Registered number: 04959887

PROSPERITY CAPITAL MANAGEMENT (UK) LIMITED

FINANCIAL STATEMENTS

31 DECEMBER 2016

PROSPERITY CAPITAL MANAGEMENT (UK) LIMITED

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PROSPERITY CAPITAL MANAGEMENT (UK) LIMITED

COMPANY INFORMATION

Directors	J Keane J M Westman
Company secretary	Langham Hall UK Services LLP
Registered number	04959887
Registered office	5 The Old Bailey Old Bailey London EC4M 7BA
Administrators	Blick Rothenberg Global Business Services Limited 16 Great Queen Street London WC2B 5AH
Independent auditor	KPMG LLP 15 Canada Square Canary Wharf London E14 5GL
Accountants	Blick Rothenberg Limited 16 Great Queen Street London WC2B 5AH

DIRECTORS' REPORT
FOR THE YEAR ENDED 31 DECEMBER 2016

The directors present their report and the financial statements of Prosperity Capital Management (UK) Limited ("the company") for the year ended 31 December 2016.

Results and dividends

The profit for the year, after taxation, amounted to £5,468,053 (2015: £834,562).

During the year the company paid a final dividend in respect of the year ended 31 December 2015 amounting to £801,758 (2015: £1,000,000 in respect of 2014). The directors recommend a dividend of £3,924,000 (2015: £800,000) for the year ended 31 December 2016.

Directors

The directors who served during the year were:

J Keane
J M Westman

Schedule 7 disclosures

Those disclosures required by Schedule 7 of the Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008, where appropriate have been dealt with in the strategic report.

Disclosure of information to auditor

Each of the persons who are directors at the time when this directors' report is approved has confirmed that:

- so far as the director is aware, there is no relevant audit information of which the company's auditor is unaware, and
- the director has taken all the steps that ought to have been taken as a director in order to be aware of any relevant audit information and to establish that the company's auditor is aware of that information.

Auditor

The auditors, KPMG LLP, will be proposed for reappointment in accordance with section 487 of the Companies Act 2006.

This report was approved by the board and signed on its behalf.

J M Westman
Director

Date: 24/4/17

Introduction

The directors present their strategic report on the company for the year ended 31 December 2016.

The principal activities of the company during the year were those of providing client investment services and marketing thereon and the provision of fund management to a number of investment funds.

Business review

During the year the company saw a significant increase in turnover as discussed below within the section dealing with financial key performance indicators. There was a significant increase in investment management fees which are based on the performance of the funds under management. There was a corresponding increase in commissions and rebates payable.

There was a decrease in administrative expenses from £2,898,220 in 2015 to £2,476,481 largely as a result of a decrease in staff salaries during the year.

As a result operating profit has risen from £1,051,350 in 2015 to £6,830,850 for the current year.

As discussed below, fund management fees include a performance element. Other revenue streams are partly dependent upon the needs of the parent company and an associated company to which client service fees and advisory fees are charged.

European referendum

In relation to the assessment and monitoring of economic, political and regulatory risks, the company is continuing to evaluate the impact of the outcome of the June 2016 referendum in relation to the UK's membership of the EU on the company's business strategy and business risks in the short, medium and long term.

In the short term there is no significant impact expected on the company's business activities, there will be no immediate change in the business strategy and it does not affect the going concern position of the company. Over the course of the expected two year transition period following a notification to leave the EU, the company will continue to closely monitor development and will make appropriate changes to the business strategy once the outcome of the referendum result and its impact on the UK and European service industry is more certain.

Principal risks and uncertainties

The company incurs, during the course of the business, market and operational risks for which it has sufficient controls in place to mitigate them.

The company's traditional income is derived from client investment services and marketing provided to the parent company. Consequently the company has no exposure to price, credit, liquidity, or cashflow risk on that business. The company incurs its costs primarily in sterling and recovers the majority of costs in that currency.

In addition, the company provides investment management services to a number of investment funds for which it receives a fee. Fees are dependent upon the value of the assets under management and the return on those assets and therefore the company is exposed to market risks. The company seeks to minimise the level of risk through active management of the funds. Fees for such services are largely invoiced in US Dollars and therefore the company is exposed to credit, foreign currency and cash flow risks. The directors have not hedged against the foreign currency risk, as dividends are paid to the parent company in US Dollars.

Financial key performance indicators

The company's key performance indicator is turnover. Turnover for the year increased and was £16,686,415 (2015: £5,299,941). The increase in turnover was due to an increase in fund management service fees (comprising both performance fees and fixed fees) received, amounting to £14,331,083 (2015: £2,480,150), and a decrease in advisory fees, which amounted to £284,790 (2015: £772,506).

Client service fees of £2,070,542 remained in line with 2015 (2015: £2,047,285).

The fund management service fees are made up of fixed fees based on a percentage of the market value of the assets being managed, and performance fees, which are earned when the return on managed assets exceeds that of an external benchmark. The increase in fees generated in the year ended 31 December 2016 reflects improved investment conditions in the company's targeted markets which resulted in positive performance. The company earned £10,901,861 performance fees during 2016 (2015: £100,174) and £3,429,222 in fixed fees (2015: £2,379,976). The company also earned advisory fees of £284,790 (2015: £772,506). The amount of performance fees to be earned in future periods is uncertain, however, the directors expect moderate growth with respect to fixed management fees and client service fees.

Client service fees relates to fees charged by the company to Prosperity Capital Management Limited, the parent company. Client service fees are based on a percentage of administrative expenses after deducting those costs related to certain departments.

Future developments

The directors will continue to look for opportunities to expand and develop the company's business.

Pillar 3 disclosures

Details of the company's unaudited Pillar 3 disclosures, required under Chapter 11 of the FCA's Prudential Sourcebook for Banks, Building Societies and Investment Firms ("BIPRU"), are attached in an appendix to these financial statements.

This report was approved by the board and signed on its behalf.

J M Westman
Director

Date: 24/4/17

DIRECTORS' RESPONSIBILITIES STATEMENT
FOR THE YEAR ENDED 31 DECEMBER 2016

The directors are responsible for preparing the strategic report, the directors' report and the financial statements of Prosperity Capital Management (UK) Limited ("the company") in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements of Prosperity Capital Management (UK) Limited ("the company") for each financial year. Under that law the directors have elected to prepare the financial statements in accordance with applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice), including Financial Reporting Standard 102 'The Financial Reporting Standard applicable in the UK and Republic of Ireland'. Under Company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period. In preparing these financial statements of Prosperity Capital Management (UK) Limited ("the company"), the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgments and accounting estimates that are reasonable and prudent;
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements;
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the company's transactions and disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF PROSPERITY CAPITAL MANAGEMENT (UK) LIMITED

We have audited the financial statements of Prosperity Capital Management (UK) Limited for the year ended 31 December 2016, set out on pages 8 to 24. The relevant financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards, including Financial Reporting Standard 102 The Financial Reporting Standard applicable in the UK and Republic of Ireland.

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of Directors and Auditor

As explained more fully in the directors' responsibilities statement on page 5, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

A description of the scope of an audit of financial statements is provided on the Financial Reporting Council's website at www.frc.org.uk/auditscopeukprivate.

Opinion on financial statements

In our opinion the financial statements:

- give a true and fair view of the state of the company's affairs as at 31 December 2016 and of its profit for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Opinion on other matter prescribed by the Companies Act 2006

In our opinion, the information given in the strategic report and the directors' report for the financial year is consistent with the financial statements.

Based solely on the work required to be undertaken in the course of the audit of the financial statements and from reading the strategic report and the directors' report:

- we have not identified any material misstatements in these reports; and
- in our opinion, those reports have been prepared in accordance with the Companies Act 2006.

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF PROSPERITY CAPITAL MANAGEMENT (UK) LIMITED (CONTINUED)

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion:

- adequate accounting records have not been kept; or
- the financial statements are not in agreement with the accounting records; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

Sinead O'Reilly

Sinead O'Reilly

for and on behalf of
KPMG LLP, Statutory Auditor,
Chartered Accountants

15 Canada Square
Canary Wharf
London
E14 5GL
Date: 24 April 2017

PROSPERITY CAPITAL MANAGEMENT (UK) LIMITED

PROFIT AND LOSS ACCOUNT AND STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 DECEMBER 2016

	Note	2016 £	2015 £
Turnover	3	**16,686,415**	5,299,941
Cost of sales		**(7,654,806)**	(1,447,852)
Gross profit		**9,031,609**	3,852,089
Administrative expenses		**(2,476,481)**	(2,898,220)
Other operating income	4	**275,722**	97,481
Operating profit	5	**6,830,850**	1,051,350
Interest receivable and similar income	9	**8,561**	227
Profit before tax		**6,839,411**	1,051,577
Tax on profit	10	**(1,371,358)**	(217,015)
Profit for the financial year		**5,468,053**	834,562

There were no recognised gains and losses for 2016 or 2015 other than those included in the profit and loss account and statement of comprehensive income.

The notes on pages 12 to 24 form part of these financial statements.

PROSPERITY CAPITAL MANAGEMENT (UK) LIMITED

BALANCE SHEET
AS AT 31 DECEMBER 2016

	Note		2016 £		2015 £
Fixed assets					
Tangible assets	12		**24,314**		22,085
			24,314		22,085
Current assets					
Debtors: amounts falling due after more than one year	13	-		130,866	
Debtors: amounts falling due within one year	13	**11,617,973**		694,774	
Cash at bank and in hand	14	**2,762,186**		2,052,900	
		14,380,159		2,878,540	
Creditors: amounts falling due within one year	15	**(7,910,467)**		(1,073,319)	
Net current assets			**6,469,692**		1,805,221
Total assets less current liabilities			**6,494,006**		1,827,306
Provisions for liabilities					
Deferred tax	16	**(849)**		(444)	
			(849)		(444)
Net assets			**6,493,157**		1,826,862
Capital and reserves					
Called up share capital	17		**400,000**		400,000
Profit and loss account			**6,093,157**		1,426,862
			6,493,157		1,826,862

The financial statements were approved and authorised for issue by the board and were signed on its behalf by:

J M Westman
Director

Date: 24/4/17

The notes on pages 12 to 24 form part of these financial statements.

PROSPERITY CAPITAL MANAGEMENT (UK) LIMITED

STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2016

	Note	Called up share capital £	Profit and loss account £	Total equity £
At 1 January 2015		**400,000**	**1,592,300**	**1,992,300**
Comprehensive income for the year				
Profit for the financial year	11	-	**834,562**	**834,562**
Dividends: Equity capital		-	**(1,000,000)**	**(1,000,000)**
Total transactions with owners		-	**(1,000,000)**	**(1,000,000)**
At 1 January 2016		**400,000**	**1,426,862**	**1,826,862**
Comprehensive income for the year				
Profit for the financial year		-	**5,468,053**	**5,468,053**
Total comprehensive income for the year		-	**5,468,053**	**5,468,053**
Dividends: Equity capital	11	-	**(801,758)**	**(801,758)**
At 31 December 2016		**400,000**	**6,093,157**	**6,493,157**

The notes on pages 12 to 24 form part of these financial statements.

PROSPERITY CAPITAL MANAGEMENT (UK) LIMITED

STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2016

	2016	2015
	£	£
Cash flows from operating activities		
Profit for the financial year	**5,468,053**	834,562
Adjustments for:		
Depreciation of tangible assets	**14,570**	14,680
Interest receivable	**(8,561)**	(227)
Taxation charge	**1,371,358**	217,015
(Increase)/decrease in debtors	**(10,788,564)**	132,583
Increase in creditors	**5,816,757**	180,209
(Increase) in amounts owed by group undertakings	**(8,784)**	(150,779)
Corporation tax paid	**(345,547)**	(224,193)
Net cash generated from operating activities	**1,519,282**	1,003,850
Cash flows from investing activities		
Purchase of tangible fixed assets	**(16,799)**	(5,199)
Interest received	**8,561**	227
Net cash used in investing activities	**(8,238)**	(4,972)
Cash flows from financing activities		
Dividends paid	**(801,758)**	(1,000,000)
Net cash used in financing activities	**(801,758)**	(1,000,000)
Net increase / (decrease) in cash and cash equivalents	**709,286**	(1,122)
Cash and cash equivalents at beginning of the year	**2,052,900**	2,054,022
Cash and cash equivalents at the end of the year	**2,762,186**	2,052,900
Cash and cash equivalents at the end of the year comprise:		
Cash at bank and in hand	**2,762,186**	2,052,900

The notes on pages 12 to 24 form part of these financial statements.

1. General information

Prosperity Capital Management (UK) Limited is a private company limited by shares incorporated and registered in England and Wales. Its principal place of business is 6 Cavendish Square, London, W1G 0PD.

The principal activities of the Company during the year continued to be that of the provision of client investment services, investment marketing and fund management to a number of investment funds.

2. Accounting policies

2.1 Basis of preparation of financial statements

The principal accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied to all the years presented unless otherwise stated.

The financial statements have been prepared under the historical cost convention and in accordance with Financial Reporting Standard 102, The Financial Reporting Standard applicable in the United Kingdom and the Republic of Ireland ("FRS 102") and the Companies Act 2006.

The preparation of financial statements in compliance with FRS 102 requires the use of certain critical accounting estimates. It also requires management to exercise judgement in applying the Company's accounting policies.

2.2 Going concern

After making enquiries, the directors have a reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future. For this reason they have continued to adopt the going concern basis.

2.3 Turnover

Turnover is recognised to the extent that it is probable that the economic benefits will flow to the Company and the turnover can be reliably measured. Turnover is measured as the fair value of the consideration received or receivable, excluding discounts, rebates, value added tax and other sales taxes.

2. Accounting policies (continued)

2.4 Tangible fixed assets and depreciation

Tangible fixed assets are stated at historical cost less accumulated depreciation and any accumulated impairment losses. Historical cost includes expenditure that is directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management.

Depreciation is charged so as to allocate the cost of assets less their residual value over their estimated useful lives, using the straight-line method. The estimated useful lives range as follows:

Leasehold improvements: Over the term of the lease
Fixtures and fittings: 25% straight line
Computer equipment: 33% straight line

The assets' residual values, useful lives and depreciation methods are reviewed, and adjusted prospectively if appropriate, or if there is an indication of a significant change since the last reporting date.

Gains and losses on disposals are determined by comparing the proceeds with the carrying amount and are recognised within 'administrative expenses' in the profit and loss account.

2.5 Operating leases

Leases that do not transfer all the risks and rewards of ownership are classified as operating leases. Rentals paid under operating leases are charged to the profit and loss account on a straight line basis over the period of the lease.

2.6 Financial instruments

The Company has only those financial instruments which meet the definition of basic financial instruments. It has no other types of financial instruments.

Financial assets and financial liabilities are recognised when the Company becomes party to the contractual provisions of the instrument.

Financial liabilities and equity instruments are classified according to the substance of the contractual arrangements entered into. An equity instrument is any contract that evidences a residual interest in the assets of the Company after deducting all of its liabilities.

The Company's policies for its major classes of financial assets and financial liabilities are set out below.

Financial assets
Short term debtors are measured at transaction price, less any impairment. Loans receivable are measured initially at fair value, net of transaction costs, and are measured subsequently at amortised cost using the effective interest method, less any impairment.

Cash is represented by cash in hand and deposits with financial institutions repayable without penalty on notice of not more than 24 hours. Cash equivalents are highly liquid investments that mature in no more than three months from the date of acquisition and that are readily convertible to known amounts of cash with insignificant risk of change in value.

2. Accounting policies (continued)

2.6 Financial instruments (continued)

Financial liabilities

Basic financial liabilities, including trade and other creditors, bank loans, loans from fellow group companies and preference shares that are classified as debt, are initially recognised at transaction price, unless the arrangement constitutes a financing transaction, where the debt instrument is measured at the present value of the future payments discounted at a market rate of interest for a similar debt instrument. Financing transactions are those in which payment is deferred beyond normal business terms or is financed at a rate of interest that is not a market rate.

Trade creditors are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Trade creditors are classed as current liabilities if payment is due within one year or less. If not they are presented in creditors due after one year. Trade creditors are initially recognised at transaction price and subsequently measured at amortised cost using the effective interest method.

2.7 Foreign currency translation

Functional and presentation currency

The Company's functional and presentational currency is Sterling (£).

Transactions and balances

Foreign currency transactions are translated into sterling using the spot exchange rates at the dates of the transactions.

At each period end foreign currency monetary items are translated using the closing rate. Non-monetary items measured at historical cost are translated using the exchange rate at the date of the transaction and non-monetary items measured at fair value are measured using the exchange rate when fair value was determined.

Foreign exchange gains and losses resulting from the settlement of transactions and from the translation at period-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the profit and loss account except when deferred in other comprehensive income as qualifying cash flow hedges.

All foreign exchange gains and losses are presented in the profit and loss account within 'other operating income'.

2.8 Dividends

Equity dividends are recognised when they become legally payable. Interim equity dividends are recognised when paid. Final equity dividends are recognised when approved by the shareholders at an annual general meeting. Equity dividends are recognised in the statement of changes in equity.

2.9 Share capital

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new ordinary shares or options are shown in equity as a deduction, net of tax, from the proceeds.

2. Accounting policies (continued)

2.10 Employee benefits

The Company provides a range of benefits to employees, including holiday arrangements and pension allowances.

Short term benefits

Short term benefits including holiday pay and other non-monetary benefits are recognised as an expense in the period in which service is received.

Pension provision

The Company pays allowances to staff for pension contributions or contributes to the personal pension schemes of employees. Once the contributions have been paid the company has no further payment obligations.

The contributions are recognised as an expense in the profit and loss account when they fall due. Amounts not paid are shown in accruals as a liability in the balance sheet.

2.11 Interest income

Interest income is recognised in the profit and loss account using the effective interest method.

2.12 Provisions for liabilities

Provisions are made where a past event has taken place that gives the Company a present legal or constructive obligation that probably requires settlement by an outflow of economic benefit, and a reliable estimate can be made of the amount of the obligation.

Provisions are charged as an expense to the profit and loss account in the year that the Company becomes aware of the obligation, and are measured at the best estimate at the balance sheet date of the expenditure required to settle the obligation, taking into account relevant risks and uncertainties.

When payments are eventually made, they are charged to the provision carried in the balance sheet.

2. Accounting policies (continued)

2.13 Current and deferred taxation

The taxation expense for the year comprises current and deferred tax. Tax is recognised in the profit and loss account, except where it relates to items recognised directly in other comprehensive income or in equity.

Current tax is the amount of income tax payable in respect of the taxable profit for the year or previous years.

The current income tax charge is calculated on the basis of tax rates and laws that have been enacted or substantively enacted by the balance sheet date.

Deferred tax is provided on timing differences which arise from the inclusion of income and expenses in tax assessments in periods different from those in which they are recognised in the financial statements.

Deferred tax is recognised in respect of all timing differences that have originated but not reversed by the balance sheet date, except that:

- The recognition of deferred tax assets is limited to the extent that it is probable that they will be recovered against the reversal of deferred tax liabilities or other future taxable profits; and
- Any deferred tax balances are reversed if and when all conditions for retaining associated tax allowances have been met.

Deferred tax is determined using tax rates and laws that have been enacted or substantially enacted by the balance sheet date.

3. Analysis of turnover

The turnover and profit before tax are attributable to the principal activities of the Company.

An analysis of turnover by class of business is as follows:

	2016 £	2015 £
Investment management fees	**14,331,083**	2,480,150
Client service fees	**2,070,542**	2,047,285
Advisory fees	**284,790**	772,506
	16,686,415	5,299,941

Analysis of turnover by country of destination:

	2016 £	2015 £
Rest of Europe	**14,331,083**	2,480,150
Rest of The World	**2,355,332**	2,819,791
	16,686,415	5,299,941

4. Other operating income

	2016 £	2015 £
Gain on foreign exchange	**275,722**	97,481
	275,722	97,481

5. Operating profit

The operating profit is stated after charging / (crediting):

	2016 £	2015 £
Depreciation of tangible fixed assets	**14,570**	14,680
Operating lease rentals:		
- plant and machinery	**20,459**	22,304
- other operating leases	**118,116**	121,676
Foreign currency (gains)	**(275,722)**	(97,481)
Pension allowances	**119,231**	112,027

6. Auditor's remuneration

	2016 £	2015 £
Fees payable to the Company's auditor and its associates for the audit of the Company's annual accounts	**21,210**	21,000
Fees payable to the Company's auditor and its associates in respect of:		
Audit-related assurance services	**20,000**	5,000
Other services	**-**	4,010

7. Employees

Staff costs, including directors' remuneration, were as follows:

	2016 £	2015 £
Wages and salaries	**1,405,941**	1,789,441
Social security costs	**175,509**	229,429
Pension allowances	**119,231**	112,027
	1,700,681	2,130,897

The average monthly number of employees, including the directors, during the year was as follows:

	2016 No.	2015 No.
Number of administrative staff	**1**	1
Number of management staff	**5**	5
Number of marketing staff	**3**	3
Number of advisory staff	**2**	2
	11	11

8. Directors' remuneration

	2016 £	2015 £
Directors' emoluments	**166,238**	164,310
Pension allowance	**18,000**	18,000
	184,238	182,310

During the year retirement benefits were accruing to 1 director (2015: 1) in respect of personal pension schemes.

9. Interest receivable

	2016 £	2015 £
Bank interest receivable	**8,561**	227
	8,561	227

10. Taxation

	2016 £	2015 £
Corporation tax		
Current tax on the profits for the year	**1,370,953**	215,547
Total current tax	**1,370,953**	215,547
Deferred tax		
Origination and reversal of timing differences	**405**	1,468
Total deferred tax	**405**	1,468
Taxation on profit on ordinary activities	**1,371,358**	217,015

10. Taxation (continued)

Factors affecting tax charge for the year

The tax assessed for the year is higher than (2015: higher than) the standard rate of corporation tax in the UK of 20% (2015: 20.25%). The differences are explained below:

	2016 £	2015 £
Profit on ordinary activities before tax	**6,839,411**	1,051,577
Profit on ordinary activities multiplied by standard rate of corporation tax in the UK of 20% (2015: 20.25%)	**1,367,882**	212,944
Effects of:		
Expenses not deductible for tax purposes	**1,848**	1,396
Depreciation for year in excess of capital allowances	**1,223**	1,243
Other timing differences leading to an increase in taxation	**405**	1,468
Other differences leading to an increase in the tax charge	**-**	(36)
Total tax charge for the year	**1,371,358**	217,015

Factors that may affect future tax charges

Changes to the UK corporation tax rates were substantively enacted as part of the Finance (No. 2) Act 2015 on 26 October 2015. These include reductions to the main rate to reduce the rate to 19% from 1 April 2017. A further reduction in the UK corporation tax rate to 17%, effective from 1 April 2020, was substantively enacted as part of the Finance (No. 2) Act 2016 on 6 September 2016. Deferred taxes at the balance sheet date have been measured using 17% based on when the timing difference is expected to reverse and reflected in these financial statements (Note 16).

11. Dividends

	2016 £	2015 £
Dividends on equity capital	**801,758**	1,000,000

12. Tangible fixed assets

	Leasehold Improvement £	Fixtures & fittings £	Computer equipment £	Total £
Cost or valuation				
At 1 January 2016	**86,462**	**86,022**	**67,804**	**240,288**
Additions	**11,086**	**482**	**5,231**	**16,799**
At 31 December 2016	**97,548**	**86,504**	**73,035**	**257,087**
Depreciation				
At 1 January 2016	**74,200**	**84,385**	**59,618**	**218,203**
Charge for the year on owned assets	**8,646**	**840**	**5,084**	**14,570**
At 31 December 2016	**82,846**	**85,225**	**64,702**	**232,773**
Net book value				
At 31 December 2016	**14,702**	**1,279**	**8,333**	**24,314**
At 31 December 2015	12,262	1,637	8,186	22,085

13. Debtors

	2016 £	2015 £
Due after more than one year		
Other debtors	**-**	130,866
	-	130,866

Other debtors due after more than one year relate to a secured rental deposit.

	2016 £	2015 £
Due within one year		
Trade debtors	**-**	673
Amounts owed by group undertakings	**301,129**	292,345
Other debtors	**42,398**	47,326
Prepayments and accrued income	**11,274,446**	354,430
	11,617,973	694,774

Amounts owed by group undertakings are unsecured, interest free, have no fixed date of repayment and are repayable on demand.

14. Cash and cash equivalents

	2016 £	2015 £
Cash at bank and in hand	**2,762,186**	2,052,900
	2,762,186	2,052,900

15. Creditors: Amounts falling due within one year

	2016 £	2015 £
Trade creditors	**85,462**	53,307
Corporation tax	**1,142,723**	117,317
Taxation and social security	**46,410**	34,196
Accruals and deferred income	**6,635,872**	868,499
	7,910,467	1,073,319

16. Deferred taxation

	2016 £
At beginning of year	**444**
Charged to profit or loss	**405**
At end of year	**849**

The provision for deferred taxation is made up as follows:

	2016 £
Capital allowances in exess of depreciation	**849**
	849

17. Share capital

	2016	2015
	£	£
Shares classified as equity		
Allotted, called up and fully paid		
400,000 ordinary shares of £1 each	**400,000**	400,000

There is a single class of ordinary shares. Under company law there are no restrictions on the distribution of dividends and repayment of capital.

18. Pension commitments

The Company pays pension allowances to certain employees and contributes to the personal pension schemes of others. The aggregate contributions for the year were £119,231 (2015: £112,027).

19. Commitments under operating leases

At 31 December 2016 the Company had future minimum lease payments under non-cancellable operating leases as follows:

	2016	2015
	£	£
Less than 1 year	**66,949**	111,375
Between 1 year and 5 years	**535,588**	-
Later than 5 years	**569,062**	-
Total	**1,171,599**	111,375

20. Related party transactions

As the Company is a wholly owned subsidiary of Prosperity Capital Management Limited ("PCML"), which prepares consolidated accounts, it has taken advantage of the exemption contained in paragraph 33.1A of FRS102 and has therefore not separately disclosed transactions or balances with entities which form part of PCML.

21. Post balance sheet events

In January 2017, the company paid a rebate of £4,423,660 in relation to performance fees for the year ended 31 December 2016. This will result in a net increase to cost of sales (after commission and other rebates) of £2,063,195 in the year ending 31 December 2017.

22. Ultimate parent undertaking and controlling party

The company is a wholly owned subsidiary of Prosperity Capital Management Limited ("PCML"), a company incorporated in the Cayman Islands. Financial statements are prepared for PCML, but are not available to the public.

The only group in which the results of the company are consolidated is that headed by PCML.

Prosperity Capital Management (UK) Ltd

Pillar 3 Disclosures

For the year ended 31 December 2016

The following report covers the period from 01 January 2016 to 31 December 2016.

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1. Introduction

This report is made in accordance with the Capital Requirements Directive IV ("CRD IV"), which came into effect on 1 January 2014. The directive introduced consistent capital adequacy requirements for authorised credit institutions and investment firms across Europe. For UK firms, these rules are laid out in the FCA Handbook. The relevant section of the handbook is the Prudential Sourcebook for Banks, Building Societies and Investment Firms ("BIPRU").

The CRD is based on three "pillars" as follows:

- Pillar 1: sets outs the minimum capital requirements for measuring the firm's credit, market and operational risk.
- Pillar 2: requires the firm to determine whether its Pillar 1 capital is adequate to cover these risks. This is achieved through the firm's Internal Capital Adequacy Assessment Process ("ICAAP") and is subject to annual review by the FCA through the Supervisory Review and Evaluation Process.
- Pillar 3: requires disclosure of certain requirements about the underlying risk, management controls and capital position.

This document fulfils the firm's disclosure requirement under Pillar 3.

2. Background to the Firm

Prosperity Capital Management (UK) Ltd is an asset management business focused on 'long only' equity investments into Russia and former Soviet Union countries. In addition, the company also provides marketing services to its parent company, which is also involved in the asset management business, and advisory services to an affiliated company.

Prosperity Capital Management (UK) Ltd is incorporated in the UK and is authorised and regulated by the FCA as a standalone BIPRU Limited License 50k firm. The firm has a wide spread of FCA regulated activities. The principal activities are:

- Advising, arranging and managing investments
- Dealing in investments as agent; and
- Arranging safeguarding and administration of assets

3. Corporate Structure and Scope of Disclosure

Prosperity Capital Management (UK) Ltd is a limited company owned by its shareholder and is not part of a consolidation group as defined by the FCA. The disclosures made within this document are as a sole entity.

The firm makes these disclosures on an annual basis; however the Board will consider whether it may be appropriate to make more frequent publication where appropriate.

4. Risk Management Objectives and Risk Policy

Governance Structure and Responsibility

Senior Management and the board of directors is responsible for risk management within the firm. Specific responsibilities for Corporate Governance, Operations, Client Services and Legal and Compliance are attributable to the senior staff (Directors/Managing Directors) responsible for those functions. Investment and Market Risk is the responsibility of the Portfolio Advisers and ultimately the Chief Investment Officer.

Risk Committee and Chief Risk Officer

The Risk Committee and the Chief Risk Officer will be responsible for monitoring, supervising and managing the risks of the firm. The Risk committee will seek to ensure that the risk profile of the firm is in line with that disclosed to clients and set by the board of directors and key stakeholders.

Risk Committee Meetings

The Risk Committee will meet as needed, but at least quarterly. The Chief Risk Officer may convene an extraordinary meeting of the Risk Committee at any time. At each ordinary meeting the Risk Committee will consider the reported matters (key risk measures) and any current or open incidents. The Chief Risk Officer will subsequently report to the board of directors.

5. Capital resources

Pillar 1 Capital
Prosperity Capital Management (UK) Ltd is a BIPRU firm and as such its capital requirement is the highest of:-

a. the Base Capital Resources Requirement of €50k;
b. the sum of our Credit Risk Capital Requirement and Market Risk Capital Requirement; and
c. the Fixed Overheads Requirement.

<u>Credit Risk Capital Requirement</u>
The Credit Risk Capital Requirement is the sum of:-
a. credit risk capital component;
b. counterparty risk capital component; and
c. concentration risk capital component.

Prosperity Capital Management (UK) Ltd does not hold any trading book positions so does not have a counterparty or concentration risk capital component.

Prosperity Capital Management (UK) Ltd has calculated its credit risk capital component at 31 December 2016 to be £973,000.

Market Risk Capital Requirement
Market risk is the risk that arises from fluctuations in values of, or income from, assets or in interest or exchange rates. Pillar 1 Market risk calculations solely look at positions that authorised firms hold in the market. Prosperity Capital Management (UK) Ltd does not hold any such positions, however the mandate(s) that we manage do and Prosperity Capital Management (UK) Ltd therefore deems Market risk to be relevant in this context. The Market Risk Capital Component at 31 December 2016 was calculated to be £604,000.

Fixed Overheads Requirement
Our Fixed Overheads requirement is calculated in accordance with GENPRU 2.1.53 to GENPRU 2.1.59. The FSA Pillar 1 requirements therefore are £517,000.

The table below shows the breakdown of the firm's total available capital as at 31 December 2016.

	£ 000 as at 31 December 2016
Tier One capital	
Called up share capital Profit and loss account and other reserves	400 6,093*
Total Tier One capital	**6,493**
Deductions from Tier One Capital	**0**
Tier Two capital	**0**
Deductions from Tier Two capital	**0**
Total Tier One and Tier Two Capital	**6,493**
Deductions from Tier One and Tier Two Capital	**0**
Tier Three Capital	**0**
Deductions from Tier Three Capital	**0**
Total Capital Resources	**6,493**
Total Capital excess of Pillar 1 requirements	**4,916**
Total Capital excess of Pillar 1 and Pillar 2 requirements	**4,714**

* Includes audited 2016 profits of £5,468,053. At the end of 2016, prior to the completion of the audit of 2016 profits and consequently the inclusion of these profits in tier one capital, the firm reported a capital shortfall to the FCA of £552,000, which was caused by an increase in credit risk, brought on by success fees earned and receivable at the end of 2016. The shortfall was rectified in January 2017, when the receivable was collected. Additional stress testing and analysis will be included in the firm's ICAAP related to this event.

6. Capital Adequacy

Pillar 2 – ICAAP

Prosperity Capital Management (UK) Ltd is required to carry out an Internal Capital Adequacy Assessment Process ("ICAAP") in order to ensure that the firm continually has enough minimum and, where necessary, additional capital in order to meet its regulatory capital requirements. The ICAAP is reviewed at least annually, but the Board will consider whether it may be appropriate to make more frequent assessments.

As a summary of this assessment Prosperity Capital Management (UK) Ltd are exposed to the following risks

Credit risk
Credit risk is the risk of loss arising from default by counterparty on a balance due to the firm and as such credit risk is limited. The only material credit exposures are amounts receivable from market and client counterparties, including bank deposits. The firm will monitor credit risk on an ongoing basis as part of capital planning and stress testing.

Prosperity Capital Management (UK) Ltd has adopted the simplified approach to Credit risk calculations.

Operational Risk
Operational risk is defined as the risk of loss to the Company resulting from inadequate or failed internal processes, people and systems, or from external events; it includes legal and tax and financial crime risks, but does not include strategic and business risks.

The main operational risks are:

- Loss of key personnel
- Mis-selling
- IT risk
- Fund valuation risk
- Unfavourable contractual terms and professional negligence risk

Senior management recognizes that not all of the risks to which the Company is exposed can be mitigated by the addition of incremental capital, hence those other risks, such as reputation and legal risks, are managed by internal policies and procedures and monitored by senior management on an ongoing basis.

Reputational Risk

Reputation will have a significant impact on the business. Items that could seriously affect reputation include poor performance of the funds and poor customer service. Incorrect communications to investors or press could also cause serious damage.

Market risk

We do not hold any principal positions or any assets for clients in either a trading or non trading book and therefore will not have a Market Risk Capital Requirement in this respect. We have held and will hold foreign currencies from time to time, as management and performance fees earned from the funds are received in EUR and USD, and therefore will need to calculate a foreign currency position risk requirement.

This is calculated as part of our pillar 1 calculation and we do not consider it appropriate to provide any further capital in respect of this risk. The firm will monitor market risk on an ongoing basis as part of capital planning and stress testing.

Business risk

Business risk affects the business as changes in the market could cause a reduction in revenues due to a further reduction in asset value. For our business the relevant markets are those relating to investments based in Russia or former Soviet Union countries. Although Prosperity Capital Management (UK) Ltd does not itself hold any such positions, the mandate(s)/funds that we manage do. We therefore deem Market risk to be relevant and have considered an allocation of capital to this risk as described above.

Liquidity risk

The capital liquidity position of PCM (UK) is actively monitored, and any trends are analysed by the Group Finance Director. The Board of Directors also considers strategic liquidity issues. Costs allocated to the investor relations portion of the business are covered under the cost plus arrangement with PCML. If the investment management side of the business were to fail, this would mean all remaining costs (after appropriate cost cutting measures relating to the investment management function) would be allocated to the client relations portion of the business, and would therefore also be covered by the arrangement with PCML. PCML has a strong balance sheet and is expected to remain committed to its current business relationship with PCM UK.

Concentration Risk

The business provides investment management and advisory services in relation to investments based in Russia or former Soviet Union countries. Additionally the business has a small client base which represents a further risk.

Additional risks within Pillar 2 have been identified and assessed. Further details on all the risks and their relevant mitigating factors are described within the ICAAP. The business does not have non trading book exposures to equities. Although the business will be exposed to interest rate risk this is not considered material.

7. Remuneration Disclosures

The aim of the Remuneration Code is to ensure that firms have risk-focused remuneration policies, which are consistent with and promote effective risk management and do not expose them to excessive risk.

Remuneration is reviewed on an annual basis by the Directors, based on the recommendation of the internal remuneration committee. The remuneration policy takes into account the achievement by employees of established goals and targets and will include a mix of financial and non-financial criteria. In assessing performance, consideration will also be given to performance in relation to compliance and risk management and the fair treatment of clients.

Employees are assessed against quantitative and qualitative criteria including information provided from their annual appraisal. Performance measurements include revenue generation per employee, the increase in funds under management by employee, perceived improvements in client and counterparty relationships, and achievements in improvements in cost, credit and systems controls.

The below tables disclose a breakdown of remuneration for remuneration code staff as defined in SYSC 19A.3.4R of the FSA handbook.

Breakdown of remuneration staff in respect of whom disclosure is required by business area;	
	Total Remuneration £
Investment Management	285,827
Investment Advisory	298,366
Marketing	998,298

Aggregate quantitative information on remuneration, broken down by senior management and members of staff whose actions have a material impact on the risk profile of the firm;			
	Senior Management £	**Other members of staff £**	**Totals £**
Fixed Remuneration	1,168,314		1,168,314
Variable Remuneration	414,178		414,178
Number of Staff	10		10

As at 31 December 2016, all variable remuneration was paid in the form of cash, none of which has been deferred. During the period there were no sign-on payments made to Code Staff. No severance payments were made to Code Staff during the period.