2017: USD 339 thousand).

	Salary/fee (USD)
Philip Scales (resigned on 27 September 2018)	11,250
Michael Zampelas	15,000
Mykhailo Merkulov	324,393
Volodymyr Tymochko	-
Juri Pold	-
Urmas Somelar (appointed on 27 September 2018)	3,917
Frank Lewis (appointed on 30 November 2018)	2,277
	356,837

The remuneration of the Directors is approved by the Board.



Urmas Somelar
Non-Executive Chairman
16 April 2019

Independent Auditor's Report

to the members of Arricano Real Estate PLC

Report on the audit of the Consolidated financial statements

Opinion

We have audited the accompanying consolidated financial statements of Arricano Real Estate PLC (the 'Company'), and its subsidiaries (together with the Company, referred to as the 'Group'), which are presented on pages 29 to 71 and comprise the consolidated statement of financial position as at 31 December 2018, 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 2018, 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 remained independent of the Group throughout the period of our appointment 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) to the consolidated financial statements, which indicates that as at 31 December 2018 the Group's current liabilities exceeded its current assets by USD 68,988 thousand. As stated in Note 2 (e), this condition indicates 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. In addition to the matter described in the 'Material Uncertainty Related to Going Concern' section, we have determined the matters described below to be the key audit matters to be communicated in our report.

Valuation of investment property (USD 258,537 thousand)

See Note 4 to the consolidated financial statements

The key audit matter	How the matter was addressed in our audit
<p>The Group has a significant holding of investment property, which as at 31 December 2018 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.</p> <p>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).</p>	<p>Our audit procedures included among others the following:</p> <ol style="list-style-type: none">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 challenged various key inputs such as rental and occupancy rates, discount rates etc. by reference to available market information, actual rental agreements and other primary documentation. Forecasted income used by the valuer for calculation of the fair value of investment property is reconciled to actual figures of December 2018 and compared to budgeted figures for January 2019. Deviations were investigated and traced to the primary documents.2. Evaluating the competence, objectivity and independence of the valuer used by the management.3. Testing the design and implementation of the Group's controls over the investment property valuation.4. 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.5. Performed 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.

Other information

The Board of Directors is responsible for the other information. The other information comprises the management report and Management analysis of corporate governance 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.

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

Responsibilities of the Board of Directors and those charged with governance for the consolidated financial statements

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

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

The Board of Directors and those charged with governance are 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 Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Board of Directors.
- Conclude on the appropriateness of the Board of Directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves true and fair view.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or the business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance 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 those charged with governance 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 those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report.

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 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.

Independent Auditor's Report (continued)

Other matter

This report, including the opinion, has been prepared for and only for the Company's members as a body in accordance with Article 10(1) of the EU Regulation 537/2014 and 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, June 16th 1943 Street

3022 Limassol

Cyprus

Limassol, 16 April 2019

Consolidated Statement of Financial Position

as at 31 December 2018

(in thousands of USD)	Note	31 December 2018	31 December 2017*
Assets			
Non-current assets			
Investment property	4	258,537	221,265
Long-term VAT receivable		568	1,016
Property and equipment		121	146
Intangible assets		101	42
Total non-current assets		259,327	222,469
Current assets			
Trade and other receivables	6	1,640	2,364
Loans receivable	5	300	296
Prepayments made and other assets		781	427
VAT receivable		225	1,011
Assets classified as held for sale	7	1,562	1,541
Income tax receivable		178	228
Cash and cash equivalents	8	4,224	2,609
Total current assets		8,910	8,476
Total assets		268,237	230,945

The consolidated statement of financial position is to be read in conjunction with the notes to, and forming part of, the consolidated financial statements set out on pages from 34 to 71.

Consolidated Statement of Financial Position continued

as at 31 December 2018

(in thousands of USD)	Note	31 December 2018	31 December 2017*
Equity and Liabilities			
Equity	9		
Share capital		67	67
Share premium		183,727	183,727
Non-reciprocal shareholders contribution		59,713	59,713
Retained earnings		38,937	834
Other reserves		(61,983)	(61,983)
Foreign currency translation differences		(126,429)	(130,176)
Total equity		94,032	52,182
Non-current liabilities			
Long-term borrowings	11	44,501	58,765
Advances received	14	–	125
Finance lease liability	12	7,271	7,037
Long-term trade and other payables	13	17,572	9,885
Other long-term liabilities	15	20,046	20,091
Deferred tax liability	20	6,917	5,091
Total non-current liabilities		96,307	100,994
Current liabilities			
Short-term borrowings	11	52,006	39,891
Trade and other payables	13	10,588	25,258
Taxes payable		1,476	1,429
Advances received	14	5,605	4,922
Current portion of finance lease liability	12	6	2
Other liabilities	15	8,217	6,267
Total current liabilities		77,898	77,769
Total liabilities		174,205	178,763
Total equity and liabilities		268,237	230,945

* The Group has initially applied IFRS 15 and IFRS 9 at 1 January 2018. Under the transition methods chosen, comparative information is not restated. See Notes 3(c) and 3(l).

These consolidated financial statements were approved by the Board of Directors on 16 April 2019 and were signed on its behalf by:



Mykhailo Merkulov
Director



Frank Lewis
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 set out on pages from 34 to 71.

Consolidated Statement of Profit or Loss and other Comprehensive Income

for the year ended 31 December 2018

(in thousands of USD, except for earnings per share)

	Note	2018	2017*
Revenue	16	31,520	27,549
Other income		510	368
Gain on revaluation of investment property	4(a)	42,249	47,873
Goods, raw materials and services used	17	(1,061)	(977)
Operating expenses	18	(7,416)	(7,146)
Salary costs		(2,178)	(1,790)
Salary related charges		(359)	(294)
Depreciation and amortisation		(89)	(130)
Profit from operating activities		63,176	65,453
Finance income	19	951	668
Finance costs	19	(17,546)	(32,545)
Profit before income tax		46,581	33,576
Income tax expense	20	(8,478)	(7,769)
Net profit for the year		38,103	25,807
<i>Items that will be reclassified to profit or loss:</i>			
Foreign exchange gains/(losses) on monetary items that form part of net investment in the foreign operation, net of tax effect		8,798	(4,407)
Foreign currency translation differences		(5,051)	6,602
<i>Total items that will be reclassified to profit or loss</i>		<i>3,747</i>	<i>2,195</i>
Other comprehensive income		3,747	2,195
Total comprehensive income for the year		41,850	28,002
Weighted average number of shares (in shares)	10	103,270,637	103,270,637
Basic and diluted earnings per share, USD	10	0.36896	0.24990

*The Group has initially applied IFRS 15 and IFRS 9 at 1 January 2018. Under the transition methods chosen, comparative information is not restated. See Notes 3(c) and 3(l).

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 set out on pages from 34 to 71.

Consolidated Statement of Cash Flows

for the year ended 31 December 2018

(in thousands of USD)	Note	2018	2017*
Cash flows from operating activities			
Profit before income tax		46,581	33,576
<i>Adjustments for:</i>			
Finance income	19	(951)	(668)
Finance costs, excluding foreign exchange loss	19	13,728	32,090
Gain on revaluation of investment property	4(a)	(42,249)	(47,873)
Depreciation and amortisation		89	130
Unrealised foreign exchange loss		3,818	455
Other income		–	(368)
Fee for restructuring of accounts payable	18	1,128	–
Write-off of VAT receivable		732	–
Allowance for bad debts	18	–	425
Operating cash flows before changes in working capital		22,876	17,767
Change in trade and other receivables		768	(1,304)
Change in prepayments made and other assets		(354)	46
Change in VAT receivable		550	196
Change in income tax receivable and taxes payable		28	370
Change in trade and other payables		(1,208)	1,027
Change in advances received		499	348
Change in other liabilities		(44)	(179)
Income tax paid		(930)	(1,486)
Interest paid		(4,890)	(5,226)
Cash flows from operating activities		17,295	11,559
Cash flows from investing activities			
Acquisition of investment property and settlements of payables due to constructors		(8,708)	(6,622)
Acquisition of property and equipment		(122)	(70)
Interest received		215	240
Cash flows used in investing activities		(8,615)	(6,452)
Cash flows from financing activities			
Proceeds from borrowings	11	16,200	–
Repayment of borrowings	11	(22,396)	(6,777)
Finance lease payments	11	(895)	(659)
Cash flows used in financing activities		(7,091)	(7,436)
Net increase/(decrease) in cash and cash equivalents		1,589	(2,329)
Cash and cash equivalents at 1 January		2,609	4,953
Effect of movements in exchange rates on cash and cash equivalents		26	(15)
Cash and cash equivalents at 31 December	8	4,224	2,609

*The Group has initially applied IFRS 15 and IFRS 9 at 1 January 2018. Under the transition methods chosen, comparative information is not restated. See Notes 3(c) and 3(l).

Non-cash movements

During the year ended 31 December 2018, an acquisition of a land plot held on leasehold of USD 142 thousand occurred through a finance lease (2017: USD 396 thousand).

The consolidated statement of cash flows is to be read in conjunction with the notes to, and forming part of, the consolidated financial statements set out on pages from 34 to 71.

Consolidated Statement of Changes in Equity

as at and for the year ended 31 December 2018

(in thousands of USD)	Attributable to equity holders of the parent						Total
	Share capital	Share premium	Non-reciprocal shareholders contribution	Retained earnings (Accumulated deficit)	Other reserves	Foreign currency translation differences	
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 income 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 set out on pages from 27 to 82.

(in thousands of USD)	Attributable to equity holders of the parent						Total
	Share capital	Share premium	Non-reciprocal shareholders contribution	Retained earnings	Other reserves	Foreign currency translation differences	
Balances at 1 January 2018 *	67	183,727	59,713	834	(61,983)	(130,176)	52,182
Total comprehensive income/(loss) for the year							
Net profit for the year	–	–	–	38,103	–	–	38,103
Foreign exchange gains on monetary items that form part of net investment in the foreign operation, net of tax effect	–	–	–	–	–	8,798	8,798
Foreign currency translation differences	–	–	–	–	–	(5,051)	(5,051)
Total other comprehensive income for the year	–	–	–	–	–	3,747	3,747
Total comprehensive income for the year	–	–	–	38,103	–	3,747	41,850
Balances at 31 December 2018	67	183,727	59,713	38,937	(61,983)	(126,429)	94,032

*The Group has initially applied IFRS 15 and IFRS 9 at 1 January 2018. Under the transition methods chosen, comparative information is not restated. See Notes 3(c) and 3(l).

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 set out on pages from 34 to 71.

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 2018, the Group operated five shopping centres in Kyiv, Simferopol, Zaporizhzhya and Kryvyi Rig with a total leasable area of over 147,300 square meters and was and remains in the process of development of two new investment projects in Kyiv and Odesa, with one more project to be developed.

The average number of employees employed by the Group during the year is 103 (2017: 106).

(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 in 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.

In November 2018, following an incident between the Russian and Ukrainian military around a waterway connecting the Azov Sea and the Black Sea, the Ukrainian authorities introduced martial law for a 30-days period in 10 regions located along the Russian and Moldovan border, the Azov Sea and the Black Sea coast. The martial law was terminated at the end of December 2018, after 30 days.

Ukraine's economic situation deteriorated significantly in 2014-2016 as a result of the fall in trade with the Russian Federation and military tensions in Eastern Ukraine. Although instability continued throughout 2017-2018, the Ukrainian economy continued to show signs of recovery with the inflation rate slowing down, reduced depreciation of hryvnia against major foreign currencies, growing international reserves of the National Bank of Ukraine (the 'NBU') and a general revival in business activity.

During 2016-2018, the NBU took certain steps to provide 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 subject to a certain monthly limitation. In February 2019, a new law on currency and currency transactions came into force. The new law abolished a number of restrictions, defined new principles of currency operations, currency regulation and supervision, and resulted in significant liberalisation of foreign currency transactions and capital movements.

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

The International Monetary Fund (the 'IMF') continued to support the Ukrainian government under the four-year Extended Fund Facility (the 'EFF') Program approved in March 2015. In October 2018 the government of Ukraine reached an agreement with the IMF on a new fourteen-months Stand-By program, which will replace the existing EFF program. 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 anti-corruption, corporate law, and gradual liberalization of the energy sector).

In December 2018, Moody's upgraded Ukraine's credit rating to Caa1, with a stable outlook, reflecting the reaching of an agreement on further cooperation with the IMF, positive expectations regarding certain reforms and improved foreign affairs. Further stabilisation 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.

(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% 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 Group'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.

Starting in 2014, the United States of America, the European Union and some other countries imposed and gradually expanded economic sanctions against a number of Russian individuals and legal entities. The imposition of the sanctions has led to 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. As a result, some Russian entities may experience difficulties accessing the international equity and debt markets and may become increasingly dependent on state support for their operations. The longer-term effects of the imposed and possible additional 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).

This is the first set of the Group's financial statements where IFRS 15 *Revenue from Contracts with Customers* and IFRS 9 *Financial Instruments* have been applied. Changes to significant accounting policies are described in Notes 3(c) and 3(l).

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

For the benefits of principal users, the management 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.

Notes to the Consolidated Financial Statements continued

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	2018	2017
UAH	27.69	28.07
RUB	69.47	57.60

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

Currency	2018	2017
UAH	27.22	26.60
RUB	62.88	58.30

As at the date these consolidated financial statements are authorised for issue, 16 April 2019, the exchange rate is UAH 26.71 to USD 1.00 and RUB 64.25 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 21(c) – valuation of trade and other receivables,
- Note 7(a) – classification of assets held for sale,
- Note 22(d)(i) – legal case in respect of Assofit Holdings Limited and valuation of related financial asset at fair value through other comprehensive income (FVOCI).

(e) Going concern

As at 31 December 2018, the Group's current liabilities exceeded its current assets by USD 68,988 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 94,032 thousand as at 31 December 2018, generated net profit of USD 38,103 thousand and positive cash flows from operating activities amounting to USD 17,295 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 accrued interest and other accounts payable to related parties in the amount of USD 21,360 thousand plus any accruing interest during the year ending 31 December 2019.
- The Group received a waiver from Barleypark Limited waiving repayment of the loan during twelve months ending 31 December 2019 amounting to USD 22,004 thousand, which is payable on demand and presented as short-term liability as at 31 December 2018.
- During the year ended 31 December 2018, 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 2019, 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 21(f)(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 and transition to new standards

Except as disclosed in Notes 3(c) and 3(l), the accounting policies set out below have been applied consistently to all periods presented in these financial statements.

(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.

Notes to the Consolidated Financial Statements continued

3 Significant accounting policies and transition to new standards *continued*

(a) Basis of consolidation *continued*

(ii) Subsidiaries *continued*

Consolidated entities as at 31 December are as follows:

Name (in thousands of USD, except for % of ownership)	Country of incorporation	Cost		% of ownership	
		2018	2017	2018	2017
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 Livoberezhzhainvest	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 management activities.

(iii) Interests in equity-accounted investees

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

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

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

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

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

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

Name	Country of incorporation	% of ownership	
		2018	2017
Filgate Credit Enterprises Limited	Cyprus	49.00%	49.00%

On 14 December 2016, the Parent Company acquired a non-controlling interest (49% of corporate rights) of Filgate Credit Enterprises Limited from Weather Empire, the company under common control incorporated in Cyprus, in exchange for loan receivable from Weather Empire Limited as an additional instrument in legal proceedings regarding gaining 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.

In addition, a call share option agreement was concluded granting an option to the Parent Company to purchase the remaining 51% of the corporate rights of Filgate Credit Enterprises Limited within 5 years from the effective date. Exercise of the call option depends on certain criteria and occurrence of certain condition, and, as at the date of these consolidated financial statements are authorised for issuance, the call option had not been 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 measured at FVOCI (2017: 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 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.

Notes to the Consolidated Financial Statements continued

3 Significant accounting policies and transition to new standards *continued*

(c) Financial instruments

The Group has initially applied IFRS 9 from 1 January 2018.

IFRS 9 sets out requirements for recognising and measuring financial assets, financial liabilities and some contracts to buy or sell non-financial items. This standard replaces IAS 39 *Financial Instruments: Recognition and Measurement*.

Additionally, the Group has adopted consequential amendments to IFRS 7 *Financial Instruments: Disclosures* that are applied to disclosures about 2018 but have not been generally applied to comparative information.

Adoption of this standard did not have significant impact on the Group's consolidated financial statements.

The following table below explains the original measurement categories under IAS 39 and the new measurement categories under IFRS 9 for each class of the Group's financial assets and financial liabilities as at 1 January 2018.

Adoption of IFRS 9 had no effect on the carrying amount of financial assets and financial liabilities.

(in thousands of USD)	Original classification under IAS 39	New classification under IFRS 9	Original carrying amount under IAS 39	New carrying amount under IFRS 9
Financial assets				
Trade and other receivables	Loans and receivables	Amortised cost	2,364	2,364
Loans receivable	Loans and receivables	Amortised cost	296	296
Cash and cash equivalents	Loans and receivables	Amortised cost	2,609	2,609
Total financial assets			5,269	5,269

(in thousands of USD)	Original classification under IAS 39	New classification under IFRS 9	Original carrying amount under IAS 39	New carrying amount under IFRS 9
Financial assets				
Loans and borrowings	Other financial liabilities	Other financial liabilities	98,656	98,656
Finance lease liability	Other financial liabilities	Other financial liabilities	7,039	7,039
Other liabilities	Other financial liabilities	Other financial liabilities	26,358	26,358
Trade and other payables	Other financial liabilities	Other financial liabilities	35,143	35,143
Total financial liabilities			167,196	167,196

Transition

The Group has used an exemption not to restate comparative information for prior periods with respect to classification and measurement (including impairment) requirements. Therefore, comparative periods have not been restated. No differences in the carrying amounts of financial assets and financial liabilities resulting from the adoption of IFRS 9 (including impairment) were recognised. Respectively, there is no impact on the Group's basic and diluted earnings per share for the years ended 31 December 2018 and 2017. Accordingly, the information presented for 2017 generally reflects the requirements of IFRS 9 and IAS 39. Additional information about how the Group measures the allowance for impairment is described in Note 3(j).

The determination of the business model within which a financial asset is held has been made on the basis of the facts and circumstances that existed at the date of initial application.

Policy applicable after 1 January 2018

(i) Recognition and initial measurement

Trade receivables are initially recognised when they are originated.

All other financial assets and financial liabilities are initially recognised when the Group becomes a party to the contractual provisions of the instrument. A financial asset (unless it is a trade receivable without a significant financing component) or financial liability is initially measured at fair value plus, for an item not at FVTPL, transaction costs that are directly attributable to its acquisition or issue. A trade receivable without a significant financing component is initially measured at the transaction price.

(ii) Derecognition

The Group derecognises a financial asset when the contractual rights to the cash flows from the financial asset expire, or it transfers the rights to receive the contractual cash flows in a transaction in which substantially all of the risks and rewards of ownership of the financial asset are transferred or in which the Group neither transfers nor retains substantially all of the risks and rewards of ownership and it does not retain control of the financial asset.

The Group derecognises a financial liability when its contractual obligations are discharged or cancelled, or expire. The Group also derecognises a financial liability when its terms are modified and the cash flows of the modified liability are substantially different, in which case a new financial liability based on the modified terms is recognised at fair value.

On derecognition of a financial liability, the difference between the carrying amount extinguished and the consideration paid (including any non-cash assets transferred or liabilities assumed) is recognised in profit or loss.

(iii) Classification and subsequent measurement of financial assets

On initial recognition, a financial asset is classified as measured at: amortised cost; FVOCI – debt investment; FVOCI – equity investment; or FVTPL.

Financial assets are not reclassified subsequent to their initial recognition unless the Group changes its business model for managing financial assets, in which case all affected financial assets are reclassified on the first day of the first reporting period following the change in the business model.

A financial asset is measured at amortised cost if it meets both of the following conditions and is not designated as at FVTPL:

- it is held within a business model whose objective is to hold assets to collect contractual cash flows; and
- its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

A debt investment is measured at FVOCI if it meets both of the following conditions and is not designated as at FVTPL:

- it is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets; and
- its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

On initial recognition of an equity investment that is not held for trading, the Group may irrevocably elect to present subsequent changes in the investment's fair value in OCI. This election is made on an investment-by-investment basis.

The Group's financial assets comprise trade and other receivables, loans receivable and cash and cash equivalents and are classified into the financial assets at amortised cost category.

These assets are subsequently measured at amortised cost using the effective interest method. The amortised cost is reduced by impairment losses. Interest income, foreign exchange gains and losses and impairment are recognised in profit or loss. Any gain or loss on derecognition is recognised in profit or loss.

Cash and cash equivalents comprise cash balances on the current accounts and call deposits.

(iv) Financial assets – Business model assessment

The Group makes an assessment of the objective of the business model in which a financial asset is held at a portfolio level because this best reflects the way the business is managed and information is provided to management. The information considered includes:

- the stated policies and objectives for the portfolio and the operation of those policies in practice. These include whether management's strategy focuses on earning contractual interest income, maintaining a particular interest rate profile, matching the duration of the financial assets to the duration of any related liabilities or expected cash outflows or realising cash flows through the sale of the assets;
- how the performance of the portfolio is evaluated and reported to the Group's management;
- the risks that affect the performance of the business model (and the financial assets held within that business model) and how those risks are managed;
- how managers of the business are compensated – e.g. whether compensation is based on the fair value of the assets managed or the contractual cash flows collected; and
- the frequency, volume and timing of sales of financial assets in prior periods, the reasons for such sales and expectations about future sales activity.

Transfers of financial assets to third parties in transactions that do not qualify for derecognition are not considered sales for this purpose, consistent with the Group's continuing recognition of the assets.

Financial assets that are held for trading or are managed and whose performance is evaluated on a fair value basis are measured at FVTPL.

Notes to the Consolidated Financial Statements continued

3 Significant accounting policies and transition to new standards *continued*

(c) Financial instruments *continued*

(v) Financial assets – Assessment whether contractual cash flows are solely payments of principal and interest

For the purposes of this assessment, 'principal' is defined as the fair value of the financial asset on initial recognition. 'Interest' is defined as consideration for the time value of money and for the credit risk associated with the principal amount outstanding during a particular period of time and for other basic lending risks and costs (e.g. liquidity risk and administrative costs), as well as a profit margin.

In assessing whether the contractual cash flows are solely payments of principal and interest, the Group considers the contractual terms of the instrument. This includes assessing whether the financial asset contains a contractual term that could change the timing or amount of contractual cash flows such that it would not meet this condition. In making this assessment, the Group considers:

- contingent events that would change the amount or timing of cash flows;
- terms that may adjust the contractual coupon rate, including variable-rate features;
- prepayment and extension features; and
- terms that limit the Group's claim to cash flows from specified assets (e.g. non-recourse features).

A prepayment feature is consistent with the solely payments of principal and interest criterion if the prepayment amount substantially represents unpaid amounts of principal and interest on the principal amount outstanding, which may include reasonable additional compensation for early termination of the contract. Additionally, for a financial asset acquired at a discount or premium to its contractual par amount, a feature that permits or requires prepayment at an amount that substantially represents the contractual par amount plus accrued (but unpaid) contractual interest (which may also include reasonable additional compensation for early termination) is treated as consistent with this criterion if the fair value of the prepayment feature is insignificant at initial recognition.

(vi) Classification and subsequent measurement of financial liabilities

Financial liabilities are classified as measured at amortised cost or FVTPL. A financial liability is classified as at FVTPL if it meets the definition of held-for-trading or it is designated as such on initial recognition. Financial liabilities at FVTPL are measured at fair value and net gains and losses, including any interest expense, are recognised in profit or loss (except for the part of the fair value change that is due to changes in the Group's own credit risk, that is recognised in other comprehensive income). Other financial liabilities are subsequently measured at amortised cost using the effective interest method. Interest expense and foreign exchange gains and losses are recognised in profit or loss. Any gain or loss on derecognition is also recognised in profit or loss.

The Group measures all of its financial liabilities at amortised cost.

(vii) Offsetting

Financial assets and liabilities are offset and the net amount presented in the statements of financial position when, and only when, the Group currently has a legally enforceable right to set off 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.

Policy applicable before 1 January 2018

The Group classified its non-derivative financial assets as loans and receivables and available-for-sale financial assets.

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

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

The Group initially recognised loans and receivables on the date that they are originated. All other financial assets and financial liabilities were recognised initially on the trade date at which the Group became a party to the contractual provisions of the instrument. The Group derecognised a financial asset when the contractual rights to the cash flows from the asset expired, or it transferred 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 were transferred. Any interest in transferred financial assets that was created or retained by the Group was recognised as a separate asset or liability.

(ii) Derecognition

The Group derecognised a financial liability when its contractual obligations were discharged or cancelled or expired. Financial assets and liabilities were offset and the net amount was presented in the consolidated statement of financial position when, and only when, the Group had a legally enforceable right to set off the recognised amounts and intended either to settle on a net basis or to realise the asset and settle the liability simultaneously. The Group had 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.

(iii) Non-derivative financial assets – measurement

Loans and receivables

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

Cash and cash equivalents

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

(iv) Non-derivative financial liabilities – measurement

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

Other financial liabilities comprised loans and borrowings, finance lease liability, trade and other payables and other liabilities.

(d) 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

Retained earnings 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.

(e) Investment properties

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

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

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

(i) Initial measurement and recognition

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

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

(ii) Subsequent measurement

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

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

Notes to the Consolidated Financial Statements continued

3 Significant accounting policies and transition to new standards *continued*

(e) Investment properties *continued*

(ii) Subsequent measurement *continued*

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.

(f) 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.

(g) 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.

(h) 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.

(i) 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.

(j) Impairment**(i) Impairment – financial assets****Policy applicable from 1 January 2018**

The Group uses 'expected credit loss' (ECL) model. This impairment model applies to financial assets measured at amortised cost, contract assets, but not to investments in equity instruments.

The financial assets at amortised cost consist of trade and other receivables, cash and cash equivalents and loans receivable.

Loss allowances are 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.

The Group measures loss allowances at an amount equal to lifetime ECLs, except for bank balances for which credit risk (i.e. the risk of default occurring over the expected life of the financial instrument) has not increased significantly since initial recognition, for which loss allowances are measured as 12-month ECLs.

When determining whether the credit risk of a financial asset has increased significantly since initial recognition and when estimating ECLs, the Group considers reasonable and supportable information that is relevant and available without undue cost or effort. This includes both quantitative and qualitative information and analysis, based on the Group's historical experience and informed credit assessment.

The Group assumes that the credit risk on a financial asset has increased significantly if it is more than 30 days past due.

Notes to the Consolidated Financial Statements continued

3 Significant accounting policies and transition to new standards *continued*

(j) Impairment *continued*

(i) Impairment – financial assets *continued*

Policy applicable from 1 January 2018 *continued*

The Group considers a financial asset to be in default when:

- the borrower is unlikely to pay its credit obligations to the Group in full, without recourse by the Group to actions such as realising security (if any is held); or
- the financial asset is more than 90 days past due.

The maximum period considered when estimating ECLs is the maximum contractual period over which the Group is exposed to credit risk.

Measurement of ECLs

ECLs are a probability-weighted estimate of credit losses. Credit losses are measured as the present value of all cash shortfalls (i.e. the difference between the cash flows due to the entity in accordance with the contract and the cash flows that the Group expects to receive).

ECLs are discounted at the effective interest rate of the financial asset.

Credit-impaired financial assets

At each reporting date, the Group assesses whether financial assets carried at amortised cost are credit-impaired. A financial asset is 'credit-impaired' when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred.

Presentation of allowance for ECL

Loss allowances for financial assets measured at amortised cost are deducted from the gross carrying amount of the assets.

Impairment losses related to trade and other receivables are presented under 'operating expenses' and impairment losses on other financial assets are presented under 'finance costs', similar to the presentation under IAS 39, and not presented separately in the consolidated interim condensed statement of profit or loss and other comprehensive income due to materiality considerations.

As at 1 January 2018, there was no change in the allowance for impairment for the Group's financial assets due to implementation of IFRS 9.

(ii) Non-financial assets

The carrying amounts of non-financial assets, other than investment property, deferred tax assets 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.

Policy applicable before 1 January 2018

Non-derivative financial assets

A financial asset not carried at fair value through profit or loss was assessed at each reporting date to determine whether there is any objective evidence that it is impaired. A financial asset was 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 were impaired included 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 was objective evidence of impairment.

Financial assets measured at amortised cost

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

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

An impairment loss was 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 were recognised in profit or loss and reflected in an allowance account. When the Group considered that there were no realistic prospects of recovery of the asset, the relevant amounts were written off. Interest on the impaired asset continued to be recognised through the unwinding of the discount. When a subsequent event caused the amount of impairment loss to decrease and the decrease could be related objectively to an event occurring after the impairment was recognised, the decrease in impairment loss was reversed through profit or loss.

Available-for-sale financial assets

Impairment losses on available-for-sale financial assets were recognised by reclassifying the losses accumulated in the fair value reserve in equity, to profit or loss. The cumulative loss that was reclassified from equity to profit or loss was 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 were reflected as a component of interest income. If, in a subsequent period, the fair value of an impaired available-for-sale debt security increased and the increase could be related objectively to an event occurring after the impairment loss was recognised in profit or loss, then the impairment loss was 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 was recognised in other comprehensive income.

(k) 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.

(l) Revenue

The Group has initially applied IFRS 15 from 1 January 2018. Due to the transition method chosen by the Group in applying this standard, comparative information throughout these consolidated financial statements has not been restated to reflect the requirements of the new standard.

IFRS 15 establishes a comprehensive framework for determining whether, how much and when revenue is recognised. It replaced IAS 18 *Revenue*, IAS 11 *Construction Contracts* and related interpretations.

Revenue of the Group is mainly represented by rental income recognised in accordance with IAS 17 *Leases*.

For revenue from services in respect of exploitation of common parts and other services the Group has adopted IFRS 15 *Revenue from Contracts with Customers* using the cumulative effect method (without practical expedients). As there were no differences in the amounts of revenue resulting from the adoption of IFRS 15 as at 1 January 2018, the information presented for 2017 generally reflects the requirements of IFRS 15.

Notes to the Consolidated Financial Statements continued

3 Significant accounting policies and transition to new standards *continued*

(l) Revenue *continued*

The details of the new significant accounting policies and the nature of the changes to previous accounting policies in relation to the Group's services are set out below.

Under IFRS 15, revenue is recognised when a customer obtains control of the goods or services. Determining the timing of the transfer of control – at a point in time or over time – requires judgement.

Type of service	Nature, timing of satisfaction of performance obligations, significant payment terms	Policy applicable from and before 1 January 2018
Common parts exploitation services	<p>Common parts exploitation services represent reimbursement by tenants of expenses on maintenance of common parts in shopping centres (e.g. utilities, cleaning, insurance, repairs, parking).</p> <p>Revenue is recognised over time as those services are provided. As the Group has a right to consideration from a customer in an amount that corresponds directly with the value to the customer of the Group's services provided to date, the Group uses practical expedient available in IFRS 15 and recognises revenue in the amount to which the Group has a right to invoice. Invoices for revenue from common parts exploitation services are issued on a monthly basis and are usually payable within 5-15 days.</p> <p>Under IFRS 15, the total consideration in the service contracts that are partially within the scope of this Standard and partially within the scope of IAS 17 <i>Leases</i> is allocated to all services based on their stand-alone selling prices. The stand-alone selling price is determined based on contractually stated price that is defined separately for each obligation and reflects market prices for the similar services.</p>	Revenue is recognised in profit or loss over time in the period when the services are provided, recovery of consideration is probable and when the amount of revenue can be measured reliably.
Marketing services	<p>Revenue is recognised over time as those services are provided. As the Group has a right to consideration from a customer in an amount that corresponds directly with the value to the customer of the Group's services provided to date, the Group uses practical expedient available in IFRS 15 and recognises revenue in the amount to which the Group has a right to invoice. Invoices for marketing services are issued on a monthly basis and are usually payable within 5-15 days.</p> <p>Under IFRS 15, the total consideration in the service contracts is allocated to all services based on their stand-alone selling prices. The stand-alone selling price is determined based on the list prices at which the Group sells the services in separate transactions.</p>	Revenue is recognised in profit or loss over time in the period when the services are provided, recovery of consideration is probable and when the amount of revenue can be measured reliably.

(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.

(m) 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 consolidated 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.

(n) 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.

Finance costs comprise interest expense on borrowings and on deferred consideration, foreign exchange losses, costs from recognition of finance lease liabilities.

Interest income or expense is recognised using the effective interest method.

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.

The 'effective interest rate' is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument to:

- the gross carrying amount of the financial asset; or
- the amortised cost of the financial liability.

In calculating interest income and expense, the effective interest rate is applied to the gross carrying amount of the asset (when the asset is not credit-impaired) or to the amortised cost of the liability. However, for financial assets that have become credit-impaired subsequent to initial recognition, interest income is calculated by applying the effective interest rate to the amortised cost of the financial asset. If the asset is no longer credit-impaired, then the calculation of interest income reverts to the gross basis.

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

(o) Income tax expense

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

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

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

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

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

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

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

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

Notes to the Consolidated Financial Statements continued

3 Significant accounting policies and transition to new standards *continued*

(o) Income tax expense *continued*

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.

(p) 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 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 2018 and 2017, there were no potential dilutive ordinary shares.

(q) 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.

(r) New standards and interpretations not yet adopted

A number of new Standards, amendments to Standards and Interpretations are effective for annual periods beginning after 1 January 2019 and have not been applied in preparing these consolidated financial statements. Of these pronouncements, potentially the following will have an impact on the Group's operations. The Group does not plan to adopt this standard early.

(i) 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 optional 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.

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 *Revenue from Contracts with Customers* at or before the date of initial application of IFRS 16.

Transition

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.

The Group plans to apply the practical expedient to grandfather the definition of a lease on transition. This means that it will apply IFRS 16 to all contracts entered into before 1 January 2019 and identified as leases in accordance with IAS 17 and IFRIC 4.

The expected impact of implementation of IFRS 16 is considered to be not significant.

(ii) Other standards and interpretations

The following amended standards and interpretations are not expected to have a significant impact on the Group's consolidated financial statements.

- IFRIC 23 *Uncertainty over Tax Treatments*.
- Prepayment Features with Negative Compensation (Amendments to IFRS 9).

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 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 2017/1 January 2018	6,300	46,547	158,290	16	10,112	221,265
Additions	–	142	–	–	1,236	1,378
Fair value gains/(losses) on revaluation	911	(482)	41,820	–	–	42,249
Currency translation adjustment	(911)	778	(6,320)	8	90	(6,355)
At 31 December 2018	6,300	46,985	193,790	24	11,438	258,537

During the year ended 31 December 2018, the acquisition of a land plot held on leasehold of USD 142 thousand occurred through a finance lease (2017: USD 396 thousand) (refer to Note 12).

As at 31 December 2018, in connection with loans and borrowings, the Group pledged as security investment property with a carrying value of USD 150,490 thousand (2017: USD 117,790 thousand) (refer to Note 22 (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 Odesa due to win of the related court case.

During the year ended 31 December 2018, 75% of total construction services were purchased from one counterparty (2017: 79%).

(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 2018, the fair value of investment property categorised within the Level 2 category is USD 29,300 thousand (2017: USD 29,100 thousand). To assist with the estimation of the fair value of the Group's investment property as at 31 December 2018, 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 2018, the estimation of fair value was made using a net present value calculation based on certain assumptions, the most important of which were as follows:

- monthly rental rates, ranging from USD 3 to USD 189 per sq.m., which were based on contractual and market rental rates, adjusted for discounts or fixation of rental rates in Ukrainian hryvnia at a pre-agreed exchange rate, occupancy rates ranging from 99.3% to 100.0%, capitalisation rates ranging from 12.3% to 16.0% p.a., and discount rate of 22% which represented 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.

Notes to the Consolidated Financial Statements continued

4 Investment property *continued*

(b) Determination of fair value *continued*

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 sq.m., which are based on contractual and market rental rates, adjusted for discounts or fixation of rental rates in Ukrainian hryvnia at a pre-agreed exchange rate, occupancy rates ranging from 95.4% to 100.0%, capitalisation rates ranging from 12.5% to 16.0% p.a., and discount rate of 22% 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 2018, the fair value of investment property denominated in functional currency amounted to UAH 5,266,308 thousand and RUB 3,445,742 thousand (2017: UAH 4,414,974 thousand and RUB 2,695,689 thousand). The increase in fair value of investment property results from increased rental payments invoiced in Ukrainian hryvnia and Russian Rouble due to the increase in the exchange rates applied to the USD equivalent of rental rates fixed in the rental contracts.

Sensitivity at the date of valuation

The valuation model used to assess the fair value of investment property as at 31 December 2018 is particularly sensitive to unobservable inputs in the following areas:

- If rental rates are 1% less than those used in valuation models, the fair value of investment properties would be USD 2,104 thousand (2017: USD 1,738 thousand) lower. If rental rates are 1% higher, then the fair value of investment properties would be USD 2,104 thousand (2017: USD 1,738 thousand) higher.
- If the discount rate applied is 1% higher than that used in the valuation models, the fair value of investment properties would be USD 14,810 thousand (2017: USD 11,973 thousand) lower. If the discount rate is 1% less, then the fair value of investment properties would be USD 17,266 thousand (2017: USD 13,907 thousand) higher.
- If the occupancy rate is 1% higher than that used in the valuation model, the fair value of investment properties would be USD 1,922 thousand higher (2017: if the occupancy rate is 1% higher than that used in the valuation model for shopping centre 'Prospect' and is assumed to be 100% for other shopping centres, the fair value of investment properties would be USD 668 thousand higher). If the occupancy rates are 1% less, then the fair value of investment properties would be USD 1,922 thousand (2017: USD 1,539 thousand) lower.

5 Loans receivable

Loans receivable as at 31 December are as follows:

(in thousands of USD)	2018	2017
Short-term loans receivable due from related parties	8,491	8,491
Accrued interest receivable due from related parties	2,450	2,178
Short-term loans receivable due from third parties	300	296
Impairment of loans receivable due from related parties	(10,941)	(10,669)
	300	296

Included in loans receivable as at 31 December 2018 is a loan due from Filgate Credit Enterprises Limited amounting to USD 10,840 thousand (2017: USD 10,568 thousand), out of which the amount of USD 8,390 thousand is overdue. This loan receivable was impaired as at 31 December 2018 and 2017.

6 Trade and other receivables

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

(in thousands of USD)	2018	2017
Trade receivables from related parties	14	13
Other receivables from related parties	8,160	8,160
Allowance for impairment	(8,158)	(8,158)
	16	15
Trade receivables from third parties	1,332	1,238
Other receivables from third parties	362	1,182
Allowance for impairment	(70)	(71)
	1,624	2,349
	1,640	2,364

As at 31 December 2018, included in other receivables from related parties are receivables from Dniprovskaya Prystan PrJSC amounting to USD 7,796 thousand (2017: USD 7,796 thousand), which are overdue. In 2012, the court ruled to initiate bankruptcy proceedings against the mentioned related party and, as at 31 December 2018, the decision which would declare Dniprovskaya Prystan PrJSC insolvent has not yet been made. Full amount of receivable was impaired as at 31 December 2018 and 2017.

7 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 2017	–	–	–	–	1,590	1,590
Currency translation adjustment	–	–	–	–	(49)	(49)
At 31 December 2017/1 January 2018	–	–	–	–	1,541	1,541
Currency translation adjustment	–	–	–	–	21	21
At 31 December 2018	–	–	–	–	1,562	1,562

Included in other assets classified as held for sale as at 31 December 2018, is a land plot with a carrying amount of USD 1,562 thousand (2017: USD 1,541 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 acted as an intermediary in construction of a hypermarket with the total estimated area of 11,769 square meters and a parking lot with a total estimated area of 20,650 square meters.

As at 31 December 2018, 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 2019 subject to completion of formal legal procedures. As at 31 December 2018, advance payment received under this agreement (Note 14) amounts to USD 1,661 thousand (2017: USD 1,639 thousand) and will be settled upon transfer of the lease rights for the land plot.

8 Cash and cash equivalents

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

(in thousands of USD)	2018	2017
Bank balances	1,842	374
Call deposits	2,382	2,235
	4,224	2,609

As at 31 December 2018, in connection with loans and borrowings, the Group pledged as security bank balances and call deposits with a carrying value of USD 41 thousand and USD 2,410 thousand, respectively (2017: USD 29 thousand and USD 1,153 thousand, respectively) (Note 22(a)).

As at 31 December 2018, cash and cash equivalents placed with two bank institutions amounted to USD 3,335 thousand, or 79 % of the total balance of cash and cash equivalents (2017: USD 2,482 thousand, or 95%). In accordance with Moody's rating, one of these banks is rated Caa1 and another is non – rated (AS SEB Bank) as at 31 December 2018, respectively (2017: Caa3 and non-rated (AS SEB Bank), respectively).

9 Share capital

Share capital as at 31 December is as follows:

	2018 Number of shares	2018 US dollars	2018 EUR	2017 Number of shares	2017 US dollars	2017 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 2018 and 2017, the Parent Company did not declare any dividends.

Notes to the Consolidated Financial Statements continued

10 Earnings per share

The calculation of basic earnings per share for the years ended 31 December 2018 and 2017 was based on the profit for the years ended 31 December 2018 and 2017 attributable to ordinary shareholders of USD 38,103 thousand and USD 25,807 thousand, respectively, and weighted average number of ordinary shares outstanding as at 31 December 2018 and 2017 of 103,270,637.

The Group has no potential dilutive ordinary shares.

11 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 21.

(in thousands of USD)	2018	2017
<i>Non-current</i>		
Secured bank loans	28,171	33,502
Unsecured loans from related parties	16,143	25,263
Unsecured loans from third parties	187	–
	44,501	58,765
<i>Current</i>		
Secured bank loans (current portion of long-term bank loans)	8,089	9,616
Unsecured loans from related parties (including current portion of long-term loans from related parties)	21,913	9,855
Unsecured loans from third parties	22,004	20,420
	52,006	39,891
	96,507	98,656

Terms and debt repayment schedule

As at 31 December 2018, 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
<i>Secured bank loans</i>				
Tascombank, VS Bank and Universal Bank	USD	11.25-13.00%	2019-2023	15,578
EBRD	USD	7.50%+ 1m LIBOR	2019-2020	8,913
EBRD	USD	8.00%+ 3m LIBOR	2019-2020	5,462
Raiffeisen Bank Aval	UAH	18.00%	2019-2020	6,307
				36,260
<i>Unsecured loans from related parties</i>				
Retail Real Estate OU	USD	10.50%	2019	12,539
Retail Real Estate OU	USD	12.00%	2019-2020	25,225
Retail Real Estate OU	USD	10.00%	2019	215
Loans from other related parties	UAH/USD	0.00%-3.20%	2019	77
				38,056
<i>Unsecured loans from third parties</i>				
Barleypark	USD	10.55%	2019	22,004
Loans from other third parties	USD	3.20%	2022	187
				22,191
				96,507

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
<i>Secured bank loans</i>				
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
<i>Unsecured loans from related parties</i>				
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
<i>Unsecured loans from third parties</i>				
Barleypark Limited	USD	10.55%	2018	20,420
				20,420
				98,656

As at 31 December LIBOR for USD is as follows:

	2018	2017
LIBOR USD 3M	2.75%	1.50%
LIBOR USD 1M	2.38%	1.38%

For a description of assets pledged by the Group in connection with loans and borrowings refer to Note 22(a).

PJSC 'Bank 'St.Petersburg'

During the year ended 31 December 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 June 2018 by USD 730 thousand.

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 2018 and as at 31 December 2017, 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, the Group has not replenished the deposit pledged as a collateral for the amount of USD 1,200 thousand within the time period required by the loan agreement. In June 2018 management obtained the letter from PJSC 'Bank 'St.Petersburg' waving the above breaches of loan covenants.

In August 2018, the loans payable due to PJSC 'Bank 'St.Petersburg' were fully settled and pledge of investment property of PrJSC Livoberezhzhiainvest in the amount of USD 43,190 thousand as at 31 December 2018, pledge of investment in PrJSC Livoberezhzhiainvest and pledge in respect of property rights under the Investment Agreement between PrJSC Grandinvest, PrJSC Livoberezhzhiainvest and Voyazh-Krym LLC under pledge agreements with PJSC 'Bank 'St. Petersburg' were terminated.

Syndicated loan from JSC 'Tascombank', PJSC 'VS Bank' and PJSC 'Universal Bank'

On 30 July 2018, the Group entered into the syndicated loan agreement with JSC 'Tascombank', PJSC 'VS Bank' and PJSC 'Universal Bank' to refinance loan from PJSC 'Bank 'St.Petersburg' initially amounting to USD 15,187 thousand as at 30 June 2018. The new loan obtained initially amounted to USD 15,200 thousand, bears an interest rate of 11.25% during the period from July 2018 until December 2019 and of 13.00% during the period from January 2020 until July 2023.

On 14 August 2018, the credit facility under the new loan agreement was increased by USD 800 thousand to USD 16,000 thousand. Along with the loan agreement, the Group signed pledge agreements in respect of investment property of PrJSC 'Livoberezhzhiainvest' in the amount of USD 43,190 thousand as at 31 December 2018 and investment in 'PrJSC Livoberezhzhiainvest'.

Notes to the Consolidated Financial Statements continued

11 Loans and borrowings *continued*

Terms and debt repayment schedule *continued*

EBRD

On 28 March 2017, the Group signed an agreement with the EBRD pledging rights on future income under the agreement with the anchor tenant (refer to Note 22(a)).

On 31 March 2017, the Group terminated agreements with the EBRD on pledge of investment property of PrJSC 'Grandinvest' and LLC 'Voyazh-Krym' and pledge of investment in PrJSC 'Grandinvest' (refer to Note 22(a)).

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 an 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 a letter from the lender waiving the right to demand repayment of the loan during twelve months ending 31 December 2019. 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 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.

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

Movements of liabilities for the year ended 31 December 2018 are as follows:

(in thousands of USD)	Loans and borrowings	Finance lease liabilities	Total
Balance at 1 January 2018	98,656	7,039	105,695
Proceeds from borrowings	16,200	–	16,200
Repayment of borrowings	(22,396)	–	(22,396)
The effect of changes in foreign exchange rates	41	96	137
Other finance income (Note 19)	(736)	–	(736)
Additions to finance leases	–	142	142
Interest expense	9,258	–	9,258
Other finance costs	45	895	940
Interest paid	(4,561)	(895)	(5,456)
Balance at 31 December 2018	96,507	7,277	103,784

Movements of liabilities for the year ended 31 December 2017 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 19)	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

12 Finance lease liability

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

(in thousands of USD)	Future minimum lease payments 2018	Interest 2018	Present value of minimum lease payments 2018	Future minimum lease payments 2017	Interest 2017	Present value of minimum lease payments 2017
Less than six months	445	441	4	405	404	1
Between six and twelve months	443	441	2	405	404	1
Between one and two years	885	881	4	811	807	4
Between two and five years	2,656	2,638	18	2,837	2,820	17
More than five years	40,853	33,604	7,249	38,823	31,807	7,016
	45,282	38,005	7,277	43,281	36,242	7,039

The imputed finance costs on the liability are based on the Group's incremental borrowing rate ranging from 13.0% to 17.2% as at 31 December 2018 and 2017.

During the year ended 31 December 2018, 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 142 thousand with no impact on profit or loss and recognised a finance lease asset for the amount of USD 142 thousand (refer to Note 4(a)) (2017 USD 396 thousand and USD 396 thousand, respectively).

Future minimum lease payments as at 31 December 2018 and 2017, are based on management's assessment that is based on actual lease payments effective as at 31 December 2018 and 2017, 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 2019 to 2039. 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.

13 Trade and other payables

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

(in thousands of USD)	2018	2017
<i>Non-current liabilities</i>		
Payables for construction works	17,564	9,877
Trade and other payables to third parties	8	8
	17,572	9,885
<i>Current liabilities</i>		
Payables for construction works	6,961	21,124
Trade and other payables to related parties	1,049	1,137
Trade and other payables to third parties	2,578	2,997
	10,588	25,258
	28,160	35,143

As at 31 December 2018 and 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 annum.

Also, included in payables for construction works as at 31 December 2018 are EUR denominated payables under a commission agreement concluded with a third party with the nominal value of USD 1,268 thousand (2017: USD 2,039 thousand) with maturity on 15 September 2019. As at 31 December 2018 and 2017, 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 6.01% (2017: 6.54%) per annum.

Further, included in payables for construction works as at 31 December 2018 are accrued financial charges under construction agreements with third parties amounting to USD 12,998 thousand (31 December 2017: USD 16,838 thousand). During the year ended 31 December 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. On 12 July 2018 constructors further claimed the Group to settle the fee for restructuring of accounts payable of 10.00% in the amount of USD 1,128 thousand for untimely fulfillment of obligations in respect of charges payable in the amount of USD 11,282 thousand as at the date. The Group agreed to settle the fee and constructors agreed to renegotiate the terms of charges payable. As a result of renegotiation, interest rate of 10.00% per annum was imposed on charges payable, they were converted to USD and maturity was postponed to 31 December 2025.

As at 31 December 2017 part of charges payable in the amount of USD 12,153 thousand had maturity on 31 December 2018, part of USD 1,893 thousand – on 30 June 2021 and bore an interest rate of 10.00%, and the remaining part of charges payable of USD 2,792 thousand with the nominal value of USD 3,220 thousand had maturity on 30 June 2019 and was measured at amortised cost under the effective interest rate of 10.00% per annum.

The Group's exposure to currency and liquidity risk related to trade and other payables is disclosed in Note 21.

Notes to the Consolidated Financial Statements continued

14 Advances received

Advances from customers as at 31 December are as follows:

(in thousands of USD)	2018	2017
<i>Non-current</i>		
Advances from third parties	–	125
	–	125
<i>Current</i>		
Advances received under investment agreement (refer to Note 7)	1,661	1,639
Advances from third parties	3,919	3,259
Advances from related parties	25	24
	5,605	4,922
	5,605	5,047

Advances from third parties are mainly represented by prepayments from tenants for the period from one to two months.

15 Other liabilities

Other liabilities as at 31 December are as follows:

(in thousands of USD)	2018	2017
<i>Non-current</i>		
Deferred consideration	20,000	20,000
Other long-term liabilities	46	91
	20,046	20,091
<i>Current</i>		
Deferred consideration	8,217	6,267
	8,217	6,267
	28,263	26,358

As at 31 December 2018, other long-term liabilities comprise mainly the amount of principal and other current liabilities comprise the amount of interest on 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 8,217 thousand, respectively (2017: USD 20,000 thousand and USD 6,267 thousand, respectively).

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 2018 and 2017 and bears 9.75% interest rate per annum.

16 Revenue

The major amount of the Group's revenue is represented by rental income from investment properties that falls within the requirements of IAS 17 *Leases* and amounts to USD 25,566 thousand for the year ended 31 December 2018 (2017: USD 22,136 thousand).

During the year ended 31 December 2018, 14% of the Group's rental income was earned from two tenants (8% and 6%, respectively) (2017: 16%, 12% and 4%, respectively).

The Group rents out premises in the shopping centres to tenants in accordance with lease agreements predominantly concluded for a period of up to 150 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 functional currency using the exchange rates as applicable. However, taking into account the current market conditions, the Group provides temporary discounts to some of its tenants by applying lower exchange rates than those established by the National Bank of Ukraine, 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 continued to turn gradually the lower exchange rates used into the exchange rates established by the National Bank of Ukraine (NBU).

The Group's lease agreements with tenants usually include months cancellation clause for the period up to 150 months. 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.

All other types of services are derived from contracts with customers and fall within the scope of IFRS 15. The nature and effect of initially applying IFRS 15 on the Group's consolidated financial statements are disclosed in Note 3(l).

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

(in thousands of USD)	2018	2017
Advertising (Note 18)	633	746
Repair, maintenance and building services (Note 17)	349	481
Land rent, land and other property taxes (Note 18)	588	380
Communal public services (Note 17)	527	337
Security services (Note 18)	507	310
	2,604	2,254

No direct operating expenses arising from investment property that did not generate rental income during 2018 and 2017 occurred.

(a) Disaggregation of revenue

In the following table revenue for the year ended 31 December is disaggregated by major service lines. All below types of the Group's revenue are represented by services transferred over time.

(in thousands of USD)	2018	2017
Common parts exploitation services	5,724	5,182
Marketing services	230	231
	5,954	5,413

There are no contract assets and contract liabilities that arise on the below stated service lines.

17 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)	2018	2017
Repair, maintenance and building services (Note 16)	349	481
Communal public services (Note 16)	527	337
Other costs	185	159
	1,061	977

18 Operating expenses

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

(in thousands of USD)	2018	2017
Management, consulting and legal services	2,334	3,549
Fee for restructuring of accounts payable (Note 13)	1,128	–
Advertising (Note 16)	633	746
Land rent, land and property taxes (Note 16)	588	380
Security services (Note 16)	507	310
Office expenses and communication services	458	450
Independent auditors' remuneration	104	97
Administrative expenses	80	60
Other assurance services charged by independent auditors	49	32
Tax services charged by independent auditors	8	13
Allowance for bad debts	–	425
Other	1,527	1,084
	7,416	7,146

Notes to the Consolidated Financial Statements continued

19 Finance income and finance costs

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

(in thousands of USD)	2018	2017
Gain on initial recognition of trade and other payables at fair value	–	428
Interest income	215	240
Other finance income (Note 11)	736	–
Finance income	951	668
Financial charges under construction agreements	–	(16,764)
Interest expense	(10,319)	(9,801)
Loss on derecognition of financial instruments	–	(2,828)
Interest expense on deferred consideration	(1,950)	(1,956)
Foreign exchange loss	(3,818)	(455)
Other finance costs	(1,459)	(741)
Finance costs	(17,546)	(32,545)
Net finance cost	(16,595)	(31,877)

20 Income tax expense

(a) Income tax expense

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

(in thousands of USD)	2018	2017
Current tax expense	952	1,252
Deferred tax expense	7,526	6,517
Total income tax expense	8,478	7,769

Corporate profit tax rate for the entities operating under the laws of Ukraine is fixed at 18%.

The applicable tax rate for the entities operating under the laws of the Russian Federation is 20%.

The applicable tax rates are 12.5% for Cyprus companies, 20% 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)	2018	%	2017	%
Profit before tax	46,581	100%	33,576	100%
Income tax expense at statutory rate in Ukraine	8,385	18%	6,044	18%
Effect of different tax rates on taxable profit in other jurisdictions	(2,553)	(5%)	(2,374)	(7%)
Non-deductible expenses	5,129	11%	7,797	23%
Change in unrecognised deferred tax assets	(3,527)	(8%)	(4,337)	(12%)
Write-off of deferred tax assets	–	–	145	0%
Foreign currency translation difference	1,044	2%	494	1%
Effective income tax expense	8,478	18%	7,769	23%

(c) Recognised deferred tax assets and liabilities

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

(in thousands of USD)	Assets		Liabilities		Net	
	2018	2017	2018	2017	2018	2017
Investment property	31	31	(30,303)	(23,095)	(30,272)	(23,064)
Property and equipment	–	–	(5)	(6)	(5)	(6)
Trade and other receivables	65	43	(4)	(40)	61	3
Assets classified as held for sale	–	–	(281)	(277)	(281)	(277)
Trade and other payables	509	733	–	–	509	733
Short-term borrowings	321	677	(313)	(667)	8	10
Other long-term payables	7	6	–	–	7	6
Tax loss carry-forwards	23,056	17,504	–	–	23,056	17,504
Deferred tax assets (liabilities)	23,989	18,994	(30,906)	(24,085)	(6,917)	(5,091)
Offset of deferred tax assets and liabilities	(23,989)	(18,994)	23,989	18,994	–	–
Net deferred tax liabilities	–	–	(6,917)	(5,091)	(6,917)	(5,091)

(d) Movements in recognised deferred tax assets and liabilities

Movements in recognised deferred tax assets and liabilities during the year ended 31 December 2018 are as follows:

(in thousands of USD)	Balance as at 1 January 2018 asset (liability)	Recognised in profit or loss	Recognised in OCI	Foreign currency translation adjustment	Balance as at 31 December 2018 asset (liability)
Investment property	(23,064)	(8,086)	–	878	(30,272)
Property and equipment	(6)	1	–	–	(5)
Trade and other receivables	3	58	–	–	61
Assets classified as held for sale	(277)	–	–	(4)	(281)
Trade and other payables	733	(155)	–	(69)	509
Short-term borrowings	10	(2)	–	–	8
Other long-term payables	6	1	–	–	7
Tax loss carry-forwards	17,504	657	4,850	45	23,056
Deferred tax assets (liabilities)	(5,091)	(7,526)	4,850	850	(6,917)

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)

Notes to the Consolidated Financial Statements continued

20 Income tax expense *continued*

(e) Unrecognised deferred tax assets

Deferred tax assets as at 31 December 2018 have not been recognised in respect of the following items:

(in thousands of USD)	Balance as at 1 January 2018	Change in tax-loss carry forwards	Utilisation of previously unrecognised temporary differences	Foreign currency translation adjustment	Balance as at 31 December 2018
Tax loss carry-forwards	21,362	(2,793)	(6,304)	(415)	11,850
	21,362	(2,793)	(6,304)	(415)	11,850

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

During the year ended 31 December 2018 certain Group entities submitted amended CPT declarations that led to a decrease in tax-loss carry forwards by USD 2,793 thousand (2017: certain Group entities submitted amended CPT declarations that led to an increase in tax-loss carry forwards by USD 562 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 2018, unrecognised temporary differences of USD 5,570 thousand (2017: USD 3,404 thousand) relate to items recognised in other comprehensive income.

21 Financial risk management

(a) Overview

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

- credit risk
- liquidity risk
- market risk

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

(b) Risk management framework

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

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

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

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

(c) Credit risk

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

(i) Trade and other receivables

The Group's exposure to credit risks is influenced mainly by the individual characteristics of each customer. However, management also considers the factors that may influence the credit risk of the Group's customers, including the default risk of the industry and country, in which customers operate, as these factors may have an influence on credit risk.

Management has established a policy under which each customer is analysed either individually or on collective basis regarding expected credit losses as at reporting date.

The balances with customer, which is to be assessed individually, amounted to USD 297 thousand and USD 1,075 thousand as at 31 December 2018 and 2017, respectively. For this customer the Group has determined low credit risk—the borrower has a strong capacity to meet its contractual cash flow obligations in the near term and adverse changes in economic and business conditions in the longer term may not likely reduce the ability of the borrower to fulfil its contractual cash flow obligations – and did not recognise expected credit losses due to insignificant amount.

For other individually insignificant debtors the Group uses an allowance matrix to measure expected credit loss (ECL). Loss rates are calculated using a 'roll rate' method based on the probability of a receivable progressing through successive stages of delinquency to write-off. Roll-rates are calculated based on the Group's historical losses.

The macro factors have insignificant impact on the historical loss rates due to short-term nature of the Group's receivables.

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

As at 31 December 2018, the following table provides information about the exposure to credit risk and ECLs for trade and other receivables in respect of individually insignificant customers from collective portfolio:

(in thousands of US dollars)	Weighted-average loss rate	Gross carrying amounts	Loss allowance (Note 6)	Credit impaired
Current (not past due)	0%	1,325	–	NO
1-30 days due	0%	10	–	NO
31-60 days due	1%	2	–	YES
61-90 days due	5%	–	–	YES
More than 90 days past due	100%	8,234	(8,228)	YES
Total		9,571	(8,228)	

As at 31 December 2017, the following table provides information about the exposure to credit risk and ECLs for trade receivables in respect of individually insignificant customers from collective portfolio:

(in thousands of US dollars)	Weighted-average loss rate	Gross carrying amounts	Loss allowance (Note 6)	Credit impaired
Current (not past due)	0%	1,085	–	NO
1-30 days due	0%	114	–	NO
31-60 days due	1%	3	–	YES
61-90 days due	5%	30	–	YES
More than 90 days past due	100%	8,286	(8,229)	YES
Total		9,518	(8,229)	

Allowance for impairment of financial assets is as follows:

(in thousands of USD)	2018	2017
Allowance for impairment of trade and other receivables	8,228	8,229
Allowance for impairment of loans receivable	10,941	10,669
Allowance for impairment of financial assets at FVOCI (Note 22(d))	20,727	20,727
	39,896	39,625

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

Notes to the Consolidated Financial Statements continued

21 Financial risk management *continued*

(c) Credit risk *continued*

(i) Trade and other receivables *continued*

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)	2018	2017
Balance at 1 January	39,625	41,682
Impairment loss recognised	272	268
Bad debt write-off	–	(2,330)
Foreign currency translation differences	(1)	5
Balance at 31 December	39,896	39,625

(ii) Cash and cash equivalents

Impairment on cash and cash equivalents has been measured on a 12-month expected loss basis and reflects the short maturities of the exposures, due to which no impairment allowance has been recognised by the Group. The Group considers that its cash and cash equivalents have low credit risk based on its assessment of the reliability of the banks where cash and cash equivalents are held.

(d) 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 this 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.

(iii) 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.

(iv) 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 1,574 thousand as at 31 December 2018 (2017: USD 2,454 thousand).

(e) 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 2018:

(in thousands of USD)	Carrying amount	Contractual cash flows					
		Total	2 months or less	2 – 12 months	1 – 2 years	2 – 5 years	More than 5 years
Secured bank loans	36,260	46,026	1,791	10,240	19,226	14,769	–
Unsecured loans from related parties	38,056	41,683	12,623	11,378	17,682	–	–
Unsecured loans from third parties	22,191	22,206	22,004	–	–	202	–
Finance lease liability	7,277	45,282	150	738	885	2,656	40,853
Trade and other payables	28,160	37,938	9,016	1,636	8	5,589	21,689
Other liabilities	28,263	31,139	8,217	1,950	20,972	–	–
	160,207	224,274	53,801	25,942	58,773	23,216	62,542

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

(f) 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 operating under the laws of 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:

(in thousands of USD)	2018		2017	
	USD	EUR	USD	EUR
Cash and cash equivalents	25	–	25	–
Secured bank loans	(29,953)	–	(35,760)	–
Unsecured loans from related parties	(215)	–	(200)	–
Trade and other payables	(4,349)	(51)	(4,349)	(91)
Net short position	(34,492)	(51)	(40,284)	(91)

Sensitivity analysis

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

(in thousands of USD)	2018		2017	
	Profit or loss	Equity	Profit or loss	Equity
USD	(2,828)	(2,828)	(3,303)	(3,303)
EUR	(4)	(4)	(7)	(7)

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

Intra-group borrowings

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

The exposure to foreign currency risk on these borrowings is USD 307,129 thousand and USD 290,144 thousand as at 31 December 2018 and 2017, respectively. The effect of translation of these loans payable by Ukrainian subsidiaries resulted in a foreign exchange gain of USD 8,798 thousand, including tax effect, recognised directly in other comprehensive income for the year ended 31 December 2018 (2017: foreign exchange loss of USD 4,407 thousand).

Notes to the Consolidated Financial Statements continued

21 Financial risk management *continued*

(f) Market risk *continued*

(i) Currency risk *continued*

Intra-group borrowings *continued*

A 10 percent weakening of the Ukrainian hryvnia against the USD would have increased other comprehensive loss for the year ended 31 December 2018 and decreased equity as at 31 December 2018 by USD 25,185 thousand (2017: USD 23,792 thousand). This analysis assumes that all other variables, in particular interest rates, remain constant.

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

Group entities operating under the laws of 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:

	2018		2017	
	USD	UAH	USD	UAH
(in thousands of USD)				
Cash and cash equivalents	178	–	–	–
Trade and other payables	(12,998)	–	–	–
	(12,820)	–	–	–

Sensitivity analysis

A 10 percent weakening 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.

	2018		2017	
	Profit or loss	Equity	Profit or loss	Equity
(in thousands of USD)				
USD	(1,026)	(1,026)	–	–

A 10 percent strengthening 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, 11, 12, 13 and 15 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:

	2018	2017
(in thousands of USD)		
<i>Fixed rate instruments</i>		
Loans and borrowings	82,132	78,918
Other liabilities	28,217	26,267
Finance lease liability	7,277	7,039
Payables for construction works	17,500	6,242
	135,126	118,466
<i>Variable rate instruments</i>		
Loans and borrowings	14,375	19,698
	14,375	19,698

Fair value sensitivity analysis for fixed rate instruments

The Group does not account for any fixed-rate financial instruments as fair value through profit or loss or fair value through other comprehensive income. Therefore a change in interest rates at the reporting date would not have an effect in profit or loss or in equity.

Cash flow sensitivity analysis for variable rate instruments

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

(in thousands of USD)	2018		2017	
	Profit or loss	Equity	Profit or loss	Equity
Loans and borrowings	(118)	(118)	(162)	(162)
	(118)	(118)	(162)	(162)

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:

(in thousands of USD)	2018		2017	
	Carrying amount	Fair value Level 2	Carrying amount	Fair value Level 2
<i>Financial liabilities not measured at fair value</i>				
<i>Non –current</i>				
Secured bank loans	28,171	30,720	33,502	34,602
Unsecured loans from related parties	16,143	17,171	25,263	26,145
Unsecured loans from third parties	187	204	–	–
Payables for construction works	17,564	19,655	9,877	10,353
Deferred consideration	20,000	21,039	20,000	21,692
	82,065	88,789	88,642	92,792
<i>Current</i>				
Secured bank loans (current portion of long-term bank loans)	8,089	8,626	9,616	9,923
Unsecured loans from related parties (including current portion of long-term loans from related parties)	21,913	22,844	9,855	10,127
Unsecured loans from third parties	22,004	22,004	20,420	20,420
Deferred consideration	8,217	8,644	6,267	6,797
	60,223	62,118	46,158	47,267
	142,288	150,907	134,800	140,059

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 2018 and 2017. 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.

Notes to the Consolidated Financial Statements continued

22 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)	2018	2017
Investment property (Note 4(a))	150,490	117,790
Call deposits (Note 8)	2,410	1,153
Bank balances (Note 8)	41	29
	152,941	118,972

As at 31 December 2018, 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; and
- Investments in the following subsidiaries: PrJSC Ukrpangroup, Comfort Market Luks LLC and PrJSC Livoberezhzhiainvest.

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.

(b) Construction commitments

The Group entered into contracts with third parties to construct two shopping centres in Kyiv and a shopping centre in Odesa for the amount of USD 18,285 thousand as at 31 December 2018 (2017: USD 19,209 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 up to one hundred fifty 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)	2018	2017
Less than one year	5,604	4,723
Between one and five years	4,223	3,852
More than five years	1,819	2,975
	11,646	11,550

(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

Since 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 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 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.

In July 2017, the hearing regarding challenges of the fifth, the sixth and the seventh award by Stockman took 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 for 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 repossession 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 alienated.

As at 31 December 2018 and 2017, the Group holds 49.97% of nominal voting rights in Assofit without retaining significant influence. In prior years' consolidated financial statements of the Group until 31 December 2013, investment in Assofit was recognised in the statement of financial position as available for-sale financial asset at its carrying amount of USD 20,727 thousand. Due to loss of the legal control over the major operating asset being the Sky Mall shopping centre in September 2014, the investment in Assofit is fully impaired as at 31 December 2018 and 2017.

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

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 Russian government declared that the territory of the Republic of Crimea is subject to general legislation of the Russian Federation.

(iii) 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.

Notes to the Consolidated Financial Statements continued

22 Commitments and contingencies *continued*

(e) Taxation contingencies *continued*

(iii) Russian Federation *continued*

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.

(iv) Republic of Cyprus

Operations of the Group in Cyprus are mainly limited to provision of intra-group financing, transactions related to Assofit legal case (note 22 (d)(i)) and various management activities. Transactions performed by the Cyprus entities of the Group fall within the jurisdiction of Cyprus tax authorities. The Cyprus tax system can be characterized by numerous taxes, legislation may be applied retrospectively, open to wide interpretation. VAT and income tax declarations are subject to review and investigation by authorities that are enacted by law to impose severe fines, penalties and interest charges. A tax year remains open for review by the Tax department during the six subsequent calendar years, however under certain circumstances a tax year may remain open longer.

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

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

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

23 Related party transactions

(a) Control relationships

The Group's largest shareholders are Retail Real Estate OU, Dragon – Ukrainian Properties and Development plc, Deltamax Group OU, Rauno Teder and Jüri Pöld. The Group's ultimate controlling party is Estonian individual Hillar Teder. Hillar Teder indirectly controls 55.04% of the voting shares of the Parent Company. Apart from this, the adult son of Hillar Teder, Mr. Rauno Teder, controls 15.82% of the voting shares of the Parent Company.

(b) Transactions with management and close family members

Key management remuneration

Key management compensation included in the statement of profit or loss and other comprehensive income for the year ended 31 December 2018 is represented by salary and bonuses of USD 980 thousand (2017: USD 813 thousand).

Director's interests

The direct and indirect interest of the members of the Board in share capital of the Company as at 31 December 2018 and 31 December 2017 and as at the date of signing of these consolidated financial statements is as follows:

Name	Type of interest	Effective shareholding rate
Jüri Pöld	Direct shareholding	7.07%

(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)	2018	2017
Short-term loans receivable	10,941	10,669
Trade receivables	14	13
Other receivables	8,160	8,160
Provision for impairment of trade and other receivables and loans receivable from related parties	(19,099)	(18,827)
	16	15
Long-term loans and borrowings	16,143	25,263
Short-term loans and borrowings	21,913	9,855
Trade and other payables	1,049	1,137
Advances received	25	24
Other liabilities	28,217	26,267
	67,347	62,546

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, 6, 11, 13, 14 and 15.

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)	2018	2017
Interest expense	(4,860)	(5,654)
Other finance costs	–	(18)
Operating expenses	(90)	(136)

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

(d) Guarantees issued by related parties

The Group's related party issued guarantee securing loan payable by Ukrpangroup PrJSC to the EBRD. The guarantees cover the total amount of outstanding liabilities in relation to EBRD loan as at 31 December 2018 of USD 5,462 thousand (2017: USD 7,019 thousand).

24 Subsequent events

Subsequent to the reporting date, on 20 February 2019, the Group Company, Prisma Alpha LLC, entered into a new UAH 140 million loan facility with JSC 'Raiffeisen Bank Aval' to finance the construction of the Lukyanivka shopping and entertainment centre. The facility expires on 31 December 2023 and bears interest of 19.75% per annum, in addition to an initial set up fee of 0.5%. The facility was secured by a mortgage over the Group's City Mall shopping and entertainment centre and was secured by a pledge of future rights on income of LLC Prisma Alpha under the lease agreements and will be secured by a guarantee to be granted by the Group.

Notes

Board of Directors

Mykhailo Merkulov

Juri Pold

Philip Peter Scales (resigned on 27 September 2018)

Michael Zampelas

Volodymyr Tymochko

Frank Lewis (appointed on 30 November 2018)

Urmaz Somelar (appointed on 27 September 2018)

Secretary

Asoted Secretarial Limited

Independent Auditors

KPMG Limited

Nominated Advisor

Smith & Williamson Corporate Finance Limited
(resigned on 30 November 2018)

WH Ireland Limited (appointed on 30 November 2018)

Bankers

AS SEB Bank, Estonia

OJSC Bank St. Petersburg, Russian Federation

Bank VTB, Russian Federation

PJSC Raiffeisen Bank Aval, Ukraine

TASCOMBANK JSC, Ukraine

Raiffeisen Bank International AG, Austria

PJSC State Savings Bank of Ukraine, Ukraine

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