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30 August 2018

**AFI DEVELOPMENT PLC
("AFI DEVELOPMENT" OR "THE COMPANY")**

RESULTS FOR THE SIX MONTHS TO 30 JUNE 2018

Robust performance supported by strong contribution from residential segment

AFI Development, a leading real estate company focused on developing property in Russia, today announces its financial results for the six months ended 30 June 2018.

H1 2018 financial highlights

- **Revenue** for H1 2018 increased by 34% year-on-year to US\$142.0 million, including proceeds from the sale of trading properties:
 - Rental and hotel operating income increased by 12% year-on-year to US\$62.7 million
 - AFIMALL City contribution grew by 9% year-on-year to US\$43.6 million (H1 2017: US\$39.8 million)
 - Sale of residential properties made a strong contribution of US\$78.7 million to total revenue (US\$49.8 million in H1 2017), a 58% increase year-on-year, mostly due to revenue recognition from delivery of apartments in AFI Residence Paveletskaya in Q2 2018 and the implementation of IFRS 15¹
- **Gross profit** increased by 88% year-on-year to US\$55.8 million (H1 2017: US\$29.7 million)
- **Net profit** for H1 2018 amounted to US\$76.7 million (including US\$42.6 million valuation gain and US\$16.6 million forex gain), compared to US\$7.9 million in H1 2017
- **Total gross value of portfolio of properties** stood at US\$1.34 billion (versus US\$1.42 billion as of end-2017)
- **Cash, cash equivalents and marketable securities** as of 30 June 2018 amounted to US\$108.0 million (versus US\$106.0 million at end- 2017)

¹ AFI Development has adopted IFRS 15 Revenue from Contracts with Customers from 1 January 2018. The "sale of residential properties" figure includes the revenue from sales of residential properties transferred over time calculated under IFRS 15.

H1 2018 operational highlights

- Delivery of apartments sold to customers in Phase 1 of **AFI Residence Paveletskaya** close to completion; marketing progressing well with 457 pre-sale contracts (73% of total) signed as of 20 August 2018
- At **Odinburg**, construction works and pre-sales continue at Building 3 (phase I) and Building 6 (phase II)
 - As of 20 August 2018, the number of signed sale contracts stood at 677 (96% of total) in Building 2, 281 (31% of total) in Building 3 and 161 (72% of total) in Building 6
- At **Bolshaya Pochtovaya**, construction and pre-sale progressing to plan
 - As of 20 August 2018, 156 apartments (84% of Phase I) pre-sold
- The construction and pre-sale of properties at **Botanic Garden** remain on track
 - As of 20 August 2018, 213 apartments (27% of Phase I) pre-sold
- **AFIMALL City** continues to record solid NOI growth, up 15% year-on-year to US\$32.8 million in H1 2018, from US\$28.5 million in H1 2017

Commenting on today's announcement, Lev Leviev, Executive Chairman of AFI Development, said:

"Although we have reported good results for H1 2018, we are concerned with ongoing weakening of the rouble against the dollar, which started in the second quarter 2018 and accelerated in the third. If weakening of the rouble continues, it may negatively affect the value of our property portfolio and the revenue from residential sales, which in turn may cause a negative effect on our results for the current financial year."

H1 2018 Results Conference Call:

AFI Development will hold a conference call for analysts and investors to discuss its H1 2018 financial results on Friday, 31 August 2018.

Details for the conference call are as follows:

Date:	Friday, 31 August 2018	
Time:	3pm BST (5pm Moscow)	
Dial-in Tel:	International:	+44 (0)20 3003 2666
	UK toll free:	0808 109 0700
	US toll-free:	1 866 966 5335
	Russia toll-free:	8 10 8002 4902044
	AFI	
Password:	AFI	

Please dial in 5-10 minutes prior to the start time giving your name, company and stating that you are dialling into the AFI Development conference call quoting the reference AFI.

Prior to the conference call, the H1 2018 Investor Presentation of AFI Development will be published on the Company website at <http://www.afi-development.com/en/investor-relations/reports-presentations> on 31 August 2018 by 11am BST (1pm Moscow time).

- ends -

For further information, please contact:

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Ilya Kutnov, Corporate Affairs/Investments Director (Responsible for arranging the release of this announcement)

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Sandra Novakov

Lucy Eyles

This announcement contains inside information.

About AFI Development

Established in 2001, AFI Development is one of the leading real estate development companies operating in Russia.

AFI Development is listed on the Main Market of the London Stock Exchange and aims to deliver shareholder value through a commitment to innovation and continuous project development, coupled with the highest standards of design, construction and quality of customer service.

AFI Development focuses on developing and redeveloping high quality commercial and residential real estate assets across Russia, with Moscow being its main market. The Company's existing portfolio comprises commercial projects focused on offices, shopping centres, hotels and mixed-use properties, and residential projects. AFI Development's strategy is to sell the residential properties it develops and to either lease the commercial properties or sell them for a favourable return.

AFI Development is a leading force in urban regeneration, breathing new life into city squares and neighbourhoods and transforming congested and underdeveloped areas into thriving new communities. The Company's long-term, large-scale regeneration and city infrastructure projects establish the necessary groundwork for the successful launch of commercial and residential properties, providing a strong base for the future.

Legal disclaimer

Some of the information in these materials may contain projections or other forward-looking statements regarding future events, the future financial performance of the Company, its intentions, beliefs or current expectations and those of its officers, directors and employees concerning, among other things, the Company's results of operations, financial condition, liquidity, prospects, growth, strategies and business.

You can identify forward looking statements by terms such as "expect", "believe", "anticipate", "estimate", "intend", "will", "could," "may" or "might" or the negative of such terms or other similar expressions. These statements are only predictions and that actual events or results may differ materially. Unless otherwise required by applicable law, regulation or accounting standard, the Company does not intend to update these statements to reflect events and circumstances occurring after the date hereof or to reflect the occurrence of unanticipated events. Many factors could cause the actual results to differ materially from those contained in projections or forward-looking statements of the Company, including, among others, general economic conditions, the competitive environment, risks associated with operating in Russia and market change in the industries the Company operates in, as well as many other risks specifically related to the Company and its operations.

Executive Chairman's statement

While the general macroeconomic environment in Russia continued to stabilise during Q2 2018, the recent threat of new US sanctions against Russia had a negative effect on the rouble and overshadowed the otherwise improving economic outlook.

AFI Development reported strong growth in revenue and profits, supported by a significant increase in residential sales. The rental and hotel operating income increased 12% year-on-year to US\$62.7 million for the six months, reflecting the strong performance of AFIMALL City. Sales revenue from our residential segment saw a 58% year-on-year increase to US\$78.7 million, reflecting our move to IFRS 15 reporting and the delivery of apartments to customers in Phase I of AFI Residence Paveletskaya.

Our gross profit for the first half of the year increased by 88% year-on-year to US\$55.8 million, reflecting strong residential revenue and higher profitability of our residential projects in Moscow (relative to Odinburg, which accounted for all of our recognised residential sales revenue in 2017). We recorded a net profit of US\$76.7 million for the six-month period, up significantly from US\$7.9 million in H1 2017.

We remain cautiously optimistic regarding the market environment for both our commercial and residential projects. We believe that with our high-quality, competitive projects, we are well placed to generate solid revenue and profits in the coming years.

Projects update

AFIMALL City

Continued improvement in the performance of AFIMALL City is reflected in the 9% year-on-year increase in revenue to US\$43.6 million for the quarter, and 15% year-on-year increase in NOI to US\$32.8 million. Occupancy at the end of the second quarter was 90%.

Odinburg

At the Odinburg residential development, Building 3 (Phase 1) and Building 6 (Phase II) are under construction and currently being marketed to customers. The last remaining apartments at the delivered Building 2 of Phase I are in the process of being sold.

As of 20 August 2018, 677 apartments (96% of total) were sold in Building 2, 281 (31% of total) in Building 3 and 161 (72% of total) in Building 6.

AFI Residence Paveletskaya

In Q2 2018 we virtually completed the delivery of apartments to customers who bought apartments in Phase I. Meanwhile, construction works and marketing of apartments and special units in Phase II continue to plan. As of 20 August 2018, 457 contracts for pre-sales of both apartments and "special units" have been signed (73% of Phase I and Phase II combined).

Bolshaya Pochtovaya

During H1 2018 the construction and marketing of the project progressed according to plan and as of 20 August 2018, 156 apartments (84% of Phase I) had been pre-sold to customers.

Botanic Garden

The construction and pre-sales are also progressing at Botanic Garden. As of 20 August 2018, 213 apartments (27% of Phase I) have been pre-sold to customers.

Aquamarine III Business Centre (Ozerkovskaya III)

In Q1 2018 the Company successfully completed the disposal of Buildings 2 and 4 to one of the leading Russian banks for circa US\$135 million.

Following the disposal and the restructuring of the loans of Aquamarine III and AFIMALL City with VTB Bank PJSC, the Aquamarine III loan was fully repaid in January 2018.

AFI Development currently owns one remaining building in the complex (GBA 18,805 sq.m including underground parking), which is leased to Deutsche Bank, Brown-Forman and other tenants. The occupancy of the building as of the end of H1 2018 was 89%.

Aquamarine Hotel

In July 2018 the Company concluded a franchising agreement with Intercontinental Hotel Group to allow the Aquamarine Hotel to be rebranded as Crowne Plaza. The Company believes that, in light of increasing competition in central Moscow, branding is crucial to successful long-term competitiveness of the Hotel and its financial performance. The Hotel will be renamed "Crowne Plaza Tretyakovskaya".

Subsequent events

On 29th August 2018 the Board of Directors of the Company approved granting of a loan in the maximum amount of EUR5 million to Grosolim Ltd, a Company controlled by Mr Leviev. The loan will be provided at Euribor + 5.2% annual interest rate, the interest will be paid quarterly while the principal amount will be paid at 5 year maturity. The loan will be secured by a personal guarantee of Mr Lev Leviev.

On 29th August 2018 the Board has accepted resignation of Mr Lev Leviev from the position of Executive Chairman of the Company effective from 31st August 2018. The Board appointed Mr David Tahan as non-executive Chairman of the Company effective from 1st September 2018. The Board has also appointed Mr Mark Groysman as an executive director: Mr Groysman will serve as a Board member for an interim period till a new Board member is appointed.

Market overview – general Moscow real estate

Macroeconomic environment

The Organisation for Economic Co-operation and Development (“OECD”) has maintained its 2018 GDP forecast for Russia at +1.5%.

In Q2 2018, the rouble/dollar spot exchange rate fluctuated within a higher range relative to Q1 2018, between 57.4 and 64.0. The rate at 30.06.2018 was RUR62.76 (versus RUR57.26 on 31.03.2018) for 1 US dollar.

During the second quarter, the Central Bank of Russia (“CBR”) maintained its key lending rate at 7.25% (unchanged since March 2018). Drastic reductions in the key lending rate are not expected in light of an unstable external environment and the threat of new US sanctions against Russia.

Annualised consumer price inflation was 2.4% in July 2018, well below the CBR target of 4%.

(Source: OECD, the Bank of Russia, RBC)

Moscow office market

A 40% increase in take up in H1 2018 to 633 thousand sq.m relative to H1 2017 was driven mainly by the manufacturing and retail sectors.

Only one small office development was delivered in Q2 2018, the 2,300 sq.m Nikolin Park in New Moscow. In total, according to Jones Lang LaSalle (“JLL”), 39,000 sq.m of new office space was delivered in H1 2018 (compared to 21,000 sqm in H1 2017).

Vacancy rates in class A and B offices are in slow decline. According to JLL, in Class A properties the average vacancy rate recorded in Q2 2018 was 12.9% (versus 14.0 % in Q2 2017) with Class B properties at 14.3% (versus 14.7% in Q1 2017). The overall vacancy rate within the office real estate market was 12.0% (versus 15% in Q2 2017).

Rental rates remained relatively stable throughout H1 2018. Asking rents for Class A prime central premises stood at US\$600-750 per sq.m per year. Asking rents for Class A office buildings were US\$420-700 and for Class B \$210-440. Rouble denominated rents continue to prevail, with Class B properties being let almost exclusively in roubles.

(Source: JLL, C&W)

Moscow retail market

Whilst development activity in the retail segment remains at historically low levels, three new shopping centres were opened in Moscow in H1 2018 (total GBA of 98,500 sq.m), with Kashirskaya Plaza being the largest (71,000 sq.m).

Six new brands entered the market in H1 2018, most from the premium fashion segment. Notable debuts include the monobrand boutiques of Karl Lagerfeld and Coach.

The vacancy rate across Moscow shopping centres as of the end of H1 2018 was at 5.2% (JLL).

The most common lease structure continues to include a combination of a low minimum rent coupled with turnover rent, with fixed exchange rates commonly offered to tenants.

(Source: JLL, C&W, CBRE)

Moscow and Moscow Region residential market

Moscow

At the end of Q2 2018, supply to the “Old Moscow” primary residential market (excluding “apartments”) was about 2.48 million sq.m (c. 37,600 residential units), a 14% decrease versus Q1 2018. Supply to the “New Moscow” market was about 407.0 thousand sq.m, a 3% increase versus Q1 2018.

By the end of Q2 2018, the weighted average asking price in the newly built business class residential market in Moscow amounted to RUR245,800 per sq.m p.a. (circa US\$3,964). This represents a 2% increase versus Q1 2018 in rouble terms. In the comfort class, the weighted average asking price was RUR160.3 per sq.m (circa US\$2,585).

The Moscow region

The primary market supply (newly built residential units) in the Moscow region amounted to 2.6 million sq.m in Q2 2018.

The weighted average price per sq.m in the Moscow region as of end-June 2018 was RUR75,800 (circa US\$1,223).

(Source: Miel Real Estate, Azbuka Zhilya)

Lev Leviev

Executive Chairman of the Board

AFI DEVELOPMENT PLC
CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS
For the period from 1 January 2018 to 30 June 2018

AFI DEVELOPMENT PLC

STATEMENT BY THE MEMBERS OF THE BOARD OF DIRECTORS AND THE COMPANY OFFICIALS RESPONSIBLE FOR THE DRAFTING OF THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS ACCORDING TO THE CYPRUS SECURITIES AND EXCHANGE COMMISSION LEGISLATION

In accordance with Article 10, sections (3)(c) and (7) of the Transparency Requirements (Traded Securities in Regulated Markets) Law 190 (I)/2007, as amended from time to time, we, the members of the Board of Directors and the Company officials responsible for the drafting of the condensed consolidated interim financial statements of AFI Development Plc for the period ended 30 June 2018, confirm to the best of our knowledge that:

- a) the condensed consolidated interim financial statements for the period ended 30 June 2018 which are presented on pages 2 to 28:
- (i) have been prepared in accordance with the International Financial Reporting Standard IAS 34 "Interim Financial Reporting" as adopted by the EU and according to the requirements of the article 10, section (4) of the Transparency Requirements Law and
- (ii) give a true and fair view of the assets and liabilities, the financial position and the profit or loss of the Company and the undertakings included in the consolidation as a whole, and
- b) the adoption of a going concern basis for the preparation of the financial statements continues to be appropriate based on the foregoing and having reviewed the forecast financial position of the Group; and
- c) the interim management report includes a fair review of the development and performance of the business and the position of the Company and the undertakings included in the consolidation as a whole, together with a description of the principal risks and uncertainties that they face.

Members of the Board of Directors

Executive directors

Lev Leviev – Chairman

Non-executive independent directors

David Tahan 

Panayiotis Demetriou 

Responsible for the drafting of the condensed consolidated interim financial statements

Mark Groysman (CEO) 

Alexey Miroshnikov (CFO) 

AFI DEVELOPMENT PLC

CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

For the period from 1 January 2018 to 30 June 2018

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Independent auditors' report on review of condensed consolidated interim financial information to the members of AFI DEVELOPMENT PLC

Introduction

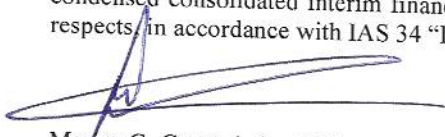
We have reviewed the accompanying condensed consolidated statement of financial position of AFI Development PLC as at 30 June 2018, the condensed consolidated statements of income, comprehensive income, changes in equity and cash flows for the six-month period then ended, and notes to the interim financial statements ('the condensed consolidated interim financial statements'). The Company's Board of Directors is responsible for the preparation and presentation of these condensed consolidated interim financial statements in accordance with IAS 34 "Interim Financial Reporting". Our responsibility is to express a conclusion on these condensed consolidated interim financial statements based on our review.

Scope of Review

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

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the accompanying condensed consolidated interim financial statements as at 30 June 2018 are not prepared, in all material respects, in accordance with IAS 34 "Interim Financial Reporting".



Marios G. Gregoriades, CPA
Certified Public Accountant and Register Auditor

For and on behalf of
KPMG Limited
Certified Public Accountants and Registered Auditors
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29 August 2018

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CONDENSED CONSOLIDATED INCOME STATEMENTFor the period from 1 January 2018 to 30 June 2018

		For the six months ended 30/6/18 US\$ '000	For the six months ended 30/6/17 US\$ '000
	Note		
Revenue	6	<u>142,021</u>	<u>106,069</u>
Other income		<u>781</u>	<u>542</u>
Operating expenses	8	(30,421)	(26,422)
Cost of sales of trading properties	14,15	(50,415)	(47,303)
Administrative expenses	7	(2,576)	(3,122)
Other expenses		<u>(3,627)</u>	<u>(2,063)</u>
Total expenses		<u>(87,039)</u>	<u>(78,910)</u>
Share of the after tax profit of joint ventures		<u>-</u>	<u>1,957</u>
Gross Profit		55,763	29,658
Gain on 100% acquisition of previously held interest in a joint venture		-	7,532
Increase/(decrease) in fair value of properties	11,12	<u>42,567</u>	<u>(927)</u>
Results from operating activities		<u>98,330</u>	<u>36,263</u>
Finance income		17,365	5,713
Finance costs		(19,212)	(24,774)
Net finance (costs)/income	9	<u>(1,847)</u>	<u>(19,061)</u>
Profit before tax		96,483	17,202
Tax expense	10	<u>(19,815)</u>	<u>(9,270)</u>
Profit for the period		<u>76,668</u>	<u>7,932</u>
Profit attributable to:			
Owners of the Company		76,452	7,637
Non-controlling interest		<u>216</u>	<u>295</u>
		<u>76,668</u>	<u>7,932</u>
Earnings per share			
Basic and diluted earnings per share (cent)		<u>7.30</u>	<u>0.73</u>

The notes on pages 8 to 28 form an integral part of the condensed consolidated interim financial statements.

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOMEFor the period from 1 January 2018 to 30 June 2018

	For the six months ended 30/6/18 US\$ '000	For the six months ended 30/6/17 US\$ '000
Profit for the period	<u>76,668</u>	<u>7,932</u>
Other comprehensive income		
Items that are or may be reclassified subsequently to profit or loss		
Realised translation differences on 100% acquisition of previously held interest in a joint venture transferred to income statement	-	(4,271)
Foreign currency translation differences for foreign operations	<u>(41,108)</u>	<u>6,537</u>
Other comprehensive income for the period	<u>(41,108)</u>	<u>2,266</u>
Total comprehensive income for the period	<u>35,560</u>	<u>10,198</u>
Total comprehensive income attributable to:		
Owners of the parent	35,332	9,938
Non-controlling interests	<u>228</u>	<u>260</u>
	<u>35,560</u>	<u>10,198</u>

The notes on pages 8 to 28 form an integral part of the condensed consolidated interim financial statements.

AFI DEVELOPMENT PLC
CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

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For the period from 1 January 2018 to 30 June 2018

	<u>Attributable to the owners of the Company</u>						<u>Non-controlling interests</u>	<u>Total equity</u>
	Share Capital US\$ '000	Share Premium US\$ '000	Capital Reserve US\$ '000	Translation Reserve US\$ '000	Retained Earnings US\$ '000	Total US\$ '000	US\$ '000	US\$ '000
Balance at 1 January 2018 as reported previously	1,048	1,763,409	(19,333)	(301,287)	(672,719)	771,118	(171)	770,947
Adjustment on initial application of IFRS 15 net of tax	-	-	-	581	13,885	14,466	73	14,539
Adjusted balance at 1 January 2018	<u>1,048</u>	<u>1,763,409</u>	<u>(19,333)</u>	<u>(300,706)</u>	<u>(658,834)</u>	<u>785,584</u>	<u>(98)</u>	<u>785,486</u>
Total comprehensive income for the period								
Profit for the period	-	-	-	-	76,452	76,452	216	76,668
Other comprehensive income	-	-	-	(41,120)	-	(41,120)	12	(41,108)
Total comprehensive income for the period	-	-	-	(41,120)	76,452	35,332	228	35,560
Balance at 30 June 2018	<u>1,048</u>	<u>1,763,409</u>	<u>(19,333)</u>	<u>(341,826)</u>	<u>(582,382)</u>	<u>820,916</u>	<u>130</u>	<u>821,046</u>
Balance at 1 January 2017	<u>1,048</u>	<u>1,763,409</u>	<u>(9,201)</u>	<u>(311,331)</u>	<u>(667,801)</u>	<u>776,124</u>	<u>(3,827)</u>	<u>772,297</u>
Total comprehensive income for the period								
Profit for the period	-	-	-	-	7,637	7,637	295	7,932
Other comprehensive income	-	-	-	2,301	-	2,301	(35)	2,266
Total comprehensive income for the period	-	-	-	2,301	7,637	9,938	260	10,198
Transactions with owners of the Company Changes in ownership interests								
Acquisition of non-controlling interests	-	-	(10,145)	-	-	(10,145)	3,435	(6,710)
Balance at 30 June 2017	<u>1,048</u>	<u>1,763,409</u>	<u>(19,346)</u>	<u>(309,030)</u>	<u>(660,164)</u>	<u>775,917</u>	<u>(132)</u>	<u>775,785</u>

The notes on pages 8 to 28 form an integral part of the condensed consolidated interim financial statements.

AFI DEVELOPMENT PLC
CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

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AS AT 30 JUNE 2018

	Note	30/6/18 US\$ '000	31/12/17 US\$ '000
Assets			
Investment property	11	818,060	818,060
Investment property under development	12	163,240	163,240
Property, plant and equipment	13	72,845	77,633
Long-term loans receivable		3,492	1,669
Intangible assets		540	204
VAT recoverable		36	48
Other investments	18	<u>5,075</u>	<u>-</u>
Non-current assets		<u>1,063,288</u>	<u>1,060,854</u>
Trading properties	14	29,300	10,792
Trading properties under construction	15	264,484	349,735
Other investments	18	19,924	10,515
Inventories		1,104	1,318
Short-term loans receivable		608	1,090
Trade and other receivables	16	64,772	70,402
Current tax assets		1,520	4,114
Cash and cash equivalents	17	<u>88,026</u>	<u>95,468</u>
Current assets		<u>469,738</u>	<u>543,434</u>
Total assets		<u>1,533,026</u>	<u>1,604,288</u>
Equity			
Share capital		1,048	1,048
Share premium		1,763,409	1,763,409
Translation reserve		(341,826)	(301,287)
Capital reserve		(19,333)	(19,333)
Retained earnings		<u>(582,382)</u>	<u>(672,719)</u>
Equity attributable to owners of the Company	19	820,916	771,118
Non-controlling interests		<u>130</u>	<u>(171)</u>
Total equity		<u>821,046</u>	<u>770,947</u>
Liabilities			
Long-term loans and borrowings	20	520,585	492,484
Deferred tax liabilities		62,851	42,652
Deferred income		<u>13,052</u>	<u>12,641</u>
Non-current liabilities		<u>596,488</u>	<u>547,777</u>
Short-term loans and borrowings	20	16,932	86,775
Trade and other payables	21	41,942	65,106
Advances from customers	23	54,041	123,766
Current tax liabilities		<u>2,577</u>	<u>9,917</u>
Current liabilities		<u>115,492</u>	<u>285,564</u>
Total liabilities		<u>711,980</u>	<u>833,341</u>
Total equity and liabilities		<u>1,533,026</u>	<u>1,604,288</u>

The condensed consolidated interim financial statements were approved by the Board of Directors on 29 August 2018.

The notes on pages 8 to 28 form an integral part of the condensed consolidated interim financial statements.

AFI DEVELOPMENT PLC
CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

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For the period from 1 January 2018 to 30 June 2018

	Note	1/1/18- 30/6/18 US\$ '000	1/1/17- 30/6/17 US\$ '000
Cash flows from operating activities			
Profit/(loss) for the period		76,668	7,932
<i>Adjustments for:</i>			
Depreciation	13	463	409
Net finance costs	9	947	18,672
(Increase)/Decrease in fair value of properties	11,12	(42,567)	927
Share of profit in joint ventures		-	(1,957)
Gain on 100% acquisition of previously held interest in a joint venture		-	(7,532)
Tax expense	10	19,815	9,270
		55,326	27,721
Change in trade and other receivables		13,314	1,192
Change in inventories		112	98
Change in trading properties and trading properties under construction		(9,832)	3,854
Change in advances and amounts payable to builders of trading properties under construction		(9,764)	(5,157)
Change in advances from customers	23	12,605	(6,062)
Change in trade and other payables		(24,200)	3,208
Change in VAT recoverable		5,871	(1,661)
Change in deferred income		1,533	555
Cash generated from operating activities		44,965	23,748
Taxes paid		(10,304)	(909)
Net cash from operating activities		<u>34,661</u>	<u>22,839</u>
Cash flows from investing activities			
Acquisition of subsidiary net of cash acquired		-	(786)
Proceeds from sale of other investments		5,752	5,944
Proceeds from sale of property, plant and equipment		55	55
Interest received		561	314
Change in advances and amounts payable to builders	16,21	(235)	2,483
Payments for construction of investment property under development	12	(1,320)	(1,711)
Payments for the acquisition/renovation of investment property	11	(383)	(291)
Change in VAT recoverable		(355)	389
Acquisition of property, plant and equipment	13	(639)	(88)
Acquisition of other investments		(21,241)	(6,051)
Acquisition of intangible assets		(930)	-
Proceeds from repayments of loans receivable		447	4,178
Payments for loans receivable		(2,023)	(1,784)
Net cash from investing activities		<u>(20,311)</u>	<u>2,652</u>

The notes on pages 8 to 28 form an integral part of the condensed consolidated interim financial statements.

AFI DEVELOPMENT PLC
CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS (CONTINUED)

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For the period from 1 January 2018 to 30 June 2018

	Note	1/1/18- 30/6/18 US\$ '000	1/1/17- 30/6/17 US\$ '000
Cash flows from financing activities			
Acquisition of non-controlling interests		-	(1,369)
Proceeds from loans and borrowings	20	542,873	13,737
Repayment of loans and borrowings	20	(548,196)	(4,944)
Interest paid		<u>(16,980)</u>	<u>(24,462)</u>
Net cash used in financing activities		<u>(22,303)</u>	<u>(17,038)</u>
Effect of exchange rate fluctuations		<u>511</u>	<u>158</u>
Net (decrease)/increase in cash and cash equivalents		(7,442)	8,611
Cash and cash equivalents at 1 January		<u>95,468</u>	<u>10,619</u>
Cash and cash equivalents at 30 June	17	<u>88,026</u>	<u>19,230</u>

The notes on pages 8 to 28 form an integral part of the condensed consolidated interim financial statements.

For the period from 1 January 2018 to 30 June 2018

1. INCORPORATION AND PRINCIPAL ACTIVITY

AFI Development PLC (the “Company”) was incorporated in Cyprus on 13 February 2001 as a limited liability company under the name Donkamill Holdings Limited. In April 2007 the Company was transformed into public company and changed its name to AFI Development PLC. The address of the Company’s registered office is 165 Spyrou Araouzou Street, Lordos Waterfront Building, 5th floor, Flat/office 505, 3035 Limassol, Cyprus. As of 7 September 2016 the Company is a 64.88% subsidiary of Flotonic Limited, a private holding company registered in Cyprus, 100% owned by Mr Lev Leviev. Prior to that, the Company was a 64.88% subsidiary of Africa Israel Investments Ltd (“Africa-Israel”), which is listed in the Tel Aviv Stock Exchange (“TASE”). The remaining shareholding of “A” shares is held by a custodian bank in exchange for the GDRs issued and listed in the London Stock Exchange (“LSE”). On 5 July 2010 the Company issued by way of a bonus issue 523,847,027 “B” shares, which were admitted to a premium listing on the Official List of the UK Listing Authority and to trading on the main market of LSE. On the same date, the ordinary shares of the Company were designated as “A” shares.

These condensed consolidated interim financial statements (“interim financial statements”) as at and for the six months ended 30 June 2018 comprise the Company and its subsidiaries (together referred to as the “Group”) and the Group’s interest in jointly controlled entities.

The principal activity of the Group is real estate investment and development. The principal activity of the Company is the holding of investments in subsidiaries and joint ventures.

2. BASIS OF ACCOUNTING

i. Going concern basis of accounting

The Group had experienced, during the several past years, difficult trading conditions driven by macro-economic and geopolitical developments affecting the Russian economy as a whole and a deterioration in demand for real estate assets across the country. Whilst the general economy has shown some signs of stabilisation during the year 2016 and 2017 with higher oil prices, strengthening of the Rouble and inflation on a downward trend, the performance of the real estate sector remains weak. In the first half of 2018 Russia’s economic recovery continued amidst relatively high oil prices, enhanced macroeconomic stability, gradual monetary loosening, and ongoing momentum in global economic growth.

The Group has recognised a net profit after tax of US\$76.7 million for the six month period ended 30 June 2018, and due to the disposal of two building of Ozerkovskaya III at the end of 2017, its cash and cash equivalents and marketable securities improved to US\$108.0 million. Its current liabilities decreased to US\$115.5 million due to final repayment of Ozerkovskaya III loan in January 2018 (note 20) and recognition of revenue from sales of trading property in accordance with the new IFRS 15 (note 4).

The management estimates that the Group will continue to generate sufficient operating cash flows from yielding properties such as AFIMall, the hotels and BC Ozerkovskaya III so as to meet loan interest and principal payments of the new loans. The disposal of two buildings of Ozerkovskaya III in December 2017 generated sale proceeds for partial debt repayment of Ozerkovskaya III loan and refinancing of the outstanding amount by AFIMALL City loan for a 5-year term (note 20). The management succeeded in reducing debt and refinancing loans at lower interest rates and allowing repayment of the principal and securing further operational existence for the foreseeable future. Based on cash flow projection for a year period the management reached a conclusion that the Group is in a position to secure further financing for its projects under construction by sales proceeds to generate enough cash to cover its working capital requirements in order to continue its operations in the foreseeable future.

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AFI DEVELOPMENT PLC
NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

For the period from 1 January 2018 to 30 June 2018

2. BASIS OF ACCOUNTING (continued)

i. Going concern basis of accounting (continued)

Considering all the above conditions and assumptions, management concluded that the Group had adequate resources to continue in operational existence for the foreseeable future and adopted the going concern basis in preparing the interim consolidated financial statements.

ii. Statement of compliance

These interim financial statements have been prepared in accordance with IAS 34 “Interim Financial Reporting” and should be read in conjunction with the Group’s last annual consolidated financial statements as at and for the year ended 31 December 2017 (‘last annual financial statements’). They do not include all of the information required for a complete set of IFRS financial statements. However, selected explanatory notes are included to explain events and transactions that are significant to an understanding of the changes in the Group’s financial position and performance since the last financial statements.

This is the first set of the Group’s financial statements where IFRS 15 and IFRS 9 have been adopted. Changes to significant accounting policies are described in Note 4.

iii. Functional and presentation currency

These consolidated financial statements are presented in United States Dollars which is the Company’s functional currency. All financial information presented in United States Dollars has been rounded to the nearest thousands, except when otherwise indicated.

Foreign operations

Each entity of the Group determines its own functional currency and items included in the financial statements of each entity are measured using its functional currency. Where the functional currency of an entity of the Group is other than US Dollars, which is the presentation currency of the Group, then the financial statements of the entity are translated in accordance with IAS 21 ‘The effects of changes in foreign exchange rates’.

For the period from 1 January 2018 to 30 June 2018

2. BASIS OF ACCOUNTING (continued)

The table below shows the exchange rates of Russian Roubles, which is the functional currency of the Russian subsidiaries of the Group, to the US Dollar which is the presentation currency of the Group:

Exchange rate	Russian Roubles for US\$1	% change six months	% change year
As of:			
30 June 2018	62.7565	9.0	
31 December 2017	57.6002		(5.0)
30 June 2017	59.0855	(2.6)	
Average rate during:			
Six-month period ended 30 June 2018	59.3536		2.4
Six-month period ended 30 June 2017	57.9862		(17.5)

3. USE OF JUDGEMENTS AND ESTIMATES

In preparing these interim financial statements, management has made judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities, income and expenses. Actual results may differ from these estimates.

The significant judgments made by management in applying the Group's accounting policies and the key sources of estimation uncertainty were the same as those that applied to the consolidated financial statements as at and for the year ended 31 December 2017, except for new significant judgements and key sources of estimation uncertainty related to the application of IFRS 15, which are disclosed in Note 4.

a. Measurement of fair values

The Group has an established control framework with respect to the measurement of fair values. This includes a valuation team that has overall responsibility for overseeing all significant fair value measurements, including Level 3 fair values, and reports directly to the chief financial officer.

The valuation team regularly reviews significant unobservable inputs and valuation adjustments. If third party information, such as broker quotes or pricing services, is used to measure fair values, then the valuation team assesses the evidence obtained from the third parties to support the conclusion that these valuations meet the requirements of IFRS, including the level in the fair value hierarchy in which such valuations should be classified.

Significant valuation issues are reported to the group audit committee.

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).

For the period from 1 January 2018 to 30 June 2018

3. USE OF JUDGEMENTS AND ESTIMATES (continued)

a. Measurement of fair values (continued)

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.

4. CHANGES IN SIGNIFICANT ACCOUNTING POLICIES

Except as described below, the accounting policies applied in these interim financial statements are the same as those applied in the Group's consolidated financial statements as at and for the year ended 31 December 2017.

The changes in accounting policies are also expected to be reflected in the Group's consolidated financial statements as at and for the year ending 31 December 2018.

The Group has initially adopted IFRS 15 Revenue from Contracts with Customers as from 1 January 2018. A number of other new standards, including IFRS 9 Financial Instruments, are effective from 1 January 2018 but they do not have a material effect on the Group's financial statements.

The effect of initially applying this standard, IFRS 15, is mainly attributed to the following:

- Earlier recognition of revenue from sales of residential properties under DDU contracts (see below)
- Recognition of significant financial component on payments received in advance from customers for residential properties under DDU contracts (see below)

IFRS 15 establishes a comprehensive framework for determining whether, how much and when revenue is recognised. It replaces existing revenue recognition guidance, including IAS 18 Revenue, IAS 11 Construction Contracts and related interpretations.

The Group has adopted IFRS 15 using the cumulative effect method (without practical expedients), with the effect of initially applying this standards recognised at the date of initial application (i.e. 1 January 2018). Accordingly, the information presented for 2017, has not been restated, i.e. it is presented, as previously reported, under IAS 18 and related interpretations.

The following table summarises the impact, net of tax, of transition to IFRS 15 on retained earnings and Non-controlling interests at 1 January 2018.

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AFI DEVELOPMENT PLC
NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

For the period from 1 January 2018 to 30 June 2018

4. CHANGES IN SIGNIFICANT ACCOUNTING POLICIES (continued)

	Impact of adopting IFRS 15 at 1 January 2018 US\$ '000
<u>Retained earnings</u>	
Profit from sales of trading properties before tax	17,357
Related tax	<u>(3,472)</u>
Impact on 1 January 2018	<u>13,885</u>
<u>Non-controlling interests</u>	
Profit from sales of trading properties before tax	91
Related tax	<u>(18)</u>
Impact on 1 January 2018	<u>73</u>
<u>Translation reserve</u>	
Net profit from sales of trading properties	<u>581</u>
Impact on 1 January 2018	<u>581</u>

The following table summarises the impacts of adopting IFRS 15 on the Group's interim statement of financial position as at 30 June 2018 and its interim statement of profit or loss and other comprehensive income for the six months then ended for each of the line items affected. There was no material impact on the Group's interim statement of cash flows for the six month period ended 30 June 2018.

Impact on the condensed consolidated interim statement of profit or loss

For the six months ended 30 June 2018	As reported US\$ '000	Adjustments US\$ '000	Amounts without adoption of IFRS 15 US\$ '000
Revenue	<u>142,021</u>	<u>(12,187)</u>	<u>129,834</u>
Cost of sales of trading properties	(50,415)	3,251	(47,164)
Total expenses	<u>(87,039)</u>	<u>3,251</u>	<u>(83,788)</u>
Gross Profit	55,763	(8,936)	46,827
Results from operating activities	<u>98,330</u>	<u>(8,936)</u>	<u>89,394</u>
Net finance (costs)/income	<u>(1,847)</u>	-	<u>(1,847)</u>
Profit before tax	96,483	(8,936)	87,547
Tax expense	<u>(19,815)</u>	<u>1,787</u>	<u>(18,028)</u>
Profit for the period	<u>76,668</u>	<u>(7,149)</u>	<u>69,519</u>

AFI DEVELOPMENT PLC
NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

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For the period from 1 January 2018 to 30 June 2018

4. CHANGES IN SIGNIFICANT ACCOUNTING POLICIES (continued)

Impact on the condensed consolidated interim statement of financial position

30 June 2018	As reported US\$ '000	Adjustments US\$ '000	Amounts without adoption of IFRS 15 US\$ '000
Assets			
Non-current assets	<u>1,063,288</u>	<u>-</u>	<u>1,063,288</u>
Trading properties under construction	264,484	56,943	321,427
Current assets	<u>469,738</u>	<u>56,943</u>	<u>526,681</u>
Total assets	<u>1,533,026</u>	<u>56,943</u>	<u>1,589,969</u>
Equity			
Translation reserve	(341,826)	3,951	(337,875)
Retained earnings	<u>(582,382)</u>	<u>(21,035)</u>	<u>(603,417)</u>
Equity attributable to owners of the Company	<u>820,916</u>	<u>(17,084)</u>	<u>803,832</u>
Non-controlling interests	<u>130</u>	<u>(24)</u>	<u>106</u>
Total equity	<u>821,046</u>	<u>(17,108)</u>	<u>803,938</u>
Liabilities			
Deferred tax liabilities	62,851	(4,909)	57,942
Non-current liabilities	<u>596,488</u>	<u>(4,909)</u>	<u>591,579</u>
Advances from customers	54,041	78,960	133,001
Current liabilities	<u>115,492</u>	<u>78,960</u>	<u>194,452</u>
Total liabilities	<u>711,980</u>	<u>74,051</u>	<u>786,031</u>
Total equity and liabilities	<u>1,533,026</u>	<u>56,943</u>	<u>1,589,969</u>

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTSFor the period from 1 January 2018 to 30 June 20184. CHANGES IN SIGNIFICANT ACCOUNTING POLICIES (continued)

The details of the new accounting policy and the nature of the changes to previous accounting policy in relation to the Group's revenue from sales of trading properties under DDU contracts is set below. The adoption of IFRS 15 did not have a significant impact on the accounting policies in relation to the remaining sources of revenue.

Type of product	Nature, timing of satisfaction of performance obligations, significant payment terms	Nature of change in accounting policy
Sales of trading properties under DDU contracts	The revenue from the contracts with customers for sale of trading properties under DDU contracts is recognised over period of time as the construction progresses. The Group has determined that this results in revenue and associated costs to fulfil the contracts being recognised over time, i.e. before the ownership of flats is actually transferred to the customer. The transaction price for such contract is determined by adjusting the promised amount of consideration which is received in advance, for the effect of significant finance component. The contract liability is presented in the statement of financial position as Advances from customers.	Under IAS 18, revenue from these contracts and associated costs were recognised when risks and rewards of ownership were transferred to the customer (i.e. when act of transfer was signed).

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.

Standards issued but not yet effective

A number of new standards and amendments to standards are effective for annual periods beginning after 1 January 2019 and earlier application is permitted; however, the Group has not early adopted any new or amended standards in preparing these condensed consolidated interim financial statements.

The Group has no updates to information provided in the consolidated financial statements as at and for the year ended 31 December 2017 about the standards issued but not yet effective that may have a significant impact on the Group's consolidated financial statements.

5. OPERATING SEGMENTS

The Group has 5 reportable segments, as described below, which are the Group's strategic business units. The following summary describes the operation in each of the Group's reportable segments:

- Development Projects – Residential projects: Include construction and selling of residential properties.
- Asset Management: Includes the operation of investment property for lease.
- Hotel Operation: Includes the operation of Hotels.
- Land bank: Includes the investment and holding of property for future development.
- Other: Includes the management services provided for the projects.

Information regarding the results of each reportable segment is included below. Performance is measured based on segment profit before income tax, as included in the internal management reports that are reviewed by the Group's management team. Segment profit is used to measure performance as management believes that such information is the most relevant in evaluating the results of certain segments relative to other entities that operate within these industries. Inter-segment pricing is determined on an arm's length basis.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

For the period from 1 January 2018 to 30 June 2018

5. OPERATING SEGMENTS (continued)

	Development projects		Asset management		Hotel Operation		Land bank		Other		Total	
	Residential projects											
	30/6/18	30/6/17	30/6/18	30/6/17	30/6/18	30/6/17	30/6/18	30/6/17	30/6/18	30/6/17	30/6/18	30/6/17
	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000
External revenues	78,759	49,912	45,601	41,629	16,076	13,446	1,026	1,035	3	47	141,465	106,069
Inter-segment revenue	1	9,305	2,714	3,164	3	2	15	13	4,386	4,964	7,119	17,448
Segment profit/(loss) before tax	27,162	(1,090)	60,298	9,822	3,649	4,869	8,350	8,258	(2,780)	(4,528)	96,679	17,331
	30/6/18	31/12/17	30/6/18	31/12/17	30/6/18	31/12/17	30/6/18	31/12/17	30/6/18	31/12/17	30/6/18	31/12/17
	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000
Segment assets	362,720	418,891	852,193	866,433	78,799	81,487	195,892	196,326	1,493	1,270	1,491,097	1,564,407
Segment liabilities	86,624	145,918	560,173	622,352	59,816	61,360	3,313	1,646	1,395	1,409	711,321	832,685

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTSFor the period from 1 January 2018 to 30 June 20185. OPERATING SEGMENTS (continued)Reconciliation of reportable segment profit or loss

	1/1/18- 30/6/18 US\$ '000	1/1/17- 30/6/17 US\$ '000
Total profit before tax for reportable segments	96,679	17,331
Unallocated amounts:		
Other profit or loss	(196)	(9,618)
Gain on 100% acquisition of previously held interest in a joint venture	-	7,532
Share of profit of joint ventures, net of tax	-	1,957
Profit before tax	<u>96,483</u>	<u>17,202</u>

Reconciliation of reportable segment revenue

	1/1/18- 30/6/18 US\$ '000	1/1/17- 30/6/17 US\$ '000
Total revenue for reportable segments	141,465	106,069
Unallocated revenue:		
Non-core activity revenue	556	-
Revenue	<u>142,021</u>	<u>106,069</u>

6. REVENUE

	For the six months ended 30/6/18 US\$ '000	For the six months ended 30/6/17 US\$ '000
Investment property rental income	46,661	42,691
Revenue from sale of trading properties – transferred at a point in time (note 4)	3,974	49,783
Revenue from sale of trading properties – transferred over time (note 4)	74,751	-
Hotel operation income	16,076	13,446
Non-core activity revenue	556	-
Construction consulting/management fees	3	149
	<u>142,021</u>	<u>106,069</u>

AFI DEVELOPMENT PLC
NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

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For the period from 1 January 2018 to 30 June 2018

7. ADMINISTRATIVE EXPENSES

	For the six months ended 30/6/18 US\$ '000	For the six months ended 30/6/17 US\$ '000
Consultancy fees	217	189
Legal fees	814	882
Auditors' remuneration	212	340
Valuation expenses	33	37
Directors' remuneration	658	666
Depreciation	54	57
Insurance	76	75
Provision for Doubtful Debts	(292)	40
Donations	5	15
Other administrative expense	799	821
	<u>2,576</u>	<u>3,122</u>

8. OPERATING EXPENSES

	For the six months ended 30/6/18 US\$ '000	For the six months ended 30/6/17 US\$ '000
Maintenance, utility and security expenses	10,444	9,316
Agency and brokerage fees	1,234	644
Advertising expenses	3,709	2,261
Salaries and wages	7,542	7,373
Consultancy fees	1,269	282
Depreciation	408	352
Insurance	216	278
Rent	665	960
Property and other taxes	4,897	4,926
Other operating expenses	37	30
	<u>30,421</u>	<u>26,422</u>

The increase in comparison with the respective period of prior year is mainly due to increase in maintenance, agency, advertising and consultancy expenses, which correlates with the increase in revenue.

AFI DEVELOPMENT PLC
NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

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For the period from 1 January 2018 to 30 June 2018

9. FINANCE COST AND FINANCE INCOME

	For the six months ended 30/6/18 US\$ '000	For the six months ended 30/6/17 US\$ '000
Interest income	756	500
Net foreign exchange gain	16,609	5,209
Net change in fair value of financial assets	<u>-</u>	<u>4</u>
Finance income	<u>17,365</u>	<u>5,713</u>
Interest expense on loans and borrowings	(16,773)	(24,385)
Net foreign exchange loss	-	-
Net change in fair value of financial assets	(1,537)	-
Other finance costs	<u>(902)</u>	<u>(389)</u>
Finance costs	<u>(19,212)</u>	<u>(24,774)</u>
Net finance cost	<u>(1,847)</u>	<u>(19,061)</u>

10. TAX EXPENSE

	For the six months ended 30/6/18 US\$ '000	For the six months ended 30/6/17 US\$ '000
Current tax expense		
Current year	4,099	2,244
Deferred tax expense		
Origination and reversal of temporary differences	<u>15,716</u>	<u>7,026</u>
Total income tax expense	<u>19,815</u>	<u>9,270</u>

11. INVESTMENT PROPERTY

Reconciliation of carrying amount

	30/6/18 US\$ '000	31/12/17 US\$ '000
Balance 1 January	818,060	915,350
Renovations/additional cost	383	998
Disposals	(1,319)	(140,026)
Fair value adjustment	34,810	18,218
Effect of movement in foreign exchange rates	<u>(33,874)</u>	<u>23,520</u>
Balance 30 June / 31 December	<u>818,060</u>	<u>818,060</u>

The decrease due to the effect of the foreign exchange fluctuation is a result of the Rouble weakening compared to the US Dollar by 9% during the first half of 2018. The fair value adjustment is mainly related to this Rouble weakening. Based on the management's assessment the fair value of the properties within the portfolio reported has not significantly changed since 31 December 2017 when a valuation by external appraisers took place. The same applies for investment property under development. See note 12 below.

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NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

For the period from 1 January 2018 to 30 June 2018

12. INVESTMENT PROPERTY UNDER DEVELOPMENT

	30/6/18 US\$ '000	31/12/17 US\$ '000
Balance 1 January	163,240	232,900
Construction costs	1,320	4,865
Transfer to trading properties under construction (note 15)	-	(74,100)
Fair value adjustment	7,757	(6,648)
Effect of movements in foreign exchange rates	<u>(9,077)</u>	<u>6,223</u>
Balance 30 June / 31 December	<u>163,240</u>	<u>163,240</u>

The decrease due to the effect of the foreign exchange fluctuation is a result of the Rouble weakening compared to the US Dollar by 9% during the first half of 2018. The fair value adjustment is mainly related to this Rouble weakening. Based on the management's assessment the fair value of the properties within the portfolio reported has not significantly changed since 31 December 2017, when a valuation by external appraisers took place.

13. PROPERTY, PLANT AND EQUIPMENT

	30/6/18 US\$ '000	31/12/17 US\$ '000
Balance 1 January	77,633	31,215
Effect of acquisition of subsidiary	-	45,580
Additions	639	484
Depreciation for the period / year	(463)	(846)
Disposals	(55)	(137)
Effect of movements in foreign exchange rates	<u>(4,909)</u>	<u>1,337</u>
Balance 30 June / 31 December	<u>72,845</u>	<u>77,633</u>

14. TRADING PROPERTIES

	30/6/18 US\$ '000	31/12/17 US\$ '000
Balance 1 January	10,792	6,854
Transfer from trading properties under construction (note 15)	22,842	63,202
Cost of sales of trading properties	(3,382)	(59,747)
Effect of movements in exchange rates	<u>(952)</u>	<u>483</u>
Balance 30 June / 31 December	<u>29,300</u>	<u>10,792</u>

Trading properties comprise unsold apartments and parking spaces. The transfer from trading properties under construction represents the completion of the construction of a number of flats, offices and parking places of AFI Residence Paveletskaya project during the six months period of 2018, and of "Odinburg" project during the year 2017.

The amount recognised to cost of sales of trading properties represents the sale of completed flats or parking places recognised at a point in time. For the year ended 31 December 2017 this amounts represents the amount transferred to the income statements upon transferring of the rights to the buyers according to the signed acts of transfer in accordance with the previous accounting policy as per IAS18.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTSFor the period from 1 January 2018 to 30 June 201815. TRADING PROPERTIES UNDER CONSTRUCTION

	30/6/18 US\$ '000	31/12/17 US\$ '000
Balance 1 January as previously reported	349,735	243,327
Effect of adoption of IFRS 15 as at 1 January 2018*	<u>(59,801)</u>	-
Restated balance at 1 January	289,934	243,327
Transfer from investment property under development (note 12)	-	74,100
Transfer to trading properties (note 14)	(22,842)	(63,202)
Construction costs	55,942	96,481
Finance cost capitalised	4,276	-
Cost of sales of trading properties	(47,033)	-
Impairment	-	(9,548)
Effect of movements in exchange rates	<u>(15,793)</u>	<u>8,577</u>
Balance 30 June / 31 December	<u>264,484</u>	<u>349,735</u>

Trading properties under construction comprise “Odinburg”, “Paveletskaya Phase II”, “AFI Residence Botanic Garden” and “Bolshaya Pochtovaya” projects which involve primarily the construction of residential properties.

The amount recognised to cost of sales of trading properties, represents the cost incurred to date for the construction of the apartments and flats which were sold but not yet completed based on the new standard IFRS 15 adopted as from 1 January 2018.

*The Group has initially adopted IFRS 15 Revenue from Contracts with Customers as from 1 January 2018. For more details please refer to Note 4.

16. TRADE AND OTHER RECEIVABLES

	30/6/18 US\$ '000	31/12/17 US\$ '000
Advances to builders	43,555	29,313
Amounts receivable from related parties (note 25)	132	109
Trade receivables, net	5,051	3,458
Other receivables	7,599	21,713
VAT recoverable	3,867	9,889
Tax receivables	<u>4,568</u>	<u>5,920</u>
	<u>64,772</u>	<u>70,402</u>

Trade receivables net

Trade receivables are presented net of an accumulated provision for doubtful debts and unrecognised revenue of US\$8,896 thousand (31/12/2017: US\$10,522 thousand).

17. CASH AND CASH EQUIVALENTS

	30/6/18 US\$ '000	31/12/17 US\$ '000
Cash and cash equivalents consist of:		
Cash at banks	87,791	95,102
Cash in hand	<u>235</u>	<u>366</u>
	<u>88,026</u>	<u>95,468</u>

For the period from 1 January 2018 to 30 June 2018

18. OTHER INVESTMENTS

During the current period the Group continued the implementation the Board's decision to invest in various debt and equity instruments. During the period the company invested in total US\$21,241 thousand in a private company's shares, in investments in funds and debt securities.

19. SHARE CAPITAL AND RESERVES

	30/6/18 US\$ '000	31/12/17 US\$ '000
1. Share capital		
Authorised		
2,000,000,000 shares of US\$0.001 each	<u>2,000</u>	<u>2,000</u>
Issued and fully paid		
523,847,027 A shares of US\$0.001 each	524	524
523,847,027 B shares of US\$0.001 each	<u>524</u>	<u>524</u>
	<u>1,048</u>	<u>1,048</u>

2. Translation reserve

The translation reserve comprises all foreign currency differences arising from the translation of the financial statements of foreign operations to the Group presentation currency and the foreign exchange differences on loans designated as loans to an investee company which are accounted for as part of the investor's investment (IAS21.15) as their repayment is not planned or likely to occur in the foreseeable future. These foreign exchange differences are recognised directly to Translation Reserve.

3. Retained earnings

Retained earnings are available for distribution at each reporting date. No dividends were proposed, declared or paid during the six-month period ended 30 June 2018.

4. Capital reserve

Represents the effect of the acquisition, in 2015, of the 10% non-controlling interests in Bioka Investments Ltd and its subsidiary Nordservice LLC previously held at 90% and the effect of the acquisitions during the period of the 5% non-controlling interests in Beslaville Management Limited and its subsidiary Zheldoruslugi LLC previously held at 95% and of the 26% non-controlling interest in Bizar LLC previously held at 74%.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

For the period from 1 January 2018 to 30 June 2018

20. LOANS AND BORROWINGS

	30/6/18 US\$ '000	31/12/17 US\$ '000
<u>Non-current liabilities</u>		
Secured bank loans	<u>520,585</u>	<u>492,484</u>
<u>Current liabilities</u>		
Secured bank loans	16,649	86,468
Unsecured loans from other non-related companies	<u>283</u>	<u>307</u>
	<u>16,932</u>	<u>86,775</u>

The following changes to the loans took place during the six month period ended 30 June 2018:

A new loan facility was acquired by one of the Group's subsidiaries, Bellgate Construction Ltd ("Bellgate"), based on a loan agreement signed on the 28 December 2017. This new loan facility was used to refinance the previous loan from VTB Bank JSC ("VTB") signed on 22 June 2012 with a maturity date in April 2018 and was also used to repay the remainder amount of US\$83 million, of Ozerkovskaya III loan which expired in January 2018. Bellgate received the new loan in five tranches, during January and February 2018, in Euros and in Russian Rubles. The blended interest rate on the new loan is circa 5.6% (assuming current EUR/RUR exchange rate and current Russian Central Bank key lending rate). The interest and the principal of the new loan are to be paid quarterly, while the term of the loan is 5 years.

In January 2018, the Company's subsidiary MKPK PJSC (the owner of the AFI Residence Paveletskaya Project) received a loan from VTB Bank PJSC in the amount of RUR711 million to refinance the previously incurred costs for the construction of the project. The loan bears floating interest rate of the Russian Central Bank key lending rate + 1.5%. The principal on the loan is payable monthly, while the interest is payable quarterly. The loan was fully repaid in June 2018.

21. TRADE AND OTHER PAYABLES

	30/6/18 US\$ '000	31/12/17 US\$ '000
Trade payables	10,201	13,756
Payables to related parties (note 25)	238	183
Amount payable to builders	14,953	8,510
Provision	6,320	6,830
VAT and other taxes payable	5,535	28,982
Other payables	<u>4,695</u>	<u>6,845</u>
	<u>41,942</u>	<u>65,106</u>

Provision represents the estimated cost of construction of common use areas of the Odinburg project such as hospital and school which is an obligation of the Group to build and make available for use by the residents.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

For the period from 1 January 2018 to 30 June 2018

22. FINANCIAL INSTRUMENTS

A. Accounting classifications and fair values

The following table shows the carrying amounts and fair values of financial assets and financial liabilities, including their levels and the fair value hierarchy for financial instruments measured at fair value. 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.

	Carrying amount					Fair value			
	Loans Receivable	Trade and other receivables	Other investments	Cash and cash equivalents	Other financial liabilities	Total	Level 1	Level 2	Level 3
	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000
30 June 2018									
Financial assets measured at fair value									
Investment in listed debt securities	-	-	10,493	-	-	10,493	10,493	-	-
Investment in equity	-	-	14,506	-	-	14,506	-	-	14,506
			24,999			24,999			
Financial assets not measured at fair value									
Loans receivable	4,100	-	-	-	-	4,100			
Trade and other receivables	-	12,780	-	-	-	12,780			
Cash and cash equivalents	-	-	-	88,026	-	88,026			
	4,100	12,780		88,026	-	104,906			
Financial liabilities not measured at fair value									
Interest bearing loans and borrowings	-	-	-	-	(537,517)	(537,517)	-	-	(525,341)
Trade and other payables	-	-	-	-	(14,896)	(14,896)			
					(552,413)	(552,413)			

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

For the period from 1 January 2018 to 30 June 2018

22. FINANCIAL INSTRUMENTS (continued)

A. Accounting classifications and fair values (continued)

	Carrying amount				Fair value			
	Loans Receivable	Trade and other receivables	Other investments	Cash and cash equivalents	Other financial liabilities	Total	Level 1	Level 2
	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000
31 December 2017								
Financial assets measured at fair value								
Investment in listed debt securities	-	-	5,255	-	-	5,255	5,255	-
Investment in fund	-	-	5,240	-	-	5,240	-	5,240
	-	-	10,495	-	-	10,495	-	-
Financial assets not measured at fair value								
Loans receivable	2,759	-	-	-	-	2,759	-	-
Trade and other receivables	-	25,280	-	-	-	25,280	-	-
Cash and cash equivalents	-	-	-	95,468	-	95,468	-	-
	2,759	25,280	-	95,468	-	123,507	-	-
Financial liabilities not measured at fair value								
Interest bearing loans and borrowings	-	-	-	-	(579,259)	(579,259)	-	(579,415)
Trade and other payables	-	-	-	-	(25,230)	(25,230)	-	-
	-	-	-	-	(604,489)	(604,489)	-	-

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTSFor the period from 1 January 2018 to 30 June 2018

22. FINANCIAL INSTRUMENTS (continued)

B. Measurement of fair values

Valuation techniques and significant unobservable inputs

The following table shows the valuation techniques used in measuring Level 3 fair values at 30 June 2018 and 31 December 2017 for financial instruments measured in fair value in the statement of financial positions, as well as the significant unobservable inputs used.

Type	Valuation technique	Significant unobservable inputs	Inter-relationship between key unobservable inputs and fair value measurement
Investment in fund	The securities and other assets of each Segregated Portfolio are valued by the Fund based on market quotations. If market quotations are not readily available, or if the Investment manager determines that special circumstances exist which effect the value of a security, the valuation of those securities and other assets will be determined in good faith by the Investment manager, whose determination will be final, conclusive and binding on all parties.	Not applicable	Not applicable

23. ADVANCES FROM CUSTOMERS

	30/6/18 US\$ '000	31/12/17 US\$ '000
Balance 1 January as previously reported	123,766	51,301
Effect of adoption of IFRS 15 as at 1 January 2018*	(77,877)	-
Restated balance at 1 January	45,889	51,301
Customer advances during period/year	81,095	110,490
Effect of recognition of revenue	(68,490)	(41,647)
Effect of movements in exchange rates	(4,453)	3,622
Balance 30 June / 31 December	<u>54,041</u>	<u>123,766</u>

*The Group has initially adopted IFRS 15 Revenue from Contracts with Customers as from 1 January 2018. For more details please refer to Note 4.

For the period from 1 January 2018 to 30 June 2018

24. FINANCIAL RISK MANAGEMENT

The Group's financial risk management objectives and policies are consistent with that disclosed in the consolidated financial statements as at and for the year ended 31 December 2017.

Russian business and economic environment

The Group's operations are primarily located in the Russian Federation. Consequently, the Group is exposed to the economic and financial markets of the Russian Federation which display characteristics of an emerging market. The legal, tax and regulatory frameworks continue development, but are subject to varying interpretations and frequent changes which together with other legal and fiscal impediments contribute to the challenges faced by entities operating in the Russian Federation.

The Russian economy continues to recover despite financial market volatility. The GDP is forecasted to grow by 1.5% in 2018 year-on-year.

Standard & Poor's credit rating for Russia stands at BBB- with a stable outlook, while Moody's (Ba1) and Fitch's (BBB-) credit ratings for Russia were set with positive outlook.

The Central Bank of Russia announced a pause in rate cuts and kept the key rate at the level of 7.25% since March 2018. The consumer prices inflation in July 2018 was at 2.5% (annualised) (with CBR target at 4%). Retail turnover entered a recovery stage with a 3% annualised growth in June.

In H1 2018 total investment volume amounted to US\$1.4 billion with domination of residential sites and office transactions accounting for 34% and 32% correspondingly. Foreign investors accounted for 27% of the investment volume in H1 2018.

The interim 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.

25. RELATED PARTIES

	30/6/18	31/12/17
(i) Outstanding balances with related parties	US\$ '000	US\$ '000
<u>Assets</u>		
Amounts receivable from other related companies (note 16)	<u>132</u>	<u>109</u>

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTSFor the period from 1 January 2018 to 30 June 201825. RELATED PARTIES (continued)

	30/6/18 US\$ '000	31/12/17 US\$ '000
(i) Outstanding balances with related parties (continued)		
Liabilities		
Amounts payable to other related companies (note 21)	238	183
Deferred income from related company	<u>25</u>	<u>101</u>
(ii) Transactions with the key management personnel	1/1/18- 30/6/18 US\$ '000	1/1/17- 30/6/17 US\$ '000
Key management personnel compensation		
Short-term employee benefits	<u>1,387</u>	<u>1,342</u>

Key management personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the entity, directly or indirectly, including any director (whether executive or otherwise) of that entity. The person is a member of the key management personnel of the entity or its parent (includes the immediate, intermediate or ultimate parent). Key management is not limited to directors; other members of the management team also may be key management.

	1/1/18- 30/6/18 US\$ '000	1/1/17- 30/6/17 US\$ '000
(iii) Other related party transactions		
Revenue		
Related companies – rental income	166	234
Related companies – other income	-	1
Joint venture – consulting services	-	31
Joint venture – interest income	<u>-</u>	<u>211</u>
Expenses		
Joint venture – operating expenses	<u>-</u>	<u>10</u>

26. SUBSEQUENT EVENTS

There were no material events that took place after the six month period and until the date of the approval of these interim financial statements by the Board of Directors on 29 August 2018, except of the following:

On 29 August 2018 the Board of Directors of the Company approved granting of a loan in the maximum amount of EUR5 million to Grosolim Ltd, a Company controlled by Mr Leviev. The 5 year loan will be provided at Euribor plus 5.2% annual interest rate, the interest will be paid quarterly while the principal amount will be paid at maturity. The loan will be secured by a personal guarantee of Mr Lev Leviev.

On 29 August 2018 the Board has accepted resignation of Mr Lev Leviev from the position of Executive Chairman of the Company effective as of 31 August 2018. The Board appointed Mr David Tahan as non-executive Chairman of the Company effective as of 1 September 2018. The Board has also appointed Mr Mark Groysman as an executive director.