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18 March 2016

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

PRELIMINARY STATEMENT OF RESULTS FOR THE YEAR ENDED 31 DECEMBER 2015

VALUATION LOSSES OVERSHADOW SOUND OPERATIONAL PERFORMANCE

AFI Development, a leading real estate company focused on developing property in Russia, has today announced its preliminary audited financial results for the year ended 31 December 2015.

Financial highlights:

- Revenue for the year amounted to US\$93.7 million, significantly less than the US\$144.1 million recorded in 2014 due to continuous macroeconomic pressure affecting the Russian real estate market. Rental income (including hotel operating income) was US\$92.9 million:
 - AFIMALL City revenue contribution declined by 33% year-on-year to US\$71.3 million versus US\$106.9 million in 2014
- Despite the significant decrease in AFIMALL revenue, gross profit for 2015 was US\$42.1 million, compared to US\$49.9 million in 2014
- AFI Development incurred a net loss of US\$466.7 million for the year, compared to a net loss of US\$287.3 in 2014, mainly due to a valuation loss on investment properties of US\$490.5 million recorded in Q4 2015
- Cash, cash equivalents and marketable securities amounted to US\$42.4 million as at 31 December 2015, compared to US\$93.3 million as at 31 December 2014
- Gross Asset Value declined to US\$1.4 billion as at 31 December 2015 (compared to US\$2.0 billion as at 31 December 2014), due to sharp downward revaluation in Q4 2015 across the portfolio as difficult macroeconomic conditions continued to prevail

Operational Highlights:

- Despite difficult market conditions, **AFIMALL City** retained the majority of its tenants and welcomed several new retailers to the Mall during 2015
 - Average monthly footfall in December 2015 was 3% higher than in December 2014, reflecting the success of targeted sales promotions executed during the year
 - NOI declined from US\$83.0 million in 2014 to US\$53.3 million in 2015
- The main construction phase and pre-sale of apartments at the **Paveletskaya II** residential development commenced in December 2015
- Apartment sales at **Odinburg Building 1** are almost complete, while the construction of Building 2 is ongoing
 - The number of sale contracts signed amounted to 706 in Building 1 and 132 in Building 2 as of 16 March 2016
 - In March 2016, the Company met all formal requirements to start delivery of apartments in Building 1, which is planned to start by the end of the month

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

"As expected, our operating conditions remained challenging throughout 2015 driven by macroeconomic and geopolitical developments affecting our market. Continued deterioration in demand for real estate assets across Russia has served to not only reinforce our focus on maintaining a high level of efficiency at our yielding assets, but has resulted in further downward revision to the value of our portfolio. This has had a major effect on our profitability in 2015 and has overshadowed our operational achievements during the year. Given the high level of uncertainty in our market, we plan to continue with the development of selected residential projects and will adapt our strategy to any changes in our operating environment to ensure sustainable development of our business going forward."

FY 2015 Results Conference Call

AFI Development will hold a conference call for analysts and investors to discuss its full year 2015 results, following their publication.

The details for the conference call are as follows:

| | | |
|---------------------|---------------------------------|-----------------------------|
| Date: | Monday, 21 March 2016 | |
| Time: | 14:00 GMT (17:00 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 |

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

For further information, please contact:

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|------------------------|------------------------|
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| Sandra Novakov | |
| Marina Zakharova de Calero | |

About AFI Development

AFI Development is one of the leading real estate development companies operating in Russia. Established in 2001, AFI Development is a publicly traded subsidiary of Africa Israel Investments Ltd.

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 future.

Forward-looking Statements

This document and the documents following may contain certain "forward-looking statements" with respect to the Company's financial condition, results of operations and business, and certain of the Company's plans and objectives with respect to these items.

Forward-looking statements are sometimes, but not always, identified by their use of a date in the future or such words as "anticipates", "aims", "due", "could", "may", "should", "expects", "believes", "intends", "plans", "targets", "goal" or "estimates." By their very nature forward-looking statements are inherently unpredictable, speculative and involve risk and uncertainty because they relate to events and depend on circumstances that will occur in the future.

There are a number of factors that could cause actual results and developments to differ materially from those expressed or implied by these forward-looking statements. These factors include, but are not limited to, changes in the economies and markets in which the Company operates; changes in the regulatory and competition frameworks in which the Company operates; changes in the markets from which the Company raises finance; the impact of legal or other proceedings against or which affect the Company; and changes in interest and exchange rates.

Any written or verbal forward-looking statements, made in this document or made subsequently, which are attributable to the Company or persons acting on their behalf are expressly qualified in their entirety by the factors referred to above. The Company does not intend to update any forward-looking statements.

Executive Chairman's Statement

As expected, 2015 was another difficult year for both AFI Development and the Russian market as a whole. With continued decline in oil prices and the consequent rouble devaluation trend, Bank of Russia maintained its key lending rate at historically high level of 11% due to significant inflation risks. Given the high cost and low availability of financing, there was little impetus for corporate development, which thwarted economic recovery in 2015.

In this environment, the real estate market in Russia remained under pressure with vacancy rates up across all asset classes and rental rates experiencing a significant decline in US dollar terms. The 'de-dollarisation' trend continued into 2015 with the transition of lease rates to roubles for many properties.

By year-end, the vacancy rate in Moscow shopping centres reached an average of 8.3% with average rental rates down by 15% year-on-year. Nevertheless, international retailers remain interested in the Moscow market as reflected in the market entry of 40 new international retailers during 2015.

As a result of these trends, the value of our portfolio was revised downward during the fourth quarter of the year, from US\$2.0 billion at the end of 2014 to US\$1.4 billion at the end of 2015. The higher long term vacancy rates in both retail and office segments and lower estimated rental value (ERV) were among the key drivers of the revaluations.

Our continued focus on the development of selected residential projects is reflected in the progress achieved at our Odintsovo development, where nearly all apartments in Building 1 have been sold with Building 2 under construction, as well the launch of construction and pre-sale of apartments at the Pavlovskaya II residential development.

We are pleased to report that AFIMALL City remains among the most popular shopping malls in Moscow with increasing footfall, driven by successful sales promotions throughout 2015.

However, as a result of difficult market conditions, our rental revenue in 2015 declined to US\$92.9 million, from US\$141.4 million in 2014. This trend, in combination with the above-mentioned valuation loss, led to a net loss of US\$466.7 million for the year.

Looking to 2016, we expect market conditions to remain challenging due to the continued economic downturn in Russia compounded by geopolitical risks driven by developments in Ukraine and Syria. Whilst demand across all classes of real estate remains subdued, we are encouraged by the level of interest from international retailers in the Moscow market and will continue to adapt our strategy to ensure sustainable growth of our business in the future.

Valuation

As at 31 December 2015, based on the Jones Lang LaSalle LLC ("JLL") independent appraisers' report, the value of AFI Development's portfolio of investment properties stood at US\$0.93 billion, while the value of the portfolio of investment property under development stood at US\$0.2 billion.

Consequently, the total value of the Company's assets, mainly based on independent valuation as of 31 December 2015, was US\$1.4 billion, compared to US\$2.0 billion as at 31 December 2014.

The main reasons behind the decrease in the portfolio valuation were as follows:

1. Devaluation of the national currency during the year and a difficult macroeconomic situation driven by imposed economic sanctions
2. Increase in long-term vacancy rates and significant reductions of market rents in the retail and office segments, caused by the current macroeconomic pressures

For additional information, please refer to the "Portfolio Valuation" section in the Management Discussion and Analysis (the "MD&A").

Liquidity

We completed 2015 with approximately US\$42.5 million of cash, cash equivalents and marketable securities on our balance sheet and a debt¹ to equity level of 77%. This position reflects the Company's ability to successfully balance liquidity requirements from a number of sources.

Our financing strategy aims to maximise the amount of debt financing for projects under construction while maintaining healthy loan-to-value levels. After delivery and commissioning, we aim to refinance the properties at more favourable terms, including longer amortisation periods, lower interest rates and higher principal balloon payments. Property rights and shares of property holding companies are mainly used as collateral for the debt. We strongly prefer, whenever possible, to use non-recourse project level financing.

The Company is looking to improve its liquidity position by negotiating with the VTB Bank to postpone the principal payments under both existing loan agreements and by careful scrutiny of all ongoing investments.

For additional information, please refer to the "Liquidity" section of the MD&A.

Key developments since financial year end

In March 2016, AFI Development's subsidiary Semprex LLC entered into a preliminary agreement regarding the disposal of the Aquamarine Hotel and 25 underground parking places located at the Ozerkovskaya II project for a total consideration of US\$27.5 million. The prospective buyer is currently performing due diligence of the project, at the end of which the parties will negotiate the final sale-purchase agreement. The Company expects the net cash flow from the transaction, in the event of completion, to be circa US\$5 million, following partial repayment of the loan facility of Bellgate Constructions Limited ("Bellgate") (as stipulated by the mortgage agreement of the Aquamarine Hotel premises for the Bellgate's loan).

Portfolio Update

AFIMALL City

During 2015, in a difficult environment for all shopping centres across Russia, AFIMALL managed to retain the occupancy levels, which were at the level of 78% in the end year. AFIMALL has firmly established itself as one of the most popular shopping centres located in central Moscow, with a quality tenant mix and comfortable leisure, dining and entertainment zones.

The Mall welcomed several new tenants during the year, most notably one of the leading Russian restaurant chains "Chaihona №1" and a well-known children's goods store "Detsky Mir". Recent openings include a Jo Malone London perfumery outlet, a Tschibo family store and British shoe retailer Clarks.

In 2015, marketing programmes at AFIMALL City focused mainly on targeted sales promotions, which positively impact traffic to the Mall and sales activity in the short-term and expectedly in the longer term.

AQUAMARINE III (OZERKOVSKAYA III)

Following the disposal of Building 1 to diamond miner Alrosa, AFI Development retains title to the remaining three buildings of the complex, which have a combined GBA of 61,579 sq.m and GLA of 46,247 sq.m. The Company is currently in negotiations with potential buyers and tenants regarding lease or purchase transactions. Several new tenants leased space in the complex during 2015, most notably Brown-Forman, the Kentucky-based producer of premium spirits.

¹ Debt includes all loans and borrowings. For further details please see note 28 to the Financial Statements.

HOTELS

AFI Development's hospitality portfolio, which consists of one Moscow city hotel (Aquamarine) and two resorts in the Caucasus mineral waters region (Plaza Spa Kislovodsk and Plaza Spa Zheleznovodsk), has produced strong results in 2015. The Caucasus resorts, in particular, benefited from the growing domestic tourism demand in Russia.

ODINBURG

Construction works of Phase 1 ("Korona") of this development are currently underway. During Q4 2015, the final fit-out, engineering systems installations and landscaping works at Building 1 of the first phase of Odinburg were finalised. The apartments at Building 1 are almost fully sold, the marketing and sales activities have been focusing on the Building 2. As of the date of publication of this report, 706 out of 723 contracts for sales of apartments in Building 1 have been signed, while for Building 2, 132 out of 706 contracts have been signed. In March 2016 the Company met all formal requirements to start the delivery of apartments in Building 1, which is planned to start by the end of the month.

AFI RESIDENCE PAVELETSKAYA (PAVELETSKAYA PHASE II)

In December 2015, AFI Development successfully launched the main construction phase of the project. Flats and "apartments" pre-sales started simultaneously with the construction launch. The project is being marketed as "AFI Residence Paveletskaya". As of the date of publication of this report, 31 contracts for sales of flats and 3 for sales of "apartments" have been signed.

BOLSHAYA POCHTOVAYA

Design works and preparations for construction at Bolshaya Pochtovaya continue. The Company plans to start construction of the project in H2 2016.

BOTANIC GARDEN

In light of the changing residential market environment, AFI Development is reviewing the planning and designs of the project.

Market Overview – General Moscow Real Estate

Macroeconomic Environment

The Russian economy continued to contract during 2015 with high inflation and low wages denting consumer purchasing power.

The country's macroeconomic environment was affected by the geopolitical situation in Ukraine and Syria, the continued decline in oil prices and the weak rouble. As a result, GDP contracted by 3.8% with industrial production down by 3.1%. The rate of inflation declined to 15.8% by year-end with the downward momentum expected to continue in 2016. Given the lower than expected oil price, the Russian government tightened its fiscal stance further, putting additional pressure on the economy. With the key lending rate of 11%, interest rates remain at historically high levels.

Despite the current market volatility, however, investor interest in Russian real estate remains relatively high, although lower than in previous years. The commercial real estate investment volume in 2015 reached US\$2.8 billion, with the office segment leading.

(Sources: Russia Property Investment, Q4 2015, CBRE; Russian Investment Market, Q4 2015, JLL; Oxford Economics Russia Country Economic Forecast, 25 January 2016)

Moscow Office Market

2015 saw a record-breaking volume of renewals and renegotiations. Take-up increased by 18% compared to 2014, amounting to 870,400 sq.m, due to a number of major transactions closed by state agencies and state-owned companies.

Given the current market conditions of high vacancy, limited demand and rental rate decline, the volume of new office construction decreased further in 2015. The volume of new office delivery amounted to 721,500 sq.m for the year, down nearly 50% on 2014.

By end-2015, total vacancy rates decreased to 16%, from 17% seen in Q3 2015. A significant decline was recorded in Class A offices, from 27.4% in Q3 to 23.1% by year-end.

The main trend for 2015 is the final transition of lease rates to roubles across all asset classes. In US dollar terms, rental rates in 2015 decreased up to 50% due to the increasing rouble devaluation in the last quarter of 2015. Going forward, rental rates in rouble terms are expected to remain stable compared to 2015.

(Sources: The International Monetary Fund, Moscow Office Market, Q4 2015, JLL; Russian Investment Market, Q4 2015, JLL; CBRE Marketview, Moscow Office Market, Q4 2015)

Moscow Retail Market

At 560,000 sq.m, new supply to the Moscow retail market was 40% lower than forecast for 2015. By year-end, the vacancy rate in Moscow shopping centres reached an average of 8.3%, up 2.3 percentage points year-on-year. Based on the same level of new supply in 2016, the vacancy rate is expected to rise to 11% by the end of 2016.

Rental rates for Moscow shopping centres declined by 15% during 2015. Generally, rental rates are denominated in roubles or subject to a fixed exchange rate of 50-55 roubles per 1 USD. Prime rents for shopping gallery space stood between US\$1,700 and US\$3,220 per sq.m per annum. These indicators are not expected to improve during 2016 given the weaker economy and levels of expected completions in 2016.

Nevertheless, international retailers remain interested in the Moscow retail market as reflected in the market entry of 40 new international retailers in 2015.

(Sources: Moscow Retail, Q4 2015, CBRE Research; Moscow Office Market, Q4 2015, JLL; Moscow Shopping Centre Market, Q4 2015, JLL)

Moscow Residential Market

In 2015 the supply of primary residential housing in Moscow reached 3.8 million sq.m, 14.4% above the level delivered in 2014 and the highest since 2007.

The focus of development activity remains on "new Moscow" territories where around 2 million sq.m were delivered in 2015, up from circa 1.6 million sq.m commissioned in 2014. The "old Moscow" saw a moderate increase year-on-year of 0.2 million sq.m to around 1.8 million sq.m by year-end.

On a quarterly basis, the supply of Moscow primary residential housing in Q4 2015 was approximately 1.9 million sq.m (about 27,100 residential units), an increase of 32% compared to the previous quarter and 60% year-on-year.

While the growth of primary residential real estate in Moscow continued in 2015, the weighted average asking price per sq.m decreased significantly to US\$2,967 per sq.m at the end of December 2015. This trend was driven primarily by the oversupply of primary residential real estate accompanied by the rapidly decreasing real income and weak consumer confidence in the current economic environment.

The level of mortgage application approval rates decreased by 45% during the first 11 months of 2015, representing a 46% drop in monetary terms. The state mortgage lending support programme introduced in March 2015 acted as a key driver of housing demand in 2015, preventing further deterioration in mortgage approval rates.

(Sources: Blackwood Q4 2015, Rosstat, Peresvet Invest Analytics, Russian Central Bank, Urban Planning Policy Department of Moscow)

Board of Directors

The Directors of AFI Development as at the date of this announcement are as set out below:

Mr. Lev Leviev, Executive Chairman of the Board
Mr. Avraham Novogrocki, Non-Executive Director
Mr. Christakis Klerides, Senior Non-Executive Independent Director
Mr. Moshe Amit, Non-Executive Independent Director;
Mr. Panayiotis Demetriou, Non-Executive Independent Director

Lev Leviev
Executive Chairman of the Board

18 March 2016

MANAGEMENT DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Overview

As at 31 December 2015, the Company's portfolio consisted of 8 investment properties, 6 investment properties under development, 2 trading property under development, 1 inventory of real estate and 4 hotel projects. The portfolio comprises commercial projects focused on offices, shopping centres, hotels, mixed-use properties and residential projects in prime locations in Moscow. The total value of the Company's assets, based predominantly on independent valuation as of 31 December 2015, was US\$1.4 billion². About 66% of the assets book value is attributed to yielding properties.

Revenues for 2015 decreased by 35% year-on-year to US\$93.7 million mainly due to the fact that the 2015 revenue was influenced by USD depreciation. Average exchange rate of RUB to USD more than doubled during 2015. AFI Development recorded a 15.8% year-on-year decrease in gross profit to US\$42.1 million due to the same reason. Cash, cash equivalents and marketable securities decreased by 54% to US\$42.5 million as at 31 December 2015 due to the fact that debt service and financing of construction work partly performed by own capital.

In 2015 AFI Development incurred net loss of US\$466.7 million, compared to net loss of US\$287.3 in 2014, mainly due to valuation loss of US\$490.5 million in Q4 2015.

Key Factors Affecting our Financial Results

Our results have been affected, and are expected to be affected in the future, by a variety of factors, including, but not limited to, the following:

Macroeconomic Factors

Our properties and projects are mainly located in Russia. As a result, Russian macroeconomic trends and country-specific risks significantly influence our performance.

The following table sets out certain macroeconomic information for Russia as of and for the dates indicated:

| | Year ended 31 December 2015 | Year ended 31 December 2014 |
|------------------------------------|--------------------------------|--------------------------------|
| Real Gross Domestic Product growth | -3.8% | 0.6% |
| Consumer prices | 15.8% | 7.8% |

Source: *The International Monetary Fund*

Company Specific Factors

The following factors affected our performance in 2015:

- The rental income at AFIMALL City decreased by 34% in 2015 versus 2014, which had a negative impact on general revenues and profitability.
- During 2015 the Company had to make principal repayments and interest payments under the loan agreement at the Ozerkovskaya III project, which resulted in US\$26.3 million cash outflow.
- Gross Asset Value reduced to US\$1.4 billion as at 31 December 2015 (compared to US\$2.0 billion as at 31 December 2014), due to sharp valuation decreases in Q4 2015 across the portfolio due to continuously depressed macroeconomic conditions

² According to the IFRS rules, Investment property and Investment property under development are presented on a fair value basis, Trading property, Trading property under construction and Property, plant and equipment are presented on a cost basis.

Key Portfolio Updates

YIELDING ASSETS

AFIMALL City

AFIMALL City is a major retail scheme located in the high-rise business district of Moscow, “the Moscow-City”. With a total GBA of nearly 283,182³ sq.m (including parking), and GLA of nearly 107,000 sq.m., the project has a shopping gallery of nearly 400 shops and an 11-screen movie theatre with a number of additional outstanding leisure facilities. AFIMALL City is one of Europe’s largest and most ambitious retail developments in recent years. The Mall introduces a new standard of quality to the Russian retail sector and offers visitors a combined shopping, dining and entertainment experience unmatched in any other retail development in Moscow.

The 2015 marketing programmes at the Mall focused primarily on targeted sales promotion and included a series of prize draws for most active shoppers and sales events to mark AFIMALL’s birthday in May and “Black Friday” in November.

The footfall at the mall continues to grow: average monthly footfall in December 2015 was 3% higher than as in December 2014.

The Moscow authorities have increasingly come to recognise the importance of providing a wide range of transportation options for projects such as Moscow City, as demonstrated by international experience at Canary Wharf and La Défence. As such, 2015 saw significant progress in the construction of the ambitious transportation hub, to be the largest in Russia, which will connect the new circular railroad (planned to be open for passenger traffic in 2016) with two metro stations at Moscow City (Mezhdunarodnaya and Delovoy Tsentr). The railway passenger terminal “City” is planned to open in September 2016.

As the transportation access and amenities in the business district gradually improve, the office space in the district becomes more attractive for quality tenants. According to CBRE, a record 163,000 sq.m were taken up in Moscow City during 2015. Half of this volume was driven by two large-scale transactions: the Moscow authorities leased around 50,000 sq.m in OKO Tower, while state-owned Transneft acquired the Evolution Tower (79,000 sq.m of office space). However, the vacancy rate in the district remains relatively high at 29% according to a CBRE estimate, due to a large volume of new deliveries.

According to independent appraisers JLL, the market value of AFIMALL City as of 31 December 2015 was US\$685.2 million.

OZERKOVSKAYA III

Ozerkovskaya (Aquamarine) III is an office complex forming part of the “Aquamarine” mixed-use development, located on the Ozerkovskaya embankment in the very heart of the historical Zamoskvorechie district of Moscow. The project consists of three Class A buildings of 46,247 sq.m. of combined lettable space⁴ and common underground parking for 446 cars. The project creates very attractive working conditions through state-of-the-art architecture, innovative design and efficient use of space. Due to these characteristics, “Aquamarine III” sets new standards for quality and an aspirational environment among Moscow’s commercial developments.

AFI Development is in negotiations with potential buyers and tenants regarding selling or leasing the project either in full or in parts. Several tenants have already leased space in the complex. Most notably, Brown-Forman, the Kentucky-based producer of Jack Daniel’s whiskey, Finlandia vodka and other well-known spirits, selected Aquamarine III for its Russian headquarters.

³ This is the area after the disposal of part of the parking space to “VTB Bank” JSC.

⁴ After the disposal of Building 1 to Alrosa in 2013.

According to independent appraisers JLL, the market value of the remaining buildings of the Complex as of 31 December 2015 was US\$199.3 million.

HOTELS

The Company's portfolio includes three hospitality projects, one located in Moscow and the remaining two located in the Caucasus Mineral Waters region.

AQUAMARINE HOTEL

The Aquamarine Hotel is a modern, 4 star hotel located in the heart of Moscow. It is part of the company's mixed-use Aquamarine development, which also houses an A-class office centre Aquamarine III and completed elite residential complex Aquamarine II.

The Hotel provides high level services and offers 159 spacious rooms, a fitness-centre, spa-centre, bar, restaurant, and conference rooms. It is located in the Zamoskvorechie district which is a 20 minute walk from both the Kremlin and the Tretyakov Gallery and a 5 minute walk from the Novokuznetskaya and Tretyakovskaya metro stations. The Hotel has added to the infrastructure of the historical district and is convenient for both business travellers and tourists.

Despite slowdown in international business activity in Moscow and continuous rouble depreciation versus the US dollar, the hotel demonstrated strong performance in 2015, with average occupancy at 78%.

The balance sheet value of the project as of 31 December 2015 was US\$13.1 million.

PLAZA SPA HOTEL ZHELEZNOVODSK

Plaza Spa Zheleznovodsk is a sanatorium project which was launched in the summer of 2012 and is located in Zheleznovodsk, in the Caucasus mineral waters region. The hotel comprises 134 guest rooms on 9,526 sq.m. of gross buildable area. The spa provides diagnostic assessment and treatment of urological diseases.

During 2015 the hotel demonstrated excellent performance and growing occupancy, which reached an average of 75% for the year. The hotel benefited strongly from the growing domestic demand for quality resorts.

The balance sheet value of the project as of 31 December 2015 was US\$9.1 million.

PLAZA SPA KISLOVODSK

The Plaza Spa is located in the city centre of Kislovodsk, in the Caucasus mineral waters region. The facility was put into operation in 2008 after a full reconstruction and now has a total of 275 rooms spread over 25,000 sq.m.

Today, the Plaza Spa Kislovodsk is a popular spa hotel which has established new standards of quality and hospitality for the entire region. It offers an extensive range of medical services focused on the treatment of cardiac diseases. Diagnostic and treatment equipment is continually updated and the staff regularly attend training sessions for new methods of treatment to aid rehabilitation of patients.

Similarly to Plaza Spa Zheleznovodsk, the hotel demonstrated excellent performance with average annual occupancy of 76%.

The balance sheet value of the Company share in the project (50%) as of 31 December 2015 was US\$11.6 million.

DEVELOPMENT PROJECTS

ODINBURG

In October 2013, AFI Development began construction at "Odinburg", one of the Company's largest residential projects with a total area of over 33 hectares located 11 km west of Moscow in the town Odintsovo.

The development is planned to include multi-functional infrastructure comprising of two schools, two kindergartens, a medical centre and other facilities.

The project involves construction of a multi-storey residential micro district consisting of two phases:

- Phase I – Construction of a 22-section residential building named Korona (Crown) and of the infrastructure for the kindergartens and schools. This will have a total sellable area of 150,873 sq.m. (2,569 apartments);
- Phase II – Construction of 8 residential buildings and of infrastructure for the kindergartens, schools and outdoor multi-level parking. This will have a total sellable area of 311,244 sq.m (6,573 apartments). Each phase includes commercial premises on the ground floor that are planned to be sold to end users.

The construction works of Phase 1 ("Korona") are underway. Construction of Building 1 within this development is complete with the works now focused on Building 2. The apartments at Building 1 are almost fully sold and the focus of marketing and sales activities is currently on Building 2. As of the date of publication of this report, 706 out of 723 contracts for sales of apartments in Building 1 have been signed, while for Building 2, 132 out of 706 contracts have been signed. In March 2016, the Company met all formal requirements for delivery of apartments in Building 1, which is planned to start by the end of the month.

The balance sheet value of the project as of 31 December 2015 was US\$148.5 million.

PAVELETSKAYA II (AFI RESIDENCE PAVELETSKAYA)

Paveletskaya II is residential complex located on the Paveletskaya Embankment close to Moscow City centre. The project is located in the Danilovsky Subdistrict (the south administrative district of Moscow) and can be easily accessed by private or public transport. The new business-class residential complex, marketed as "AFI Residence Paveletskaya" will be built on a land plot of 5.5 Ha and will feature several buildings of various height with a total GBA of 133,510 thousand sq.m AFI Residence Paveletskaya will include a sports complex and commercial areas. The project is to be constructed in three phases.

The main construction phase of the project was launched in December 2015 and pre-sales of apartments started at the same time. The preliminary construction works started already in Q3 2015, and the project was reclassified from Investment properties under development category to Trading properties under construction category of assets on the balance sheet as of 30 September 2015. As of the date of publication of this report, 31 contracts for sales of flats and 3 for sales of "apartments" have been signed.

Based on an independent valuation of the Company portfolio by JLL as of 31 December 2015, the fair value of Paveletskaya Phase II is US\$55.9 million.

BOLSHAYA POCHTOVAYA (AFI RESIDENCE POCHTOVAYA)

Bolshaya Pochtovaya is a mixed-use project with predominantly residential use. It is located in an attractive neighbourhood in the central administrative district of Moscow. The area benefits from a developed infrastructure: transport, shops and cultural/leisure amenities as well as a nearby river which significantly enhances the views from the project. It boasts a GBA of 170,350 sq.m. on a land area of 5.65 hectares.

The development plan for the property anticipates construction of 170,350 sq.m. GBA, which includes a residential area of 56,952 sq.m., a commercial area of 34,208 sq.m. and 1,771 underground parking spaces. AFI Development is currently developing the design of the project and plans to start construction in H2 2016.

Based on an independent valuation of the Company portfolio by JLL as of 31 December 2015, the fair value of Bolshaya Pochtovaya is US\$71.5 million.

BOTANIC GARDEN

Botanic Garden is a residential project, located in the North-Eastern Administrative District of Moscow, approximately 8 km from the Third Transportation Ring, near the major transportation route of the district Prospect Mira, within walking distance from Botanicheskuiy Sad and Sviblovo metro stations. The future residential complex has a land plot of 3.2 Ha and a gross building (GBA) of 217,605⁵ sq.m. (including "city share"): 111,768 sqm of residential area, 14,927 sqm of commercial premises and 1,025 underground and above ground parking lots.

AFI Development has been reviewing the planning and designs of the project to meet the changing consumer demand.

Based on an independent valuation of the Company portfolio by JLL as of 31 December 2015, the fair value of Botanic Garden is US\$18.6 million.

TVERSKAYA PLAZA IC

Tverskaya Plaza Ic is a Class A office complex located in the cultural and business quarter of the Tverskoy sub-district. The complex is located within a 4-minute walk of Belorusskaya metro station, which serves as the main transport hub linking the city centre with one of Moscow's main airports – Sheremetievo International Airport. The project has a GBA of 61,810 sq.m. (including underground parking of approximately 467 parking spaces) and an estimated GLA of 37,035 sq.m.

Following the registration of a 10-year land lease agreement, the Company successfully finalised the development concept, received the necessary construction permit and completed all pre-construction works. AFI Developments plans to start construction of this project as soon as it has secured debt financing on favourable terms and the market situation improves.

Based on an independent valuation of the Company's portfolio by Jones Lang LaSalle as of 31 December 2015, the fair value of Tverskaya Plaza Ic is US\$65.5 million.

TVERSKAYA PLAZA IV

Plaza IV is a Class A office complex with supporting ground level retail zones, located at 11, Gruzinky Val. The project has a GBA of 108,000 sq.m. (including underground parking) and an estimated GLA of 61,350 sq.m.

During 2015, the Company completed the steps for securing the land lease agreement with Moscow authorities.

Based on an independent valuation of the Company portfolio by Jones Lang LaSalle as of 31 December 2015, the fair value of Plaza IV was US\$68.6 million.

KOSSINSKAYA

Kossinskaya is mixed-use building totalling 111,700 sqm with nine aboveground floors and a single underground level. The property was constructed in 2005. In November 2014, AFI Development's Board of Directors decided to place on hold and reconsider further implementation of the development concept of Kossinskaya as apparel and fashion wholesale trade centre "Expolon", in light of the

⁵ According to the updated City development plan

current economic situation in Russia. The Company continues to explore various development options in light of the current economic situation.

Based on an independent valuation of the Company portfolio by JLL as of 31 December 2015, the fair value of Kossinskaya is US\$27.8 million.

LAND BANK

In addition to multiple yielding properties and projects under development, AFI Development also has a land bank which consists of projects that are not currently under development.

By retaining full flexibility regarding future development of these projects, the Company remains well placed to benefit from further recovery in the regional real estate markets. Given its strong track record in bringing projects to completion, this represents a significant competitive advantage for AFI Development.

AFI Development's strategy with respect to its land bank is to activate projects only upon securing necessary financing and having full confidence in the demand levels of prospective tenants or buyers.

Key Events Subsequent to 31 December 2015

Following the year-end the following key events occurred:

In March 2016 the Company subsidiary, Semprex LLC, entered into a preliminary agreement on the disposal of the Aquamarine Hotel and 25 underground parking places located at the Ozerkovskaya II project for total consideration of US\$27.5 million. The potential buyer is currently performing due diligence of the project, at the end of which the parties agreed to negotiate the final sale-purchase agreement. The Company expects the net cash flow from the transaction, should it be completed, to be circa US\$5 million, following partial repayment of the loan facility of Bellgate Constructions Limited ("Bellgate") (as stipulated by the mortgage agreement of the Aquamarine Hotel premises for the Bellgate's loan).

Disposals and Acquisitions

During 2015, the Company did not make any disposals.

During 2015, the Company made the following acquisition:

On 19 August 2015 the Company acquired remaining 10% share in Bioka Investments Limited, company holding development rights in the Botanic Garden project, and became 100% owner of the project. Total consideration of the transaction amounted to US\$1.6 million.

Presentation of Financial Information

Our consolidated financial statements were prepared in accordance with International Financial Reporting Standards ("IFRS"), as adopted by the European Union ("EU"), which were in effect at the time of preparing our consolidated financial statements, and the requirements of the Companies Law of Cyprus, Cap. 113. IFRS differs in various material respects from US GAAP and UK GAAP.

Financial policies and practices

Revenue Recognition

The key elements of our revenue recognition policies are as follows:

- **Rental income.** We recognise rental income from investment properties leased out under operating leases in our statement of comprehensive income on a straight line basis over the term of the lease. Rental income also includes income from hotels operations.

Hotel operation income

Income from hotel operations comprises of accommodation, treatments and other services offered at the hotels operated by the group and sales of food and beverages and are recognised upon offering of the service and the acceptance by the client.

- **Sales of trading properties.** We recognise revenue from the sale of trading properties in our statement of comprehensive income when the risks and rewards of ownership of the property are transferred to the buyer. When we receive down payments in connection with the sale of trading property that is under construction, we record this figure in the current liabilities on our balance sheet at the time of sale.
- **Construction Management fee.** Revenue from construction management is recognised in profit or loss in proportion to the stage of completion of the transaction at the reporting date. The stage of completion is assessed by reference to surveys of work performed.

Operating expenses

Operating expenses consist mainly of employee wages, social benefits and property operating expenses, including property tax, which are directly attributable to revenues. We recognise as expenses in our statement of comprehensive income the costs of those employees who have provided construction consulting and construction management services with respect to our investment and trading property. We also recognise property operating costs (including outsourced building maintenance), utilities, security and other tenant services related to our properties that generate rental income, as expenses on our statement of comprehensive income.

Administrative expenses

Our administrative expenses comprise primarily of general and administrative expenses such as, audit and consulting, marketing costs, charity, travelling and entertainment, office equipment as well as depreciation expenses related to our office use motor vehicles, bad debt provisions and other provisions.

Profit on disposal of investment in subsidiaries

We recognise profit or loss from the sale of interests in our subsidiaries when the risks and rewards of ownership are transferred to the buyer in the transaction.

Share of the after tax (loss)/profit of joint ventures

A joint venture is an arrangement in which the Group has joint control, whereby the Group has rights to the net assets of the arrangement, rather than rights to its assets and obligations for its liabilities. Interests in joint ventures are accounted for using the equity method. They are initially recognised at cost, which includes transaction costs. Subsequent to initial recognition, the consolidated financial statements include the Group's share of the profit or loss and OCI of equity-accounted investees, until the date on which joint control ceases.

Gross Profit

Gross profit is the result of the Group's operations and comprises revenue and other income net of all cost for trading properties sold and operating, administrative and other expenses, recognised in profit or loss during the year.

Revaluation of investment property

An external, independent valuation company, having appropriate recognised professional qualifications and recent experience in the location and categories of properties being valued, values the Company's investment property portfolio every six months. The fair values are based on market values, being the estimated amount for which a property could be exchanged on the date of the valuation in a transaction between a willing buyer and a willing seller after proper marketing, wherein the parties had each acted knowledgeably, prudently and without compulsion. The difference between revalued fair value of investment property and its book value is recognised as gain or loss in the statement of comprehensive income.

Operating profit before net finance costs

Operating profit before net finance costs is calculated by adding revenue, other income, profit on disposal of investment in subsidiaries and valuation gains on investment property, and subtracting operating expenses, administrative expenses and other expenses.

Finance income

Our finance income comprises net foreign exchange gain, if any, and interest income. We recognise foreign exchange gains and losses, principally in connection with US Dollar or other foreign currency denominated payables and receivables of our Russian subsidiaries, whose functional currency is the Russian Rouble. Our interest income is derived primarily from interest on our bank deposits and interest on loans to our joint ventures.

Finance expenses

Our finance expense comprises net foreign exchange loss, if any, and interest expense on outstanding loans less interest capitalised. We recognise foreign exchange gains and losses principally in connection with US Dollar denominated payables and receivables of our Russian subsidiaries, whose functional currency is the Russian Rouble. We capitalise our interest expense with respect to our development projects that are under construction, for which amounts are not reflected as expenses in our statement of comprehensive income. When funds are borrowed specifically for a particular project, we capitalize all actual borrowing costs related to the project less income earned on the temporary investment of such borrowings and when funding for a project is obtained from our general funds, we capitalise only funding costs related to the particular project based on the weighted average of the borrowing costs applicable to our general funds. Capitalisation of borrowing costs commences when the activities to prepare the asset are in process and expenditures and borrowing costs are being incurred. Capitalisation of borrowing costs may continue until the assets are substantially ready for their intended use.

Foreign currency gain or loss on financial assets and financial liabilities is reported on a net basis as either finance income or finance expense depending on whether foreign currency movements are in a net gain or net loss position.

Income tax expense

Income taxes are calculated based on tax legislation applicable to the country of residence of each of our subsidiaries and, as a company based and organised in Cyprus, we are subject to income tax in Cyprus. We and our Cypriot subsidiaries are currently subject to a statutory corporate income tax rate of 12.5% in Cyprus. Our Russian subsidiaries were subject to corporate income tax at a rate of 20%.

Capitalisation of Costs for Properties under Development

We capitalise all costs directly related to the purchase and construction of properties being developed as both investment properties and trading properties, including costs to acquire land rights and premises, design costs, permit costs, costs of general contractors, costs relating to the lease of the underlying land and the majority of our employee costs related to such projects.

In addition, we capitalise financing costs related to development projects only during the period of construction of the projects. We do not, however, commence the capitalising of financing costs related to expenditures on a project until construction on each project begins. Since the Company's adoption of IAS 40 from 1 January 2009, upon completion of construction works, property classified as investment property under development (which are those properties that are being constructed or developed for future use to earn rental income or for capital appreciation) is appraised to market value and reclassified as an investment property and any gain or loss on appraisal is recognised in our statement of comprehensive income. Trading properties, which include those projects where we intend to sell the entire project as a whole or in part (this principally includes our residential development projects), are represented on our balance sheet at the lower of cost and net realizable value, which is the estimated selling price in the ordinary course of business, less the estimated costs of completion and sale.

Exchange Rates

Our consolidated financial statements are presented in US Dollars, which is our functional currency. The functional currency of our Russian subsidiaries and joint ventures and one Cyprus company is the Russian Rouble. The balance sheets of our Russian subsidiaries are translated into US Dollars in accordance with IAS 21, whereby assets and liabilities are translated into US Dollars at the rate of exchange prevailing at the balance sheet date and income and expense items are translated into US Dollars at the average exchange rate for the period. If the volatility of the exchange rates is high for a given year or period the Company uses the average rate for shorter periods i.e. quarters or months for income and expense items. All resulting foreign currency exchange rate differences are recognised directly in our shareholders' equity under the line item "translation reserve." When a foreign operation is disposed of in its entirety or partially such that control or joint control is lost, the cumulative amount in the translation reserve related to that foreign operation is reclassified to profit or loss as part of the

gain or loss on disposal. The monetary assets and liabilities of our Russian subsidiaries that are denominated in currencies other than Russian Roubles are initially recorded by our subsidiaries at the exchange rate between the Russian Rouble and such foreign currency prevailing at such date. Such monetary assets and liabilities are then retranslated into Russian Roubles at the exchange rate prevailing at each subsequent balance sheet date. We recognise the resulting exchange rate differences between the dates at which such assets or liabilities were originally recorded and at subsequent balance sheet dates as foreign exchange losses and gains in our statement of comprehensive income. In particular, during the period under review, we have recognised foreign exchange rate gains and losses in connection with US Dollar denominated payables and receivables of our Russian subsidiaries.

Recovery of VAT

We pay VAT to the Russian authorities with respect to construction costs and expenses incurred in connection with our projects, which, according to Russian tax law, can be recovered upon completion of construction. Under a revised Russian VAT legislation, VAT can also be claimed during the period of construction provided that all required documentation is presented to the VAT authorities. We have accordingly included recoverable VAT as an asset on our balance sheet, the size of which we expect will slightly decrease as the development of our projects advances and necessary documents will be obtained.

Deferred Taxation

Deferred tax is recognised in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes.

Under Russian tax law, we are not allowed to capitalise certain of the costs in relation to the design, construction and financing of projects that we capitalise for the purposes of our consolidated financial statements under IFRS. As a result, our tax bases in the related assets may be lower than our accounting bases for IFRS purposes, which would result in deferred tax liabilities. However, the recognition of such costs as expenses may result in accumulated tax losses for Russian tax purposes that we may be able to carry forward against estimated future profits, resulting in deferred tax assets. However, such tax losses may only be carried forward to offset gains for a ten-year period under Russian tax law and they may only be utilised in the Russian subsidiary/branch in which such tax losses were generated.

Measurement of fair values

Our future results of operations may be affected by our measurement of the fair value of our investment properties and changes in the fair value of such properties. Upon completion of construction, the projects that we have classified as investment property under development are reassessed at fair value and reclassified as investment property, and any gain or loss as a result of reassessment is recognised in our statement of comprehensive income.

Any change in fair value of the investment property under development is thereafter recognised as a gain or loss in the statement of comprehensive income. Accordingly, fair value measurements of investment properties under development may significantly affect results of operations even if the Company does not dispose of such assets.

We have 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 CFO. 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 such valuations meet the requirements of IFRS, including the level in the fair value hierarchy in which such valuations should be classified.

Results of Operations

Description of Statement of comprehensive income Line Items

Summary of statement of comprehensive income for 2015 and 2014

| US\$ million | For the year ended 31 December 2015 | For the year ended 31 December 2014 | Change 2015 / 2014 | |
|--|--|--|--------------------|----------------|
| Revenue | | | | |
| Construction consulting/management services | 0.1 | 0.2 | (0.1) | (39.1)% |
| Rental income | 92.9 | 141.4 | (48.5) | (34.3)% |
| Sale of residential | 0.7 | 2.4 | (1.7) | (72.0)% |
| | 93.7 | 144.1 | (50.4) | (35.0)% |
| Expenses | | | | |
| Other income | 3.1 | 3.5 | (0.4) | (11.4)% |
| Operating expenses | (40.5) | (62.5) | 22.0 | (35.2)% |
| Administrative expenses | (10.6) | (22.3) | 11.7 | (52.3)% |
| <i>including Bad debt provisions and write-offs</i> | 0.1 | (4.6) | 4.7 | (102.2)% |
| Cost of sales of residential | (0.6) | (1.6) | 1.0 | (62.7)% |
| Other expenses | (1.6) | (6.8) | 5.1 | (75.7)% |
| | (50.4) | (89.7) | 39.3 | (43.9)% |
| Share of the after tax (loss)/profit of joint ventures | (1.3) | (4.5) | 3.1 | (70.3)% |
| | | | | |
| Gross profit | 42.1 | 49.9 | (7.8) | (15.6)% |
| | | | | |
| Profit on disposal of investments in subsidiaries | - | 0.1 | (0.1) | - |
| | | | | |
| Valuation loss on properties | (434.4) | (85.9) | (348.5) | 405.8% |
| Impairment loss on inventory of real estate | (12.7) | (8.9) | (3.8) | 42.3% |
| | | | | |
| Results from operating activities | (404.9) | (44.7) | (360.2) | 805.1% |
| | | | | |
| Finance income | 4.2 | 7.0 | (2.8) | (39.9)% |
| Finance expense | (46.2) | (60.8) | 14.7 | (24.1)% |
| FX Gain/(Loss) | (110.3) | (224.8) | 114.5 | (50.9)% |
| Net finance income/(costs) | (152.3) | (278.6) | 126.3 | (45.3)% |

| | | | | |
|--|----------------|----------------|----------------|--------------|
| Profit before income tax | (557.2) | (323.3) | (233.8) | 72.3% |
| Income tax expense | 90.5 | 36.0 | 54.5 | 151.1% |
| Loss from continuing operations | (466.7) | (287.3) | (179.4) | 62.4% |

Revenue – General Overview

To date, we have derived revenues from three sources: rental income, sale of residential properties and construction consulting and management fees.

Rental income

We derive rental income from our investment properties and hotels that we acquired or developed in the past.

| US\$ million | For the year ended 31 December 2015 | For the year ended 31 December 2014 | Change 2015/2014 | |
|--------------------------------------|-------------------------------------|-------------------------------------|------------------|---------|
| | | | US\$ million | %% |
| Investment property | | | | |
| AFIMALL City | 71.3 | 107.0 | (35.7) | (33.4)% |
| H2O office building | 1.2 | 2.1 | (0.9) | (44.0)% |
| Berezhkovskaya office building | 2.3 | 4.3 | (2.0) | (46.0)% |
| Paveletskaya I | 1.4 | 4.0 | (2.6) | (66.1)% |
| Premises at Bolshaya Pochtovaya | 2.7 | 5.1 | (2.4) | (46.7)% |
| Premises at Plaza IV (Gruzinsky Val) | 0.0 | 0.1 | (0.1) | (52.3)% |
| Premises at Tverskaya Zastava Square | 1.9 | 3.4 | (1.5) | (43.8)% |
| Ozerkovskaya (Aquamarine) III | 0.6 | 0.1 | 0.5 | 470.5% |
| Other land bank assets | 0.2 | 0.1 | 0.0 | 10.9% |
| Hotels | | | | |
| Aquamarine hotel | 5.1 | 7.2 | (2.1) | (29.3)% |
| Plaza Spa Hotel (Zheleznovodsk) | 6.2 | 8.0 | (1.8) | (22.6)% |
| | | | | |
| Total | 92.9 | 141.4 | (48.5) | (34.3)% |

Sale of residential

| US\$ million | For the year ended 31 December 2015 | For the year ended 31 December 2014 | Change 2015/2014 | |
|---------------------|-------------------------------------|-------------------------------------|------------------|----------------|
| | | | US\$ million | %% |
| Revenue | | | | |
| Ozerkovskaya II | 0.6 | 2.4 | (1.8) | (74.1)% |
| 4 Winds residential | 0.1 | - | 0.1 | 100.0% |
| Total | 0.7 | 2.4 | (1.7) | (72.0)% |

Operating expenses. Our operating expenses decreased by US\$22.0 million, from US\$62.5 million in 2014 to US\$40.5 million in 2015. The year-on-year decrease of 35.2% is attributable to cost saving and rouble devaluation versus the dollar.

Administrative expenses. Our administrative expenses decrease by US\$11.7million or 52.3% year-on-year, from US\$22.3 million in 2014 to US\$10.6 million in 2015. The decrease is attributable to decrease in bad debt provision from US\$4.6 of charge in 2014 to US\$0.1 of reverse in 2015 and other cost saving process in the Company.

Net valuation gain/(losses) on properties. Net result of investment property valuation decreased from a loss of US\$85.9 million in 2014 to a loss of US\$434.4 million in 2015. For additional information, please refer to "Portfolio Valuation" section below.

Impairment loss on inventory of real estate. Net result of real estate impairment decreased from a loss of US\$8.9 million in 2014 to a loss of US\$12.7 million in 2015. For additional information, please refer to "Portfolio Valuation" section below.

Finance income. Our finance income decreased by US\$2.8 million or 39.9% year-on-year, from US\$7 million in 2014 to US\$4.2million in 2015. The decrease was a result of the change in the Company financial investments portfolio.

Finance expense. Our finance expense decreased by US\$14.7million or 24.1% year-on-year, from US\$60.8 million in 2014 to US\$46.2 million in 2015. The decrease is due to repayment of principal amount of loans by US\$38.0 million and overall rouble devaluation versus the dollar.

FX Gain/(Loss). We recorded a foreign exchange loss of US\$110.3million in 2015, against a loss of US\$224.8 million in 2014. This was a result of Russian Rouble depreciation versus the US Dollar during 2015.

Income tax expense. Our current tax expense increased to US\$0.8 million compared to US\$0.6million in 2014.

Profit/Loss for the year. Due to the factors described above, we recorded a US\$466.7 million net loss for 2015 compared to net loss of US\$287.3 million for 2014.

Liquidity and Capital Resources

Cash flows

Summary of cash flows for 2015 and 2014

| US\$ thousand | For the year ended 31 December 2015 | For the year ended 31 December 2014 |
|--|--|--|
| Net cash from operating activities | 34,374 | 64,494 |
| Net cash from/(used in) investing activities | (14,815) | (116,540) |
| Net cash from/(used in) financing activities | (80,003) | (42,183) |
| Effect of exchange rate fluctuations | 233 | (12,345) |
| Net increase/(decrease) in cash and cash equivalents | (60,211) | (106,574) |
| Cash and cash equivalents at 1 January | 86,756 | 193,330 |
| Cash and cash equivalents at 31 December* | 26,545 | 86,756 |

* Note: the cash and cash equivalents do not include US\$15.9 million (2014: US\$6.5 million) fair value of marketable securities.

Net cash from operating activities

Net cash from operating activities decreased to US\$ 34.4 million in 2015, from US\$64.5million in 2014. The decrease is attributable to the fact that sales of residential units in Odintsovo, nominated in Russian rouble, created lower USD positive cash flow due to rouble depreciation.

Net cash from investing activities

Net cash outflow from investing activities amounted to US\$ 14.8 million is attributable to payments for construction of investment property under development and acquisition of investments in marketable securities.

Net cash used in financing activities

Net cash used in financing activities increased to a negative US\$80.0 million in 2015 from a negative US\$42.2 million in 2014 due to the fact that the Company repaid part of principal amount and interests during 2015.

Capital Resources

Capital Requirements

We require capital to finance capital expenditures, consisting of cash outlays for capital investments in active real estate development projects; repayment of debt; changes in working capital; and general corporate activities.

Real estate development is a capital-intensive business, and we expect to have significant ongoing liquidity and capital requirements in order to finance our active development projects.

For the foreseeable future, we expect that we will continue to rely on our financing activities to support our investing and operating activities. We also expect that our capital expenditures in connection with the development of real estate properties will comprise the majority of our cash outflows for the foreseeable future.

We completed 2015 with of approximately US\$42.5 million cash, cash equivalents and marketable securities on our balance sheet and a debt⁶ to equity level of 77%.

Our financing strategy aims to maximize the amount of debt financing for projects under construction while maintaining healthy loan-to-value levels. After delivery and commissioning we aim to refinance the properties at more favourable terms, including longer amortisation periods, lower interest rates and higher principal balloon payments. Property rights and shares of property holding companies are mainly used as collateral for the debt. We strongly prefer, whenever possible, to use non-recourse project level financing.

⁶ Debt includes all loans and borrowings. For further details please see note 28 to the Financial Statements.

As of December 31, 2015 our debt portfolio was as follows:

| Project | Lending bank | Max debt limit | Principal balance as of Dec-31, 2015 | Available (US\$ mn) | Nominal Interest rate | Currency | Maturity |
|-----------------------|--------------------------------|----------------|--------------------------------------|---------------------|--|----------|------------------|
| | | (US\$ mn) | (US\$ mn) | | | | (dd.mm.yy) |
| AFIMALL City | VTB Bank JSC | 21 billion rub | 132.4 | 0 | 9.5% | RUR | 01.04.2018 |
| | | | 283.4 | | 3-month LIBOR + 5.02% | US\$ | |
| Krown Investments LLC | VTB Bank JSC | 220.0 | 193.0 | 0 | 3-month LIBOR + 7% | US\$ | 26.01.2018* |
| Investment activity | Julius Baer & Co. Ltd., Zurich | 10.0 | 4.7 | 0 | refinancing rate of the Bank plus 0.75% p.a. | US\$ | unlimited period |

* In January 2015 the loan was refinanced by VTB Bank JSC, please refer to Note 28 to the Consolidated Financial Statement

The total balance of secured Debt financing reached US\$613.9 million as at 31 of December 2015, including US\$613.5 million of Principal Debt and US\$0.4 million of accrued interest with average interest rate 7.05% per annum as at 31.12.2015 (6.88% per annum as at 31.12.2014) (for more details see note 28 to our consolidated financial statements).

As at 31 December 2015, our loans and borrowings were payable as follows:

| US\$ thousand | As at 31 December 2015 | As at 31 December 2014 |
|----------------------------|------------------------|------------------------|
| Less than one year | 224,315 | 231,684 |
| Between one and five years | 389,799 | 455,097 |
| Total | 614,114 | 686,781 |

In November 2015, the Company received a notice from VTB Bank on decision of the bank to postpone the applicability of covenants in the loan agreement of Krown Investments Limited ("Krown") for the Ozerkovskaya III project. According to the decision, the Loan-To-Value covenant (previously applicable from Q1 2015 onwards) shall be applicable from Q2 2017, while the Debt Service Coverage Ratio covenant (previously applicable from Q4 2015 onwards), shall be applicable from Q2 2017 onwards (based on Q1 2017 financial results). AFI Development's subsidiary owning and operating AFIMALL City, Bellgate Construction Limited, will provide a guarantee for the full amount of

the loan of Krown, and AFIMALL City premises will be mortgaged in a secondary mortgage as additional collateral for the loan by Krown. The decision of the Bank will become legally binding, following the execution of addendum to the loan agreement and related documents.

As of the date of publication of these Financial Statements, the addendum to the loan agreement and the related documents have not yet been signed, as the parties still negotiate some issues in the addenda.

Based on the latest independent valuation as at 31 December 2015, of the Ozerkovskaya III project, Krown, has not met the Loan to Value covenant and the Bank may require a partial repayment of the principal of the loan sufficient to rectify the breach of the covenants, within 90 calendar days from the date of the Bank notification. The DSCR ratio covenant of the Krown loan agreement has not been met either, based on the performance results of Q4 2015.

Krown is, therefore, in breach of both covenants in its loan facility agreement. Based on this, the total amount of the outstanding loan (US\$193 million) was reclassified to current liabilities.

Portfolio Valuation

From the current reporting period and onwards AFI Development Plc has appointed Jones Lang LaSalle LLC ("JLL") as the Company independent appraisers. As at 31 December 2015, based on the JLL independent appraisers' report, the value of AFI Development's portfolio of investment properties stood at US\$933.7 million, while the value of the portfolio of investment property under development stood at US\$ 238.9 million.

Consequently, the total value of the Company's assets, based predominantly on independent valuation as of 31 December 2015, was US\$1.4 billion, compared to US\$2.0 billion as at 31 December 2014.

| | Property | Valuation 31/12/2015, US Dollars | Valuation 31/12/2014, US Dollars | Change in valuation, % | Balance sheet value 31/12/2015, US Dollars | Balance sheet value 31/12/2014, US Dollars |
|--|---|--|--|------------------------------|--|--|
| Investment property | | | | | | |
| 1 | H2O ⁷ | 8,925,606 | 12,100,000 | -26% | 9,000,000 | 12,100,000 |
| 2 | Ozerkovskaya Phase III | 199,300,000 | 300,000,000 | -34% | 199,300,000 | 300,000,000 |
| 3 | Berezhkovskaya ⁸ | 11,470,000 | 15,762,000 | -27% | 15,500,000 | 21,300,000 |
| 4 | AFIMALL City | 685,200,000 | 1,000,000,000 | -31% | 685,200,000 | 1,000,000,000 |
| 5 | Paveletskaya I ⁷ | 11,504,114 | 19,338,150 | -41% | 11,600,000 | 19,500,000 |
| 6 | Plaza II | 9,200,000 | 15,200,000 | -39% | 9,200,000 | 15,200,000 |
| 7 | Plaza Ib | 3,400,000 | 5,400,000 | -37% | 3,400,000 | 5,400,000 |
| 8 | Sadovaya -Samotechnaya | 500,000 | 1,916,234 | -74% | 500,000 | 1,916,234 |
| | Total | 929,499,720 | 1,369,716,384 | -32% | 933,700,000 | 1,375,416,234 |
| Investment property under development | | | | | | |
| 9 | Plaza Ic | 65,500,000 | 87,700,000 | -25% | 65,500,000 | 87,700,000 |
| 10 | Plaza Ila | 1,900,000 | 3,600,000 | -47% | 1,900,000 | 3,600,000 |
| 11 | Plaza IV ⁹ | 65,170,000 | 101,753,623 | -36% | 68,600,000 | 107,109,076 |
| 12 | Paveletskaya Phase II ⁷ | - | 66,840,580 | -100% | - | 67,400,000 |
| 13 | Kossinskaya | 27,800,000 | 53,700,000 | -48% | 27,800,000 | 53,700,000 |
| 14 | Bolshaya Pochtovaya | 71,460,000 | 108,300,000 | -34% | 71,460,000 | 108,300,000 |
| | Total | 231,830,000 | 421,894,203 | -45% | 235,260,000 | 427,809,076 |
| Trading property & Trading property under development | | | | | | |
| 15 | Odinburg | n/a | n/a | - | 148,452,242 | 133,035,537 |
| 16 | Four Winds Residential | n/a | n/a | - | - | 624,284 |
| 17 | Ozerkovskaya II | n/a | n/a | - | 2,062,354 | 2,355,115 |
| 18 | Paveletskaya Phase II | 55,477,600 | - | n/a | 55,940,000 | - |
| | Total | 55,477,600 | - | - | 206,454,596 | 136,014,935 |
| Inventory of real estate | | | | | | |
| 19 | Botanic Garden | 18,570,000 | 18,100,000 | 3% | 18,570,000 | 20,111,111 |
| | Total | 18,570,000 | 18,100,000 | 3% | 18,570,000 | 20,111,111 |
| Land Bank Properties | | | | | | |
| 20 | Ruza | n/a | n/a | n/a | 3,665,000 | 3,665,000 |
| | Total | - | - | 0% | 3,665,000 | 3,665,000 |
| Hotels | | | | | | |
| 21 | Aquamarine Hotel | n/a | n/a | - | 13,075,377 | 17,343,063 |
| 22 | Plaza Spa Hotel in Kislovodsk ¹⁰ | n/a | n/a | - | 11,560,988 | 14,414,050 |
| 23 | Kalinina Hotel in Zheleznovodsk | n/a | n/a | - | 9,093,415 | 12,249,094 |
| 24 | Park Plaza hotel developments in Kislovodsk | n/a | n/a | - | 3,319,081 | 4,241,520 |
| 25 | Versailles project in Kislovodsk | n/a | n/a | - | - | - |
| | Total | - | - | - | 37,048,861 | 48,247,727 |
| | Grand Total | 1,235,377,320 | 1,809,710,586 | -32% | 1,434,698,457 | 2,011,264,084 |

⁷ Valuation figures represent Company's share (99%)

⁸ Valuation figures represent Company's share (74%)

⁹ Valuation figures represent Company's share (95%)

¹⁰ The project portfolio includes 50% owned joint ventures, which are accounted by equity method

Principal Risks and Uncertainties Affecting the Company

This section presents information about the Company's exposure to each of the risks listed below, the Group's objectives, policies and processes for measuring and managing risks.

Risk management framework

The Board of Directors has overall responsibility for the establishment and oversight of the Company's risk management framework and is responsible for developing and monitoring the Company's risk management policies.

The Company's risk management policies are established to identify and analyse the risks faced by the Company, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions and the Company's activities. The Company, through its training and management standards and procedures, aims to develop a disciplined and constructive control environment in which all employees understand their roles and obligations.

The Company's Audit Committee oversees how management monitors compliance with the Company's risk management policies and procedures, and reviews the adequacy of the risk management framework in relation to the risks faced by the Group. The Company's Audit Committee is assisted in its oversight role by Internal Audit. Internal Audit undertakes both regular and ad hoc reviews of risk management controls and procedures, the results of which are reported to the Audit Committee and the whole Board of Directors. The Board of Directors requests the management to take corrective actions as necessary and make follow up reports to the Audit Committee and to the Board on addressing deficiencies found.

Credit risk

Credit risk is the risk of financial loss to AFI Development if a customer or counterparty to a financial instrument fails to meet its contractual obligations and arises principally from the Company's receivables from customers and investment securities.

Trade and other receivables

Financial assets that are potentially subject to credit risk consist principally of trade and other receivables. The carrying amount of trade and other receivables represents the maximum amount exposed to credit risk. Credit risk arises from cash and cash equivalents as well as credit exposures with respect to rental customers, including outstanding receivables. The Company has policies in place to ensure that, where possible, rental contracts are made with customers with an appropriate credit history. Cash transactions are limited to high-credit-quality financial institutions. The utilisation of credit limits is regularly monitored.

AFI Development has no other significant concentrations of credit risk, although collection of receivables could be influenced by economic factors.

Investments

The Company limits its exposure to credit risk by investing only in liquid securities and only with counterparties that have a high credit rating. Management actively monitors credit ratings and given that the Group only has invested in securities with high credit ratings, management does not expect any existing counterparty to fail to meet its obligations, except as disclosed in note 33 to the Company's Audited Financial Statements for year 2014.

Guarantees

The Company's policy is to provide financial guarantees only to wholly-owned subsidiaries in exceptional cases. In negotiations with lending banks the Company is aiming to avoid recourse to AFI Development on loans taken by subsidiaries. As at 31 December 2015, there were two outstanding guarantees: one for the amount of US\$1 million in favour of VTB Bank JSC under a loan facility agreement of Bellgate Construction Limited (AFIMALL City) and the second one for the amount of US\$ 193.4 million in favour of VTB Bank JSC under a loan facility agreement of Krown Investments

LLC (Ozerkovskaya III).

Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due. AFI Development's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Company's reputation. Prudent liquidity risk management implies maintaining sufficient cash, the availability of funding through an adequate amount of committed credit facilities and the ability to close out market positions. Due to the dynamic nature of the underlying businesses, the Company aims to maintain flexibility in its funding requirements by keeping cash and committed credit lines available.

AFI Development's liquidity position is monitored on a daily basis by the management, which takes necessary actions if required. The Company structures its assets and liabilities in such a way that liquidity risk is minimised.

Market risk

Market risk is the risk that changes in market prices, such as foreign exchange rates, interest rates and equity prices will affect the Company's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the available returns for shareholders. We are exposed to market risks from changes in both foreign currency exchange rates and interest rates. We do not use financial instruments, such as foreign exchange forward contracts, foreign currency options and forward rate agreements, to manage these market risks. To date, we have not utilised any derivative or other financial instruments for trading purposes.

Interest rate risk

We are subject to market risk deriving from changes in interest rates, which may affect the cost of our current floating rate indebtedness and future financing. As of 31 December 2014, 27% of our financial liabilities were fixed rate. For more detail see note 33 to our consolidated financial statements.

Currency risk

The Company is exposed to currency risk on future commercial transactions, recognised monetary assets and liabilities and net investments in foreign operations that are denominated in a currency other than the respective functional currencies of AFI Development's entities, primarily the US Dollar and Russian Rouble.

Operational risk

Operational risk is the risk of direct or indirect loss arising from a wide variety of causes associated with the Company's processes, personnel, technology and infrastructure, and from external factors other than credit, market and liquidity risks such as those arising from legal and regulatory requirements and generally accepted standards of corporate behaviour. Operational risks arise from all of the Group's operations.

The Company's objective is to manage operational risk so as to balance the need to avoid financial losses and damage to the Group's reputation with overall cost effectiveness.

The primary responsibility for the development and implementation of controls to address operational risk is assigned to senior management within each business unit. This responsibility is supported by the development of overall Company standards for the management of operational risk. Compliance with Company standards is supported by a programme of periodic reviews undertaken by way of internal audits. The results of the internal audit reviews are discussed with the management of the business unit to which they relate, with summaries submitted to the Audit Committee and the Board of Directors.

Critical Accounting Policies

Critical accounting policies are those policies that require the application of our management's most challenging, subjective or complex judgments, often as a result of the need to make estimates about

the effect of matters that are inherently uncertain and may change in subsequent periods. Critical accounting policies involve judgments and uncertainties that are sufficiently sensitive to result in materially different results under different assumptions and conditions. We believe that our most critical accounting policies are those described below.

A detailed description of certain of the main accounting policies we use in preparing our consolidated financial statements is set forth in notes 3 and 5 to our consolidated financial statements.

Estimates regarding fair value

We make estimates and assumptions regarding the fair value of our investment properties that have a significant risk of causing a material adjustment to the amounts of assets and liabilities on our balance sheet. In particular, our investment properties under development (which currently comprise the majority of our projects) are remeasured at fair value upon completion of construction and the gain or loss on remeasurement is recognised in our income statement, as appropriate. In forming an opinion on fair value, we consider information from a variety of sources including, among others, the current prices in an active market, third party valuations and internal management estimates.

The principal assumptions underlying our estimates of fair value are those related to the receipt of contractual rentals, expected future market rentals, void/vacancy periods, maintenance requirements and discount rates that we deem appropriate. We regularly compare these valuations to our actual market yield data and actual transactions and those reported by the market. We determine expected future market rents on the basis of current market rents for similar properties in the same location and condition. For further details, please refer to Note 3 to our consolidated financial statements.

Impairment of financial assets

We recognise impairment losses with respect to financial assets, including loans receivable and trade and other receivables, in our income statement if objective evidence indicates that one or more events have had a negative effect on the estimated future cash flows of that asset. We test significant financial assets for impairment on an individual basis and assess our remaining financial assets collectively in groups that share similar credit characteristics. Impairment losses with respect to financial assets are calculated as the difference between the asset's carrying amount and the present value of the estimated future cash flows of the asset discounted at the original effective interest rate of that asset.

Estimating the discounted present value of the estimated future cash flows of a financial asset is inherently uncertain and requires us both to make an estimate of the expected future cash flows from the asset and also to choose a suitable discount rate in order to calculate the present value of those cash flows. Changes in one or more of these estimates can lead us to either recognizing or avoiding impairment charges

Impairment of non-financial assets

We recognise impairment loss with respect to non-financial assets, including investment property under development and trading properties under construction, if the carrying amount of the asset exceeds its recoverable amount. The recoverable amount of an asset is the greater of its value in use and its fair value less costs to sell. In assessing value in use, we discount estimated future cash flows of the asset to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. The carrying amounts of impaired non-financial assets are reduced to their estimated recoverable amount either directly or through the use of an allowance account and we include the amount of such loss in our income statement for the period.

We assess at each reporting date whether there is any indication that a non-financial asset may be impaired. If any such indication exists, we then estimate the recoverable amount of the asset. Estimating the value in use requires us to make an estimate of the expected future cash flows from the asset and also to choose a suitable discount rate in order to calculate the present value of those cash flows. The development of the value in use amount requires us to estimate the life of the asset, its expected cash flows over that life and the appropriate discount rate, which is primarily based on our weighted average cost of capital, itself subject to additional estimates and assumptions. Changes in one or all of these assumptions can lead to us either recognizing or avoiding impairment charges.

Deferred income taxes

We are required to estimate our income taxes in each of the jurisdictions in which we operate. This process involves a jurisdiction-by-jurisdiction estimation of actual current tax exposure and the assessment of the temporary differences resulting from differing treatment of items, such as capitalization of expenses, among others, for tax and financial reporting purposes. These differences result in deferred tax assets and liabilities, which are included within our consolidated balance sheet. We must assess, in the course of our tax planning process, our ability and the ability of our subsidiaries to obtain the benefit of deferred tax assets based on expected future taxable profit and available tax planning strategies. If, in our management's judgment, the deferred tax assets recorded will not be recovered, a valuation allowance is recorded to reduce the deferred tax asset.

Significant management judgment is required in determining our provision for income taxes, deferred tax assets, deferred tax liabilities and valuation allowances to reflect the potential inability to fully recover deferred tax assets. In our consolidated financial statements the analysis is based on the estimates of taxable income in the jurisdictions in which we operate and the period over which the deferred tax assets and liabilities will be recoverable.

If actual results differ from these estimates, or we adjust these estimates in future periods, we may need to establish an additional valuation allowance which could adversely affect our financial position and results of operations.

Share-based payment transactions

The fair value of employee share options is measured using a binomial lattice model. The fair value of share appreciation rights is measured using the Black-Scholes formula. Measurement inputs include share price on the measurement date, exercise price of the instrument, expected volatility (based on weighted average historic volatility adjusted for changes expected due to publicly available information), weighted average expected life of the instruments (based on historic experience and general option holder behaviour), expected dividends and the risk-free interest rate (based on government bonds). Service and non-market performance conditions attached to the transactions are not taken into account in determining fair value.

Related Party transactions

There were no related party transactions (as defined in UK Listing Rules) in the financial year ended 31 December 2015 or in the period since 31 December 2015.

AFI DEVELOPMENT PLC

Annex A to the MD&A

Below is additional information regarding the Company's business and portfolio. Terms not expressly defined herein shall have the meaning ascribed thereto in the MD&A.

Real Estate Development

General Information on this Area of Activities

AFI Development PLC and its subsidiaries ("the Group") plans, develops and constructs residential units held for sale. The Company's revenues from real estate development in Russia derive, mainly, from the development, renovation and sale of residential units and/or properties designated for residential purposes, alone or together with partners in joint ventures.

Products and Services of the Company's group

- A. **General** – the projects the Group plans and constructs in CIS are mostly zoned for mixed uses and/or commercial use, while some also include residential units intended for sale. The following tables present the Group's projects including, among others, construction for residential purposes. The Company is focusing on the construction and completion of a number of projects and it will decide on the construction of additional projects out of its inventory of projects based on the situation prevailing in the market. With respect to these projects, the Company will formulate a business plan including a forecast relating to the project budget and its completion date (and obviously relating to additional project components) when a decision to begin its construction is made. Therefore, the tables do not include any forecasts in connection with these projects.

It is noted that based on Russian law, upon completion of the construction of projects, the owner of the building (the construction of which was completed) is permitted to receive lease (including long-term lease), generally for 49 years, or ownership rights for the state or municipality-owned land on which the said building stands and that is needed for purposes of its use. In order to realize the ownership or lease right as stated, the owner of the building must submit a request to the relevant authority including the required documents, and within about one month from the submission date of the said request, the relevant authority will make a decision regarding provision of the lease or ownership rights. It is noted that under the new long-term lease agreement to be signed between the parties, the lessee of the land (who up until now had been merely the owner of the building) to pay the City lease fees (generally on a quarterly basis). Should the owner acquire ownership right to the land, it becomes payer of the land tax calculated based on the cadastral value of the land plots.

B. Set forth below information on residential projects under development as December 31, 2015:

(1) "Number of residential units sold" – based on signed contracts only¹¹

The information in the table below regarding expected completion date of the project is forward looking information which is based on Company's information as at the date of this report. It may be that due to reasons which are external to the Company, the project will not be completed on these dates.

| Location | No. of units under construction as at Dec. 31, 2015 cumulative | Additional commercial area under construction - sold | Additional commercial area under construction - unsold | Average sqm per unit (for gross construction) | Costs actually paid (consolidated) | Average completion rate of the project (consolidated) ¹² | Anticipated completion date ¹³ | No. of units sold (the Group's share) (not proportionately linked) as at | | | No. of units in inventory (the Group's share) (not concatenated) as at | | | No. of units sold after Dec. 31, 2015 and until March 17, 2016 (the Group's share (not proportional linkage)) |
|---|--|--|--|---|------------------------------------|---|---|--|----------|----------|--|----------|----------|---|
| | | | | | | | | 31.12.15 | 31.12.14 | 31.12.13 | 31.12.15 | 31.12.14 | 31.12.13 | |
| Stage 1 Odinburg, Odintsovo, Moscow Region Phase 1 | 723 | - | 2,119 | 56 | 148,452 | 22% | March 2016 | 702 | 559 | 106 | 21 | 164 | 617 | 4 |
| Stage 2 Odinburg, Odintsovo, Moscow Region Phase 1 | 706 | - | 1,797 | 60 | | | March 2017 | 106 | - | - | 598 | - | - | 26 |

¹¹ According to common market practice in Russia and to applicable Russian laws, preliminary sales of apartments during construction are done in the form of "contracts of participation in construction", which are executed between the developer and purchaser of an apartment. These contracts are registered with state authorities and enter into legal force after this state registration. However the Company considers that signed contracts have high probability of registration and entering into legal force and reports "units sold" as the number of contracts signed with the apartments purchasers.

¹² Average completion rate is calculated based on the completion rate of the dollar budget in rouble terms. Therefore, FX fluctuations influence the percentage of completion.

¹³ The information is forward-looking information based on the data available to the Group on the date of this Periodic Report. Due to factors beyond the Group's control, the project may not be completed on the date shown in the table.

| Location | No. of units under construction as at Dec. 31, 2015 cumulatively | Additional commercial area under construction - sold | Additional commercial area under construction - unsold | Average sqm per unit (for gross construction) | Costs actually paid (consolidated) | Average completion rate of the project (consolidated) ¹² | Anticipated completion date ¹³ | No. of units sold (the Group's share) (not proportionately linked) as at | | | No. of units in inventory (the Group's share) (not concatenated) as at | | | No. of units sold after Dec. 31, 2015 and until March 17, 2016 (the Group's share (not proportional linkage)) |
|---|--|--|--|---|------------------------------------|---|---|--|----------|----------|--|----------|----------|---|
| | | | | | | | | 31.12.15 | 31.12.14 | 31.12.13 | 31.12.15 | 31.12.14 | 31.12.13 | |
| AFI Residence at Paveletskaya (Stage 1+2+3) Moscow, Paveletskaya emb. | 769 ¹⁴ | - | 17,092 | 80 | 55,940 | 20% | 2019 | - | - | - | 769 | - | - | 34 |

According to the investment agreement, the project should contain 462,815 sq.m. of residential areas after completion and social amenities (such as a school, and a kindergarten, both of which will be constructed in two stages, etc.). As at the date of this Periodic Report, the property company has received approval for the planning and design documents and a building permit in effect until May 30, 2017, regarding the first two stages of the first phase of the construction of one residential building in the project containing 2,569 housing units, pursuant to the revised project documents.

Average price RUR per square meter on company projects as December 31, 2015:

| Project Name | 1.1.2016 – 17.3.2016 | 2015 | 2014 | 2013 |
|--------------------------------------|----------------------|---------|--------|--------|
| Odinburg – Phase 1, Stage 1 | 88,096 | 93,233 | 93,755 | 80,547 |
| Odinburg – Phase 1, Stage 2 | 88,687 | 89,482 | n/a | n/a |
| AFI Residence Paveletskaya (Stage 1) | 157,524 | 151,697 | n/a | n/a |

¹⁴ Consists of residential units and apartments

Expected information (000'\$):

The information in the table regarding total expected income, total expected costs, gross profit and its ratio is based on assumptions, forecast and/or business plans of the Company, of which there is no certainty of full realisation. It should be clarified that the estimation of the expected income is based on sale prices in the project and the expected cost (except of the land cost which is known in total or partially) is based mainly on signed contracts with constructors and advisors. Total expected income, total expected costs, gross profit and its ratio may differ from the information in the table in case that the Company's forecast or its business plan is not realised, fully or partially.

| Project Location | Anticipated revenues (consolidated) ¹⁵ | | | Costs actually paid (consolidated) | Expected costs (consolidated) ¹⁶ | | completion rate based on the cash flow of the project | Expected gross profit (consolidated) | Expected gross profit margin | Net Cash flow on project completion |
|--|---|-------------------------------------|---|------------------------------------|---|-----------------------|---|--------------------------------------|------------------------------|-------------------------------------|
| | Prepayments until Dec. 31, 2015 | Future debt balances for units sold | Inventory at selling prices as at Dec. 31, 2015 | | Costs to pay until end of inventory | Total expected costs | | | | |
| Odinburg, Odintsovo, Moscow Region Phase 1, Stage 1 Phase 1, Stage 2 | 53,115 | 741 | 47,729 | 148,452 ¹⁷ | 402,312 ¹⁸ | 550,764 ¹⁹ | 22% ²⁰ | 361,457 ²¹ | 39% ²² | 289,166 ²³ |

¹⁵ Expected revenues detailed hereinafter include revenues from the sale of commercial areas.

¹⁶ Expected costs detailed hereinafter include costs in respect of the construction of commercial areas.

¹⁷ The amounts are shown as total consolidated for Odinburg project

¹⁸ The amounts are shown as total consolidated for Odinburg project

¹⁹ The amounts are shown as total consolidated for Odinburg project

²⁰ The amounts are shown as total consolidated for Odinburg project

²¹ The amounts are shown as total consolidated for Odinburg project

²² The amounts are shown as total consolidated for Odinburg project

²³ The amounts are shown as total consolidated for Odinburg project

| Project Location | Anticipated revenues (consolidated) ¹⁵ | | | | Costs actually paid (consolidated) | Expected costs (consolidated) ¹⁶ | | completion rate based on the cash flow of the project | Expected gross profit (consolidated) | Expected gross profit margin | Net Cash flow on project completion |
|---|---|-------------------------------------|---|------------------------|------------------------------------|---|----------------------|---|--------------------------------------|------------------------------|-------------------------------------|
| | Prepayments until Dec. 31, 2015 | Future debt balances for units sold | Inventory at selling prices as at Dec. 31, 2015 | Total expected revenue | | Costs to pay until end of inventory | Total expected costs | | | | |
| AFI Residence at Paveletskaya (Stage 1+2+3) Moscow, Paveletskaya emb. | - | - | 211,301 | 211,301 | 55,940 | 104,016 | 159,956 | 20% | 51,345 | 24% | 41,076 |

Sensitivity Analysis

Following is a sensitivity analysis of gross profit of projects in which units sold are less than half of the inventory

| Odinburg – Phase 1, Stage 2 | | | | | | |
|-----------------------------|--------|--------|--------|--------|--------|--------|
| Costs/Sales | 90% | 95% | 98% | 100% | 103% | 110% |
| 90% | 11,639 | 14,626 | 16,120 | 17,613 | 19,107 | 23,587 |
| 95% | 9,299 | 12,286 | 13,780 | 15,273 | 16,766 | 21,247 |
| 98% | 8,129 | 11,116 | 12,609 | 14,103 | 15,596 | 20,077 |
| 100% | 6,959 | 9,946 | 11,439 | 12,933 | 14,426 | 18,906 |
| 103% | 5,789 | 8,776 | 10,269 | 11,763 | 13,256 | 17,736 |
| 105% | 4,619 | 7,606 | 9,099 | 10,593 | 12,086 | 16,566 |
| 110% | 2,279 | 5,266 | 6,759 | 8,252 | 9,746 | 14,226 |

| AFI Residence at Paveletskaya, Stage 1+2+3 | | | | | | |
|--|--------|--------|--------|--------|--------|---------|
| Costs/Sales | 90% | 95% | 98% | 100% | 103% | 110% |
| 90% | 70,682 | 81,237 | 86,514 | 91,791 | 97,069 | 112,901 |
| 95% | 65,481 | 76,036 | 81,313 | 86,591 | 91,868 | 107,700 |
| 98% | 62,881 | 73,435 | 78,713 | 83,990 | 89,268 | 105,100 |
| 100% | 60,280 | 70,835 | 76,112 | 81,390 | 86,667 | 102,499 |
| 103% | 57,680 | 68,235 | 73,512 | 78,789 | 84,067 | 99,899 |
| 105% | 55,080 | 65,634 | 70,912 | 76,189 | 81,466 | 97,299 |
| 110% | 49,879 | 60,433 | 65,711 | 70,988 | 76,266 | 92,098 |

Following are the details of projects not yet started (excluding contingent projects and excluding land reserves as detail below) as at December 31, 2015:

| Project, Location | Comp any share | Rights Acqui sition Date | Units according to valid City Building Plan | Units according to Company Plan | Primary additional, retail or office area (GBA, sqm) | Type of acquired rights | Cost of land in books as at December 31, 2015 (consolidated) | Total cost of the project (including land) (consolidat ed) | Anticipated gross profit margin ²⁴ | Anticipat ed gross profit margin (%) | Anticipated year of commencing construction | Statutory Status | |
|---|----------------------|-----------------------------------|--|---|--|--|--|--|---|--|--|--|-------------|
| | | | | | | | | | | | | Curre nt | Planne d |
| Phase 1 (Stage 3+4) and Phase 2 | 100% | 2006 | 7,713 | 7,713 | 43,902 | Land lease, City Building Plan | n/a | 550,764 ²⁵ | 361,457 ²⁶ | 39% ²⁷ | 2016 ²⁸ | Land lease | - |
| AFI Residence Paveletska ya (Stage 1 + 2+3) Moscow, Paveletska ya emb. | 100% | 2006 | 769 | 769 | 17,092 | Land lease, City Building Plan | n/a | 159,956 | 51,345 | 24% | 2016 | Land lease, constr uction permi t | - |

²⁴ The gross profit margin is calculated based on expected revenues. It is difficult for the Group to project gross profit since the profit margin is dependent on factors some of which are not in the Group's control. Accordingly, the information given here is forward-looking information and there is no certainty that it will be realized. In this context it should be clarified that the expected revenues were estimated based on the selling prices of the Group's proximate projects and expected costs (apart from the cost of the land which is known in full or in part) were estimated based on signed contracting contracts and/or expenses the Group has paid out in proximate projects. It should also be clarified that the cash flow was not discounted over the life of the project.

²⁵ The amounts are shown as total consolidated for Odinburg project

²⁶ The amounts are shown as total consolidated for Odinburg project

²⁷ The amounts are shown as total consolidated for Odinburg project

²⁸ Relates to the beginning of the execution of the Stage 3 of Phase 1.

Land bank designated for Residence as at December 31, 2015:

| Project | Location | Company Share | Purchase Date | Land Area, Ha | Number of units according to valid City Building Plan | Additional units planned | Type of rights | Historic cost | Land cost at 31.12.15 | Total estimated project cost (including historic cost) | Legal rights status |
|----------------|----------------------------------|---------------|---------------|---------------|---|--------------------------|--|---------------|-----------------------|--|---------------------|
| Botanic Garden | 11-13 Serebrya kova lane, Moscow | 100% | 2007 | 3.2 | 1,372 | - | Land lease, Investment agreement with the City | 161,477 | 18,570 | 297,324 | Construction permit |

C. Set forth below are the details in connection with projects the Company has executed in CIS, which include residential areas, and which were completed as at December 31, 2015:

- (1) As at the date of this statement, the Company's group has completed the projects Four Winds Residential and Ozerkovskaya Phase II. The Company's group has sold the majority of residential units in the both of the residential complexes.
- (2) As at December 31, 2015, the Company's group held (indirectly) property rights in 1 residential unit in the Ozerkovskaya Phase II project.

Customers

In its residential real estate development activities in Russia, the Group targets mainly private customers with a high socio-economic background. For the Odintsov project the target customers are of medium to low socio-economic background. For AFI Residence at Pavletskaya the target audience is represented by customers of medium socio-economic background.

Marketing and Distribution

In this area of activities, the Group markets its projects through independent agents as well as by own marketing and sales workforce.

Income Yielding Properties in Russia and the CIS

General Information regarding the Activity Segment

The Company's group plans, develops and constructs commercial properties held for rent. The Group's revenues from its activities in the field of lettable properties in Russia derive mainly from the development, re-development and sale of commercial properties, alone or together with partners in joint ventures, as well as from rent of the group's lettable properties. In addition, in the past the Company's group had insignificant revenues from management of projects not owned by it.

General Economic Parameters Regarding the Russian Market:

| Macro-economic parameters: | 31.12.2015 | 31.12.2014 | 31.12.2013 |
|--|-------------------|-------------------|-------------------|
| Gross domestic product (US\$ billion) ²⁹ | 1,236 | 1,861 | 2,079 |
| Per capita product (PPP) ³⁰ | 23,744 | 24,449 | 24,343 |
| Rate of growth in domestic product in Real GDP ³¹ | -3.8% | 0.6% | 1.3% |
| Rate of growth in per capita product | -2.9% | 0.4% | 2.7% |
| Rate of inflation (end period) ³² | 15.8% | 7.8% | 6.8% |
| Rate of return of long-term local government bonds | 2.97% | 6.27% | 8.10% |
| Rating of long-term government bonds | BB+ (S&P) | BBB- (S&P) | BBB (S&P) |
| Rate of exchange of the local currency in relation to the dollar on the last day of the year | 72.9 | 56.3 | 32.7 |

²⁹ Source: IMF Statistics

³⁰ Source: IMF statistics

³¹ Source: IMF Statistics

³² Source: IMF Statistics

Products and Services

The following tables present information in connection with the Group's projects included in its property portfolio. Certain information presented in the tables includes estimates and forecasts relating to projects in advanced stages of development, that is, the concept or design stages. Such information is "forward looking information" based on the existing data and facts in the Company's possession as of the date of this statement. It is hereby clarified that the estimates and forecasts in connection with each of the Group's projects may change in the future.

1. Summary of Aggregate Results of the Investment Properties Activity made by the Group in the CIS (sums are in US dollars unless otherwise specified):

(a) Breakdown of the lettable property areas based on regions and uses as at 31.12.15 (sq.m.)

| Region | Uses | Offices | Retail | Parking facilities | Total | Percentage of the areas |
|------------------------------|---------------|---------|---------|--------------------|---------|-------------------------|
| Russia | Consolidated | 86,687 | 107,208 | 62,789 | 256,683 | 100% |
| | Company share | 83,898 | 107,208 | 62,789 | 253,894 | 100% |
| Total | Consolidated | 86,687 | 107,208 | 62,789 | 256,683 | 100% |
| | Company share | 83,898 | 107,208 | 62,789 | 253,894 | 100% |
| Percentage of the total area | Consolidated | 34% | 42% | 24% | 100% | |
| | Company share | 33% | 42% | 25% | 100% | |

(b) Breakdown of the lettable property areas based on regions and uses as at 31.12.14 (sq.m.)

| Region | Uses | Offices | Retail | Parking facilities | Total | Percentage of the areas |
|------------------------------|---------------|---------|---------|--------------------|---------|-------------------------|
| Russia | Consolidated | 87,482 | 107,208 | 62,789 | 257,479 | 100% |
| | Company share | 84,693 | 107,208 | 62,789 | 254,690 | 100% |
| Total | Consolidated | 87,482 | 107,208 | 62,789 | 257,479 | 100% |
| | Company share | 84,693 | 107,208 | 62,789 | 254,690 | 100% |
| Percentage of the total area | Consolidated | 34% | 42% | 24% | 100% | |
| | Company share | 33% | 42% | 25% | 100% | |

(c) Breakdown of the lettable property value based on regions and uses as at 31.12.15

| Region | Uses | Offices | Retail | Other* | Total in USD '000 | Percentage of the total value of the properties |
|---|---------------|---------|---------|--------|-------------------|---|
| Russia | Consolidated | 248,000 | 685,200 | 500 | 933,700 | 100% |
| USD '000 | company share | 243,868 | 685,200 | 500 | 929,568 | 100% |
| Total | Consolidated | 248,000 | 685,200 | 500 | 933,700 | 100% |
| USD '000 | company share | 243,868 | 685,200 | 500 | 929,568 | 100% |
| Percentage of the total value of the properties | Consolidated | 27% | 73% | 0.1% | 100% | |
| | company share | 26% | 74% | 0.1% | 100% | |

(d) Breakdown of the lettable property value based on regions and uses as at 31.12.14

| Region | Uses | Offices | Retail | Other* | Total in USD '000 | Percentage of the total value of the properties |
|---|---------------|---------|-----------|--------|-------------------|---|
| Russia | Consolidated | 373,500 | 1,000,000 | 1,900 | 1,375,400 | 100% |
| USD '000 | company share | 367,790 | 1,000,000 | 1,900 | 1,369,690 | 100% |
| Total | Consolidated | 373,500 | 1,000,000 | 1,900 | 1,375,400 | 100% |
| USD '000 | company share | 367,790 | 1,000,000 | 1,900 | 1,369,690 | 100% |
| Percentage of the total value of the properties | Consolidated | 27% | 73% | 0% | 100% | |
| | company share | 27% | 73% | 0% | 100% | |

* Includes Sadovaya-Samotechnaya

(e) Breakdown of the group's yielding real estate in the CIS NOI based on regions and uses for the year ended 31.12.15

| Region | Uses | Offices | Retail | Total in USD '000 | Percentage of the total NOI of the properties |
|---|---------------|---------|--------|-------------------|---|
| Russia USD '000 | Consolidated | 3,503 | 53,283 | 56,785 | 100% |
| | company share | 3,041 | 53,283 | 56,324 | 100% |
| Total USD '000 | Consolidated | 3,503 | 53,283 | 56,785 | 100% |
| | Company share | 3,041 | 53,283 | 56,324 | 100% |
| Percentage of the total value of the properties | Consolidated | 6% | 94% | 100% | |
| | Company share | 5% | 95% | 100% | |

(f) Breakdown of the group's yielding real estate in the CIS NOI based on regions and uses for the year ended 31.12.14

| Region | Uses | Offices | Retail | Total in USD '000 | Percentage of the total NOI of the properties |
|---|---------------|---------|--------|-------------------|---|
| Russia USD '000 | Consolidated | 10,355 | 82,956 | 93,311 | 100% |
| | company share | 9,467 | 82,956 | 92,422 | 100% |
| Total USD '000 | Consolidated | 10,355 | 82,956 | 93,311 | 100% |
| | Company share | 9,467 | 82,956 | 92,422 | 100% |
| Percentage of the total value of the properties | Consolidated | 11% | 89% | 100% | |
| | Company share | 10% | 90% | 100% | |

(h) Breakdown of the revaluation income (losses) based on regions and uses for the year ended 31.12.15

| Region | Uses | Offices | Retail | Other* | Total in USD '000 | Percentage of the total revaluation income |
|---|---------------|----------|-----------|---------|-------------------|--|
| Russia USD '000 | Consolidated | (99 550) | (231 996) | (1 118) | (332 664) | 100% |
| | Company share | (98 307) | (231 996) | (1 118) | (331 421) | 100% |
| Total USD '000 | Consolidated | (99 550) | (231 996) | (1 118) | (332 664) | 100% |
| | Company share | (98 307) | (231 996) | (1 118) | (331 421) | 100% |
| Percentage of the total value of the properties | Consolidated | 29.9% | 69.7% | 0.3% | 100% | |
| | Company share | 29.7% | 70.0% | 0.3% | 100% | |

* Includes Sadovaya-Samotechnaya

(i) Breakdown of the revaluation income (losses) based on regions and uses for the year ended 31.12.14

| Region | Uses | Offices | Retail | Other* | Total in USD '000 | Percentage of the total revaluation income |
|---|---------------|---------|---------|--------|-------------------|--|
| Russia USD '000 | Consolidated | 8,892 | 101,281 | 609 | 110,782 | 100% |
| | Company share | 12,422 | 101,281 | 609 | 114,312 | 100% |
| Total USD '000 | Consolidated | 8,892 | 101,281 | 609 | 110,782 | 100% |
| | Company share | 12,422 | 101,281 | 609 | 114,312 | 100% |
| Percentage of the total value of the properties | Consolidated | 8.0% | 91% | 1% | 100% | |
| | Company share | 11% | 89% | 1% | 100% | |

* Includes Sadovaya-Samotechnaya

(k) Breakdown of the actual average rent per sq.m. per year in the functional currency

| Uses Regions | For the year ended* | | | | | |
|-------------------------|---------------------|------------|------------|------------|--------------------|------------|
| | Offices | | Retail | | Parking facilities | |
| | 31.12.2015 | 31.12.2014 | 31.12.2015 | 31.12.2014 | 31.12.2015 | 31.12.2014 |
| Russia - USD/sq.m/annum | 176** | 281 | 1,083 | 1,147 | 4,084 | 5,616 |

* The main difference in rates is related to significant devaluation of the rouble at year end

** Not including Ozerkovskaya III project

(l) Range of annual rent per square meter offices in USD

| | Minimum | Maximum |
|------|---------|---------|
| 2015 | 104 | 539 |
| 2014 | 173 | 597 |
| 2013 | 313 | 973 |

(m) Breakdown of the average occupancy rates

| Uses | In % | | | | | | |
|---------|----------------|----------------|-----------|-----------|----------------|----------------|-----------|
| | Offices | | | Retail* | | | Year 2014 |
| | As at 31.12.15 | As at 31.12.14 | Year 2015 | Year 2014 | As at 31.12.15 | As at 31.12.14 | |
| Regions | | | | | | | |
| Russia | 47% | 93% | 47% | 93% | 78% | 85% | 85% |

* Presented in relation to total lettable areas

** Not including Ozerkovskaya III project and Sadovaya-Samotechnaya

(n) Number of properties based on regions and uses

| Uses | As at | | |
|---------|----------|----------|----------|
| | Offices | | Retail |
| | 31.12.15 | 31.12.14 | 31.12.15 |
| Regions | | | |
| Russia | 5 | 5 | 1 |

*** Not including Ozerkovskaya III project and Sadovaya-Samotechnaya

(o) Breakdown of the actual average rates of return (based on year-end value) for regions and uses

| Uses | For the year ended on (in %) | | | |
|---------|------------------------------|------------|------------|------------|
| | Offices**** | | Retail | |
| | 31.12.2015 | 31.12.2014 | 31.12.2015 | 31.12.2014 |
| Regions | | | | |
| Russia | 9% | 9% | 8% | 6% |

**** Not including Ozerkovskaya III project and Sadovaya-Samotechnaya

(p) Expected revenues in respect of signed lease agreements

| Period of Recognition of Revenue | Assuming tenant option not exercised | | | | Assuming tenant option are exercised | | | |
|----------------------------------|---|--------------------------------|------------------------------------|--|---|--------------------------------|------------------------------------|--|
| | Revenues from fixed components* (\$ '000) | Number of agreements completed | area related agreements (sqm'000) | | Revenues from fixed components* (\$ '000) | Number of agreements completed | area related agreements (sqm'000) | |
| Quarter 1/16 | 26 161 | 444 | 99 241 | | 26 161 | 444 | 99 241 | |
| Quarter 2/16 | 20 385 | 353 | 87 243 | | 20 385 | 353 | 87 243 | |
| Quarter 3/16 | 17 872 | 293 | 76 166 | | 17 872 | 293 | 76 166 | |
| Quarter 4/16 | 15 827 | 243 | 73 733 | | 15 827 | 243 | 73 733 | |
| 2017 | 50 685 | 190 | 67 741 | | 50 685 | 190 | 67 741 | |
| 2018 | 34 865 | 124 | 59 604 | | 34 865 | 124 | 59 604 | |
| 2019 | 23 071 | 82 | 49 298 | | 23 071 | 82 | 49 298 | |
| 2020 and Thereafter | 44 150 | 146 | 39 532 | | 44 150 | 146 | 39 532 | |
| sum | 233 016 | 1 875 | 552 557 | | 233 016 | 1 875 | 552 557 | |

* Does not include revenue from parking

2. Summary of aggregate assets designated for development of income yielding properties

(a) Investment projects under development

| Region | Parameters | Period (year ended on) | | |
|---------------------------|---|------------------------|------------|-----------------|
| | | 31.12.2015 | 31.12.2014 | 31.12.2013 |
| Russia- Office | Number of properties under construction at end of the period | 3 | 3 | 3 ³³ |
| | Total areas under construction (planned) at end of the period (in sq.m. '000) | 180,310 | 180,310 | 169,700 |
| | Total costs invested in current period (consolidated) (USD '000) | 1,645 | 18,367 | 2,011 |
| | The amount at which the properties are presented in the financial statements at the end of the period (consolidated) (USD '000) | 136,000 | 198,409 | 291,400 |
| | Total balance of the Construction budget in the succeeding period (consolidated) (estimate as at the end of the period) (USD '000) | 76,934 | 73,803 | 94,667 |
| | Total remaining balance of the estimated construction budget for completion of the construction work (consolidated) (estimate as at the end of the period) (USD '000) | 148,726 | 246,134 | 352,077 |
| | Rate of the built-up area regarding which lease agreements have been signed (%) | - | - | - |
| Russia – Retail and other | Number of properties under construction at end of the period | 3 | 3 | 3 ³⁴ |
| | Total areas under construction (planned) at end of the period (in sq.m. '000) | 415,630 | 433,493 | 433,493 |
| | Total costs invested in current period (consolidated) (USD '000) | 9,261 | 65,941 | 14,685 |
| | The amount at which the properties are presented in the financial statements at the end of the period (consolidated) (USD '000) | 99,260 | 229,400 | 338,800 |

³³ Decrease in the amount of properties due to reclassification of Kossinskaya from office to retail properties

³⁴ Increase in the amount of properties due to reclassification of Kossinskaya and addition of Paveitskaya II project (which was previously referred to as land)

| | | | | |
|--|--|---------|---------|---------|
| | Total balance of the Construction budget in the succeeding period (consolidated) (estimate as at the end of the period) (USD '000) | 75,678 | 197,467 | 253,089 |
| | Total remaining balance of the estimated construction budget for completion of the construction work (consolidated) (estimate as at the end of the period) (USD '000) | 178,824 | 448,495 | 633,678 |
| | Rate of the built-up area regarding which lease agreements have been signed (%) | - | - | - |

(b) Data on land of the company in the CIS designated for the construction of yielding property

| Area | Parameters | Period (year ending on) | |
|--------|---|-------------------------|------------|
| | | 31.12.2015 | 31.12.2014 |
| Russia | The amount at which the land is presented in the financial statements at the end of the period (consolidated) (functional currency) | 3,665 | 3,665 |
| | Total area of the land at the end of the period (sq.m. '000) | 3,870,000 | 3,870,000 |
| | Total construction rights in land according to approved building plans, by uses (USD thousand) | - | - |

* The change is due to disposal of the St. Petersburg project

| | | Information Item | | | | | | | | | | Additional Data Required by Regulation 8B(f) (as applicable) | | | |
|-----------------------------------|---|--|---|---|--|-----------|--------------------|-------------------|---------------------------|------------------------------------|--------------------------------------|--|---|---------------------------------------|--|
| Property name and characteristics | Year | Book value at end of the period (consolidated) \$ '000 | Fair value at end of the period (consolidated) (in the functional currency) | Rental income in the period (consolidated) (in the functional currency) | Actual NOI in the period of the report - consolidated - in the functional currency | Yield (%) | Adjusted yield (%) | Yield on Cost (%) | Loan/Property value (LTV) | Revaluation (consolidated) \$ '000 | Occupancy rate for the end of period | Average rent \$/sq.m./annum | Identity of the appraiser (name and experience) | Valuation model used by the appraiser | Additional assumptions serving as the basis for the valuation (discount rate, number of comparable properties, average price per sq.m. of the comparable properties) |
| Ozerkovskaya III | Region | 2015 | 199,300 | 199,300 | 628 | (1 038) | N/A | N/A | N/A | (82,418) | 1% | 539 | JLL | DCF | Cap Rate -9.5%; Discount rate - 14%; Average market rate Office - \$500; |
| | | 2014 | 300,000 | 300,000 | 110 | (2,162) | N/A | N/A | 68% | 32,873 | 1% | 792 | Cushman& Wakefield | DCF | Cap Rate -10% Discount rate - 14.5%; Average market rate Office -\$650-800; Retail-\$460 |
| | Notes functional currency | 2013 | 323,700 | 323,700 | - | - | - | - | 63% | 7,289 | - | - | Cushman& Wakefield | DCF | Cap 9yrRate - 10% Discount rate - 14%; Average market rate Office -\$750-900; Retail-\$500 |
| | Main use | Office | | | | | | | | | | | | | |
| | Original cost / original construction cost (in the functional currency) | 305,142 | | | | | | | | | | | | | |
| | Company's share (%) | 100% | | | | | | | | | | | | | |
| | Area (sq.m.) - GLA | 46,247 | | | | | | | | | | | | | |
| | | 2012 | 194,550 | 194,550 | - | - | - | - | - | 2,723 | - | - | Cushman& Wakefield | DCF | Cap Rate -10% Discount rate - 14%; Average market rate Office -\$750; Retail-\$500 |

5. Information Regarding a Very Substantial Investment Property – AFIMALL City

(a) Presentation of property:

| | Detail as at December 31, 2015 |
|---|--|
| Name of the property: | AFIMALL City |
| Location of the property: | 2 Presnenskaya emb., Moscow |
| Areas of the property broken down by use: | GBA (gross building area) – 166,072 sq.m (GBA together with the underground parking – 283,182 sq.m) GLA (gross leasable area) – 107,208 sq.m Gross Leasable Retail Area – 96,800 sq.m Areas leased as of December 31, 2015 – 84,055 sq.m 2,075 underground parking units ³⁵ |
| Structure of holdings in the property (description of holding through investee companies, including the rates of holdings therein and the rates of their holdings in the property): | The Company holds the asset through a wholly-owned Cypriot subsidiary, Bellgate Construction Ltd |
| Effective share of the Company in the property (if the property is held by an investee company – multiplication of the company's share in the investee company by the share of the investee company in the property): | The Company holds 100% in Bellgate Construction Ltd which bears 100% of construction expenses and has 100% in AFIMALL CITY |
| State the names of the partners in the property (if the partners hold more than 25% of the rights in the property or if the partners are related parties as defined in this Directive)*: | Not relevant |
| Acquisition date of the land (if relevant): | 2005/2012 ³⁶ |
| Detail of the legal rights in the property (ownership, lease, etc.): | Ownership of AFIMALL City and the underground parking Lease rights to the underlying land plot |
| Status of registration of the legal rights ³⁷ : | Registered |
| Significant unused building rights | None |
| Special matters (significant non-conforming construction, ground contamination, etc.): | Certain premises of the AFIMALL City with total area of 5,829.71 sq.m and of the underground parking with the total area of 16,318.3 sq.m are located beyond the |

³⁵ In November 2012 Bellgate Construction Limited ("Bellgate"), the Company subsidiary owning and operating AFIMALL City, disposed of approximately 643 parking lots to VTB Bank JSC, which is using this parking space for its office headquarters located next to AFIMALL City. The transaction is structured in two stages. The first stage entailed a sale-purchase transaction between Bellgate and VTB Bank on 21,354 sq.m. of parking space. During the second stage 9,247 sq.m. owned (at completion) by VTB Bank will be exchanged for 7,847 sq. m. owned by Bellgate. The first stage of the transaction was completed in June 2013.

³⁶ Construction of AFIMALL City was carried out based on an investment agreement of 2005 executed between the City of Moscow and Bellgate. GUP of the City of Moscow "Tsentr City" was engaged in the project by the City of Moscow as a project management company and held lease rights to the land plot underlying the construction site of AFIMALL City under the lease agreement executed in 2005. In July 2012, Bellgate became a co-tenant of the land plot underlying, inter alia, AFIMALL City and the underground parking under a land plot lease agreement with multiple tenants executed with the City of Moscow. Under Russian law, a lease agreement with multiple tenants (co-tenants) is executed when there are several owners/users of different real estate objects located on the same land plot.

³⁷ It is noted that long-term lease agreements entered into for a period of one year or more as well as ownership rights are registered with the Real Estate Register. Accordingly, ownership rights of Bellgate to the properties of AFIMALL City and the underground parking are registered with the Real Estate Register. Bellgate is a co-tenant of the land plot underlying the AFIMALL City and the underground parking, and the lease agreement is registered in the Real Estate Register.

| | |
|--|---------------|
| boundaries of the land plot co-leased by Bellgate Construction Ltd. Bellgate Construction Ltd. will have to procure lease rights to the land underlying such premises. | |
| Method of presentation in the financial statements [consolidation / proportionate consolidation / equity method]: | Consolidation |

(b) Significant Data:

| (Data based on 100% AFI Dev. Share – 100%) Property classified as investment real estate in March 2011 | Q4 2015 | Q3 2015 | Q2 2015 | Q1 2015 | 2014 | Purchase/construction cost (USD '000) | On property purchase date |
|--|-----------|---------|----------|-----------|-----------|---------------------------------------|---------------------------|
| Fair value at end of period (USD'000) | 685,200 | 990,000 | 990,000 | 1,000,000 | 1,000,000 | | 600,585 |
| Valuation profit or loss (USD '000) | (276,764) | 59,918 | (28,970) | 13,821 | 101,281 | | |
| If property valued by rise-fall (cancellation of fall) in value for period (USD '000) | N/A | N/A | N/A | N/A | N/A | Purchase date | July 2005 |
| Average occupancy rate (%) ³⁸ | 78% | 76% | 77% | 83% | 83% | | |
| Actual rented areas (m ²) | 84,055 | 81,225 | 82,368 | 88,645 | 90,871 | | |
| Total revenue (USD '000) | 16,630 | 16,164 | 19,411 | 19,079 | 106,968 | | |
| Average rent per meter (annual) | 1,103 | 1,057 | 1,144 | 1,117 | 1,147 | | |
| Average rent per meter in contracts signed in period (USD '000) | 989 | 664 | 1,399 | 832 | 1,035 | | |
| NOI for period (USD '000) | 12,259 | 11,943 | 15,395 | 13,686 | 82,956 | | |
| NOI adjusted for period (USD '000) | 12,259 | 11,943 | 15,395 | 13,686 | 82,956 | | |
| Actual return rate (%) | 7.8% | 5.5% | 5.9% | 5.5% | 8.3% | | |
| Adjusted return rate (%) | 7.8% | 5.5% | 5.9% | 5.5% | 8.3% | | |
| Number of tenants at end of period ³⁹ | 329 | 329 | 308 | 305 | 288 | | |
| Average revenue per sq.m. (annual) | 1,086 | 1,057 | 1,207 | 1,117 | 1,177 | | |

38

As of 31.12.14 and onwards the occupancy data is presented as a percentage of the total GLA (gross leasable area) - 107,208 sq.m.

39

Stores under operation except kiosks and terminals

(c) Breakdown of Structure of Revenues and Expenses:

| (Data based on 100%, AFI Development's share in the property – 100%) | 2015 | 2014 | 2013 |
|--|---------------|----------------|----------------|
| | in USD '000 | | |
| Revenue: | | | |
| From rent – fixed | 61,156 | 95,253 | 92,237 |
| From rent – variable | 5,693 | 5,936 | 7,623 |
| From management fees | - | - | - |
| From parking garage operation | 4,436 | 5,780 | 4,214 |
| Miscellaneous | - | - | - |
| Total revenue: | 71,284 | 106,968 | 104,074 |
| Costs: | | | |
| Management, maintenance and operation | 18,002 | 24,012 | 35,054 |
| Depreciation (if recorded) | | | |
| Miscellaneous costs | | | |
| Total costs: | 18,002 | 24,012 | 35,054 |
| NOI | 53,283 | 82,956 | 69,020 |

(d) Major Tenants in the Property:

| (Data based on 100%. Share of company in the property – 100%) | Share in leased property area (%) | Is the tenant an anchor tenant? | Is the tenant expected to be responsible for more than 20% of the revenue from the property? | Industry to which the tenant belongs | Description of the lettable property | | | | | Detail of guarantees (if any) | Indexation | Options to extend (years) | Lease term (years) | Entry date of tenants as agreed in the agreement | Indicate special conditions |
|---|-----------------------------------|---------------------------------|--|--------------------------------------|--------------------------------------|------|----|-------|--------------------------|-------------------------------|------------|---------------------------|--------------------|--|-----------------------------|
| | | | | | | | | | | | | | | | |
| Tenant 1 | 7.7% | yes | no | Cinema | Centre Opening Date | 10.0 | no | 5.0% | deposit | no | no | no | no | no | no |
| Tenant 2 | 3.4% | yes | no | Entertainment | Centre Opening Date | 9.0 | no | 5.0% | deposit + bank guarantee | no | no | no | no | no | no |
| Tenant 3 | 2.8% | yes | no | Furniture | Centre Opening Date | 10.0 | no | 7.0% | bank guarantee | no | no | no | no | no | no |
| Tenant 4 | 2.7% | yes | no | Fitness | Centre Opening Date | 7.0 | no | 10.0% | bank guarantee | no | no | no | no | no | no |
| Tenant 5 | 2.7% | yes | no | Fashion | Centre Opening Date | 12.0 | no | 5.0% | bank guarantee | no | no | no | no | no | no |
| Tenant 6 | 2.5% | yes | no | Fashion | Centre Opening Date | 4.0 | no | 5.0% | deposit | no | no | no | no | no | no |
| Tenant 7 | 2.2% | yes | no | Fashion | Centre Opening Date | 9.0 | no | 5.0% | bank guarantee | no | no | no | no | no | no |
| Tenant 8 | 1.9% | yes | no | Fashion | Centre Opening Date | 10.0 | no | 7.0% | bank guarantee | no | no | no | no | no | no |
| Tenant 9 | 1.8% | yes | no | Fashion | Centre Opening Date | 10.0 | no | 0.0% | deposit | no | no | no | no | no | no |

(e) Projected Revenues in respect of Signed Lease Agreements:

| Data based on 100% Share of company in the property –100% (USD '000) | For the year ending in 2016 | For the year ending in 2017 | For the year ending in 2018 | For the year ending in 2019 | For the year ending in 2020 and onwards |
|--|-----------------------------|-----------------------------|-----------------------------|-----------------------------|---|
| Fixed components | 80,141 | 50,685 | 34,864 | 23,070 | 18,738 |
| Variable components (estimate) | N/A | N/A | N/A | N/A | N/A |
| Total | 80,141 | 50,685 | 34,864 | 23,070 | 18,738 |

(f) Planned Improvements and Changes for the Property:

| Details: | | |
|--|--|--|
| Nature of improvement | | Fit-out of entrance, sewerage improvements, escalators |
| Additional areas added | | - |
| Statutory situation | | - |
| Budget (USD '000) | | 1,700 |
| Rate of the areas with respect to which rental agreements have been signed out of the additional areas | | - |
| Expected addition to 2015 NOI (USD '000) | | - |
| Execution status | | Design stage |

(g) Specific Financing:

| Specific Financing | | Credit facility: |
|---|-----------------------|---|
| Balances in the statement of financial position | 31.12.2015 (USD '000) | Balances in the statement of financial position Presented as long-term loans: 26,000 |
| | 31.12.2014 (USD '000) | Presented as short-term loans: 389,799 |
| | | Presented as long-term loans: 26,000 |
| Fair value as at 31.12.2015 (end of the report year) (USD '000) | | 455,059 |
| | | 685,200 |

| | |
|--|--|
| Original credit facility date | June 22, 2012 ⁴⁰ |
| Original credit facility amount (USD '000) | Up to approx. 502,105.48 (RUR 21,000 million) |
| Effective interest rate as at 31.12.2015 (%) | 9.5% in RUR; 3M Libor + 5.02% in USD |
| Repayment dates principal and interest | Quarterly Interest; Repayment of the Principal Debt will start on 31 March, 2014 with the following Repayment Schedule: \$6.5 million quarterly in 2014, 2015, 2016). Final Repayment Date is 01, April, 2018. |
| Main financial conditions | Banking accept for any disposal of Project' premises exceeding 10% of total Borrower' Assets. Liquidation Value of the Property under the Mortgage should be higher than amount of the outstanding Principal Debt and Interest payments accrued for the six months period. Bellgate Construction Limited (the Borrower) should have minimum quarterly Revenues, ranging from RUR 651,000,000 in Q3 2012 to RUR 1,139,000,000 in Q1 2018. Penalty: 0.5% per annum extra charge to the Interest Rate applicable under the Loan Facility Agreement- applicable only for the Quarter when the aforesaid Revenue threshold has not been achieved. |
| Other financial conditions | N/A |
| State whether main conditions or financial covenants have been violated as at the end of the report year | The Company is in line with all financial Covenants |
| Is it non-recourse | Yes, except the Surety Agreement between the Company and the Bank. The Guarantee is limited by the amount of USD 1 million. |

⁴⁰

The first draw down of the credit facility was made by the holding company on June 29, 2012.

(h) Liens and other Significant Legal Restrictions in the Property:

| Type | Details | Amount secured by the lien (at the end of the report year) 31.12.2015 (USD/RUR) |
|--------------|--|--|
| <u>Liens</u> | <p>On 22 June, 2012 Bellgate Constructions Limited and the Bank of the VTB Group (the "Bank") entered into a Loan Facility Agreement for a total Principal Debt amount of to RUR 21,000⁴¹ million (approx. USD 689 million). The total amount of the current Loan Facility Debt as at 31, December, 2015 is approx. USD 416 million.</p> <p>The Loan Facility Agreement is secured by:</p> <ul style="list-style-type: none"> (i) the Pledge of 100% AFID' shares in Bellgate Constructions Limited; (ii) Surety Agreement between the Company and the Bank for USD 1 million; (iii) Mortgage of AFIMALL City' premises; (iv) Mortgage of the underground AFIMALL City' premises (Parking) and the Land lease rights; (v) Mortgage of the Aquamarine Hotel premises; (vi) Surety Agreement between Semprex LLC (the Company subsidiary owning the Aquamarine Hotel) and the Bank. | <p>Up to RUR 21,000 million (approx. USD 502.11 million)</p> |

⁴¹ Historical loan amount

(i) Details with respect to the Valuation:

| (Data based on 100%) | | 31.12.2015 | 31.12.2014 | 31.12.2013 |
|---|--|------------|----------------------|--|
| Value determined (USD '000) | | 685,200 | 1,000,000 | 1,160,000 |
| Identity of appraiser | | JLL | Cushman & Wakefield | Cushman & Wakefield |
| Is the appraiser independent? | | Yes | Yes | Yes |
| Is there an indemnification agreement? | | No | No | No |
| Effective date of the valuation (the date to which the valuation relates) | | 31.12.2015 | 31.12.2014 | 31.12.2013 |
| Valuation model (comparison / income / other / cost) | | DCF | DCF | DCF |
| Main details used for purposes of the valuation (to be provided specifically based on the valuation provided) (the list is illustrative only): | | | | |
| If the valuation is by the Sales Comparison Approach | Gross leasable area used in the calculation (sq.m.) | N/A | N/A | If the valuation is by the Sales Comparison Approach |
| | Sale price per sq.m. of leasable area used in the calculation (USD) | N/A | N/A | N/A |
| | Range of prices per sq.m. of leasable area of comparable properties used in the calculation (USD) | N/A | N/A | N/A |
| | Number of comparable properties (#) used in the calculation | N/A | N/A | N/A |
| | Regarding the main relevant properties used for comparison indicate: the name/identity of the property, location, area | N/A | N/A | N/A |
| | Net rate of return reflecting the property's current NOI (current NOI divided by value of the property) | N/A | N/A | N/A |
| | Other main parameters (annual rent growth rate) | 0% | 2.5% (starting 2017) | 2.5% |

| If the valuation is by the Sales Income Approach | Gross leasable area used in the calculation (sq.m.) | 107,208 | 107,208 | If the valuation is by the Sales Income Approach |
|--|---|---|---|--|
| | Occupancy rate in the year + 1 (%) | 78% | 85% | 70% |
| | Occupancy rate in the year + 2 (%) | 85% | 93% | 75% |
| | -- | | | |
| | Representative occupancy rate out of the leasable area for purposes of valuation (%) | 91.7% | 97% | 97% |
| | Average annual rent per sq.m. leased for purposes of valuation in the year + 1 | 1,103 | 1,085 | 1,304 |
| | Average annual rent per sq.m. leased for purposes of valuation in the year + 2 | 1,025 | 1,140 | 1,386 |
| | | | | |
| | Representative average annual rent per sq.m. leased for purposes of valuation (USD) | 1,079 | 1,282 | 1,421 |
| | Representative NOI for purposes of valuation (USD'000) | 90,747 | 133,730 | 156,950 |
| | Average periodic expenses for maintenance of the existing situation (USD'000) ⁴² | 7,173 | 133 | 12,194 |
| | Capitalisation rate / rate of return / multiplier used for purposes of the valuation (%) | Capitalisation – 10.0% Discount rate – 16% | Capitalisation – 10.0% Discount rate – 17% | Capitalisation – 10.0% Discount rate – 15% |
| | Time until deemed realization | 5 years | 5 years | 5 years |
| | Multiplier / reversionary rate | N/A | N/A | N/A |
| | Other main parameters | N/A | N/A | N/A |
| | Sensitivity analysis for value (based on the method chosen): | | | |
| Occupancy rates | Increase of 2% (abs) | 14,200 | 22,800 | Occupancy rates |
| | Decrease of 2% (abs) | (14,200) | (17,984) | (30,693) |
| Capitalisation rates | Increase of 1% (abs) | (39,300) | (50,576) | Capitalisation rates |
| | Decrease of 1% (abs) | 48,000 | 60,691 | 86,266 |
| | Increase of 5% (rel) | 35,800 | 33,457 | Average rent per meter |
| Average rent per meter | Decrease of 5% (rel) | (35,800) | (33,457) | (45,338) |
| | Increase of 10% (rel) | 71,600 | 66,915 | |
| | Decrease of 10% (rel) | (71,600) | (66,915) | |

⁴² Calculated based on average unrecoverable operational expenses till the date of assumed disposal of the property

Human Resources - Employees

The following table details the number of employees in the Group's real estate operations in Russia, broken down by the business sectors in which they are employed:

| | Number of Employees as at: | | |
|---|----------------------------|-------------------|--------------------------------|
| | 31.12.15 | 31.12.14 | 31.12.13 |
| Management | 6 | 6 | 5 |
| Financial | 34 | 33 | 32 |
| Marketing and sales | 17 | 19 | 7 |
| Business development, including project management division | 53 | 74 | 63 |
| Legal | 9 | 10 | 9 |
| Administrative | 30 | 36 | 42 |
| Total | <u>149</u> | <u>178</u> | <u>159⁴³</u> |

Total amount of 149 employees does not include:

- 55 employees, who currently work at the AFIMALL City project
- 129 of employees in Semprex LLC (vs 126 members in 2014), owning and operating the Aquamarine Hotel
- 338 employees in the Plaza SPA Zheleznovodsk project
- 543 employees in the Plaza SPA Kislovodsk project

⁴³ General increase of employees (160 in 2013 vs 149 in 2012) is a result of launching new development project (Odinburg)

Financing

As of December 31, 2015 our debt portfolio was as follows:

| Project | Lending bank | Max debt limit (US\$ mn) | Principal balance as of Dec-31, 2015 (US\$ mn) | | Available (US\$ mn) | Nominal Interest rate | Currency | Maturity (dd.mm.yy) | |
|-----------------------|--------------------------------|-----------------------------|---|--|------------------------|--|----------|------------------------|--|
| | | | | | | | | | |
| AFIMALL City | VTB Bank JSC | 21 billion rub | 131.2 | | 0 | 9.5% | RUR | 01.04.2018 | |
| | | | 284.6 | | | 3-month LIBOR + 5.02% | US\$ | | |
| Krown Investments LLC | VTB Bank JSC | 220.0 | 193.0 | | 0 | 3-month LIBOR + 7% | US\$ | 26.01.2018* | |
| Investment activity | Julius Baer & Co. Ltd., Zurich | 10.0 | 4.7 | | 0 | refinancing rate of the Bank plus 0.75% p.a. | US\$ | unlimited period | |

* In January 2015 the loan was refinanced by VTB Bank JSC, please refer to Note 28 to the Consolidated Financial Statement

The total balance of secured Debt financing reached US\$613.9 million as at 31 of December 2015, including US\$613.5 million of Principal Debt and US\$0.4 million of accrued interest with average interest rate 7.05% per annum as at 31.12.2015 (6.88% per annum as at 31.12.2014) (for more details see note 28 to our consolidated financial statements).

Annex B to the Management Discussion and Analysis

Below is additional information regarding the Company's very significant loans. Terms not expressly defined herein shall have the meaning ascribed thereto in the MD&A.

| Balance as of 31.12.2015 | Lender type: Bank, Institutional etc. | Indexatory/ currency exposure & interest rate | Liens and material legal restrictions on the property | Covenants | Cross default mechanism | Any other conditions or provisions that might increase the cost of debt | In case it is a credit line facility, when the verifications for draw down | The methods/way that the covenant is calculated | Covenant calculation results | The date of Q1 2015 financial statements were reported | The date that the lender is checking the borrower is in line with the documents |
|---|---|--|--|---|----------------------------|---|---|---|--|--|--|
| USD 283,385,605 and RUR 9,650,625,004 (USD 132,413,983). Total amount in USD as of 31.12.2015 is USD 415,798,688 | Specific project financed by VTB Bank JSC | RUR/USD can be provided in five tranches totalling RUR 21 billion. Each tranche can be drawn down either in US Dollars or in Rubles (at Company's discretion). The loan facility has differentiated interest rates which are currency dependent: 5.5% for loans drawn in US Dollars and 6.5% for loans drawn in Rubles. The interest on loans is payable on a quarterly basis. The principal is due to be fully repaid in April 2018. The RUB interest rate may be unilaterally increased by the lending bank, should one of the following conditions be met: (i) the Russian Central Bank has increased the loan agreement be increased; the interest rate will be increased by the amount of the interest indicator increase. | 1. Liens over all the Belgate's shares 2. AP Development LLC company guarantee, limited to USD 1,000,000 3. Mortgage over 100% of the premises of ARTMALL CITY 4. Mortgage over the premises in the parking owned by Belgate upon agreement of Belgate's assigns to VTB Bank JSC 5. Permission to debit Belgate's account held in the lending bank 6. Additional mortgage over the premises of the "Aquarium" Hotel in Moscow, to be removed in case Belgate (the borrower) redeems USD 20 million of the principal. 7. Additional mortgage over the Russian Capital Bank and indirect subsidiary of AP Development LLC, to be removed in case Belgate (the borrower) redeems USD 20 million of the principal | (1) Belgate (the Borrower) should have minimum quarterly revenues, ranging from RUB 657,000,000 in Q3 2012 to RUB 1,139,000,000 in Q1 2018. Penalty: 0.5% per annum extra charge to the interest rate applicable under the loan agreement, applicable only for the quarter when the aforementioned revenue threshold was not achieved; (2) Liquidation Value of the property should be higher than sum of the outstanding principal and six months' interest. | N/A | N/A | The loan is given in five tranches: 1st tranche drawn down on 29 June 2012, 2nd tranche drawn down on 3 August 2012 on the amount USD 69,385,604.64 (RUR 2,257,000,000), 3rd tranche of RUB 1,390,000,000 drawn down on 01.09.2013, 4th tranche of RUB 1,390,000,000 drawn down on 28.03.2014, 5th tranche of RUB 1,333,933,333.34 drawn down on 28.03.2014. | (1) The total of revenue, including VAT, calculated quarterly; (2) The Liquidation Value is determined by an external valuer appointed by the Bank. | (1) The minimum quarterly revenue for Q4 2015 was 1,037 millions Rubles incl. VAT; (2) Liquidation Value determined by an external valuer appointed by the Bank is 3,656.6 million RUB 3,656 mln (VAT not included) | 17 March 2015 | (1) Borrowers' revenues are checked quarterly; (2) Liquidation value is checked twice a year, on December and on August. |

AFI DEVELOPMENT PLC

REPORT AND CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2015

AFI DEVELOPMENT PLC
CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2015

C O N T E N T S

| | <u>Page</u> |
|--|--------------------|
| Board of Directors and Professional Advisers | 1 |
| Board of Directors' Report | 2-4 |
| Directors' Responsibility Statement | 5 |
| Independent Auditors' Report | 6-7 |
| Consolidated Income Statement | 8 |
| Consolidated Statement of Comprehensive Income | 9 |
| Consolidated Statement of Changes in Equity | 10 |
| Consolidated Statement of Financial Position | 11 |
| Consolidated Statement of Cash Flows | 12-13 |
| Notes to the Consolidated Financial Statements | 14-67 |

AFI DEVELOPMENT PLC

BOARD OF DIRECTORS AND PROFESSIONAL ADVISERS

| | |
|----------------------|---|
| Board of Directors | Lev Leviev - Chairman |
| | Moshe Amit |
| | Avraham Noach Novogrocki |
| | Christakis Klerides |
| | Panayiotis Demetriou |
| | Mark Groysman (not re-appointed on 21 October 2015) |
| | John Robert Camber Porter (not re-appointed on 21 October 2015) |
| Secretary | Fuamari Secretarial Limited |
| Independent Auditors | KPMG Limited |
| Bankers | Joint Stock Company VTB Bank |
| | Joint Stock Commercial Savings Bank of the Russian Federation (SBERBANK) |
| | Otkritie FC Bank |
| Registered Office | Spyrou Araouzou 165, Lordos Waterfront Building, 3035 Limassol, Cyprus |

AFI DEVELOPMENT PLC**BOARD OF DIRECTORS' REPORT**

The Board of Directors of AFI Development Plc (the "Company") presents to the members its annual report together with the audited consolidated financial statements of the Company for the year ended 31 December 2015.

PRINCIPAL ACTIVITIES

The principal activities of the Group, which remained unchanged from last year, are real estate investment and development. The principal activity of the Company is the holding of investments in subsidiaries.

EXAMINATION OF THE DEVELOPMENT, POSITION AND PERFORMANCE OF THE ACTIVITIES OF THE GROUP

AFI Development is one of the leading real estate development companies operating in Russia. Established in 2001, AFI Development is a publicly traded subsidiary of Africa Israel Investments Ltd.

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 and 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.

As at 31 December 2015, the Company's portfolio consisted of 8 investment properties, 6 investment properties under development, 2 trading properties under construction, 1 property as inventory of real estate and 4 hotel projects. The portfolio comprises commercial projects focused on offices, shopping centres, hotels, mixed-use properties and residential projects in prime locations in Moscow.

FINANCIAL RESULTS

The Group's results are set out in the consolidated income statement on page 8. The loss of the Group for the year before taxation amounted to US\$557,188 thousand (2014: US\$323,343 thousand). The loss after taxation attributable to the Group's shareholders amounted to US\$464,087 thousand (2014: US\$281,020 thousand).

AFI DEVELOPMENT PLC**BOARD OF DIRECTORS' REPORT****DIVIDENDS**

The Board of Directors does not recommend the payment of a dividend and the loss for the year is transferred to retained earnings.

MAIN RISKS AND UNCERTAINTIES

The most significant risks faced by the Group and the steps taken to manage these risks are described in note 33 of the consolidated financial statements.

FUTURE DEVELOPMENTS

The Group is one of the leading real estate development companies operating in Russia. It focuses on developing and redeveloping high quality commercial and residential real estate assets in Moscow and the Moscow Region. The strategy during the reporting period and for the future periods is to sell the residential properties that the Group develops and to either lease the commercial properties that the Group develops or sell them if the Group is able to achieve a favourable return.

SHARE CAPITAL

There were no changes to the share capital of the Company during the year. As at the year end the share capital of the company comprised:

- 523,847,027 "A" shares of US\$0.001 and,
- 523,847,027 "B" shares of US\$0.001

All "A" shares are on deposit with BNY (Nominees) Limited and each "A" share is represented by one GDR listed on the London Stock Exchange ("LSE").

All "B" shares were admitted to a premium listing of the Official list of the UK Listing Authority and to trading on the main market of LSE.

BRANCHES

The Group operates five branches and/or representative offices of Cypriot, BVI and Luxembourg entities in the Russian Federation. These are Bellgate Construction Ltd branch, which operates AFIMALL City project, Amerone Ltd branch, Bugis Finance branch and Triumvirate I S.a r.l branch operating investment properties and Bastet Estates Ltd branch acting as sale agents for residential properties.

AFI DEVELOPMENT PLC**BOARD OF DIRECTORS' REPORT****BOARD OF DIRECTORS**


The members of the Board of Directors as at 31 December 2015 and at the date of this report are shown on page 1. The directors' date of appointment and resignation, if applicable, is indicated on page 1. The term of those that have not resigned will expire on the date of the next annual general meeting of the shareholders but all of them are eligible for re-election. Directors Mr Mark Groysman and Mr John Robert Camber Porter whose term expired, did not offer themselves for re-election at the AGM on 21 October 2015. There were no significant changes in the assignment of responsibilities of the Board of Directors during the year.

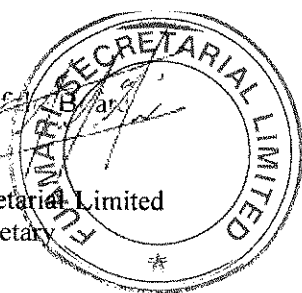
POST BALANCE SHEET EVENTS

Events which took place after the reporting date and which have a bearing on the understanding of the financial statements are described in note 41 of the consolidated financial statements.

INDEPENDENT AUDITORS

The independent auditors, KPMG Limited, have expressed their willingness to continue offering their services. A resolution reappointing the auditors and giving authority to the Board of Directors to fix their remuneration will be proposed at the Annual General Meeting.

By order of 
Fuamari Secretarial Limited
Secretary



Nicosia, 17 March 2016

AFI DEVELOPMENT PLC

STATEMENT BY THE MEMBERS OF THE BOARD OF DIRECTORS AND THE COMPANY OFFICIALS RESPONSIBLE FOR THE DRAFTING OF THE CONSOLIDATED FINANCIAL STATEMENTS IN ACCORDANCE WITH THE PROVISIONS OF CYPRUS LAW 190(I)/2007 ON TRANSPARENCY REQUIREMENTS

We, the members of the Board of Directors and the Company officials responsible for the drafting of the consolidated financial statements of AFI Development Plc (the 'Company') for the year ended 31 December 2015, the names of which are listed below, confirm that, to the best of our knowledge:

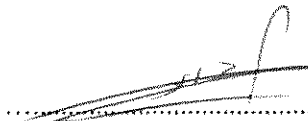
- a) The consolidated financial statements on pages 8 to 67:
 - (i) have been prepared in accordance with the International Financial Reporting Standards (IFRS) as adopted by the European Union and the requirements of the Cyprus Companies Law,
 - (ii) give a true and fair view of the assets, liabilities, financial position and profit or loss of the Company and the undertakings included in the consolidated financial statements taken as a whole,
- 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 Report of the Board of Directors provides a fair review of the developments and performance of the business and the position of the Company and the undertakings included in the consolidated financial statements taken as a whole, together with a description of the principal risks and uncertainties that they face.

The Directors of the Company as at the date of this announcement are as set out below:

The Board of Directors

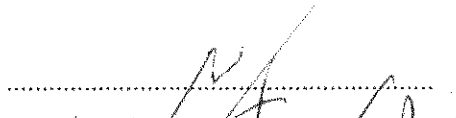
Executive directors

Lev Leviev – Chairman



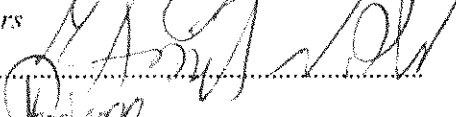
Non-executive director

Avraham Noach Novogrocki

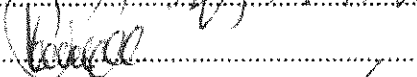


Non-executive independent directors

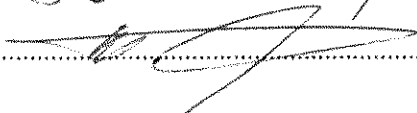
Moshe Amit



Christakis Klerides



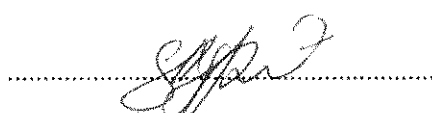
Panayiotis Demetriou



Company officers

Chief executive officer

Mark Groysman



Chief financial officer

Natalia Pirogova



17 March 2016



KPMG Limited
Chartered Accountants
14 Esperidon Street, 1087 Nicosia, Cyprus
P.O. Box 21121, 1502 Nicosia, Cyprus
T: +357 22 209000, F: +357 22 678200

Independent Auditors' Report

To the Members of AFI Development Plc

Report on the Consolidated Financial Statements

We have audited the accompanying consolidated financial statements of AFI Development Plc ("the Company") and its subsidiaries (together with the Company, the "Group"), which comprise the consolidated statement of financial position as at 31 December 2015, and the consolidated statements of income statement, comprehensive income and changes in equity and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Board of Directors' Responsibility for the consolidated Financial Statements

The Board of Directors is responsible for the preparation of consolidated financial statements that give a true and fair view in accordance with International Financial Reporting Standards as adopted by the European Union (EU) and the requirements of the Cyprus Companies Law, Cap. 113, and for such internal control as the Board of Directors determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those Standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of consolidated financial statements that give a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the Board of Directors, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements give a true and fair view of the financial position of the Group as at 31 December 2015, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the EU and the requirements of the Cyprus Companies Law, Cap. 113.

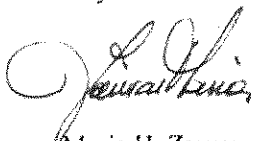
Report on Other Legal Requirements

Pursuant to the additional requirements of the Auditors and Statutory Audits of Annual and Consolidated Accounts Laws of 2009 and 2013, we report the following:

- We have obtained all the information and explanations we considered necessary for the purposes of our audit.
- In our opinion, proper books of account have been kept by the Company, so far as appears from our examination of these books.
- The consolidated financial statements are in agreement with the books of account.
- In our opinion and to the best of the information available to us and according to the explanations given to us, the consolidated financial statements give the information required by the Cyprus Companies Law, Cap. 113, in the manner so required.
- In our opinion, the information given in the report of the Board of Directors is consistent with the consolidated financial statements.

Other Matter

This report, including the opinion, has been prepared for and only for the Company's members as a body in accordance with Section 34 of the Auditors and Statutory Audits of Annual and Consolidated Accounts Laws of 2009 and 2013 and for no other purpose. We do not, in giving this opinion, accept or assume responsibility for any other purpose or to any other person to whose knowledge this report may come to.



Maria H. Zavrou, FCCA
Certified Public Accountant and Registered Auditor

For and on behalf of

KPMG Limited
Certified Public Accountants and Registered Auditors

14 Esperidon Street
1087 Nicosia, Cyprus

17 March 2016

AFI DEVELOPMENT PLC
CONSOLIDATED INCOME STATEMENT

For the year ended 31 December 2015

| | Note | 2015 US\$ '000 | 2014 US\$ '000 |
|--|-------|-------------------|-------------------|
| Revenue | 7 | <u>93,726</u> | <u>144,088</u> |
| Other income | 8 | <u>3,125</u> | <u>3,507</u> |
| Operating expenses | 9 | (40,505) | (62,510) |
| Carrying value of trading properties sold | 22 | (609) | (1,632) |
| Administrative expenses | 10 | (10,640) | (22,303) |
| Other expenses | 11 | <u>(1,649)</u> | <u>(6,773)</u> |
| Total expenses | | <u>(53,403)</u> | <u>(93,218)</u> |
| Share of the after tax loss of joint ventures | 17 | <u>(1,321)</u> | <u>(4,451)</u> |
| Gross Profit | | <u>42,127</u> | <u>49,926</u> |
| Profit on disposal of investment in subsidiaries | | <u>-</u> | <u>114</u> |
| Decrease in fair value of properties | 15,16 | (434,364) | (85,884) |
| Impairment loss on properties | 20,23 | <u>(12,651)</u> | <u>(8,892)</u> |
| Net valuation loss on properties | | <u>(447,015)</u> | <u>(94,776)</u> |
| Results from operating activities | | <u>(404,888)</u> | <u>(44,736)</u> |
| Finance income | | 4,496 | 7,026 |
| Finance costs | | <u>(156,796)</u> | <u>(285,633)</u> |
| Net finance costs | 12 | <u>(152,300)</u> | <u>(278,607)</u> |
| Loss before tax | | (557,188) | (323,343) |
| Tax benefit | 13 | <u>90,509</u> | <u>36,048</u> |
| Loss for the year | | <u>(466,679)</u> | <u>(287,295)</u> |
| Loss attributable to: | | | |
| Owners of the Company | | (464,087) | (281,020) |
| Non-controlling interests | | <u>(2,592)</u> | <u>(6,275)</u> |
| | | <u>(466,679)</u> | <u>(287,295)</u> |
| Earnings per share | | | |
| Basic and diluted earnings per share (cent) | 14 | <u>(44.30)</u> | <u>(26.82)</u> |

The notes on pages 14 to 67 are an integral part of these consolidated financial statements.

AFI DEVELOPMENT PLC

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOMEFor the year ended 31 December 2015

| | 2015 US\$ '000 | 2014 US\$ '000 |
|---|-------------------|-------------------|
| Loss for the year | <u>(466,679)</u> | <u>(287,295)</u> |
| Other comprehensive income | | |
| Items that are or may be reclassified subsequently to profit or loss | | |
| Realised translation difference on disposal of subsidiaries transferred to income statement | (275) | (130) |
| Foreign currency translation differences for foreign operations | <u>(23,907)</u> | <u>(164,659)</u> |
| Other comprehensive income for the year | <u>(24,182)</u> | <u>(164,789)</u> |
| Total comprehensive income for the year | <u>(490,861)</u> | <u>(452,084)</u> |
| Total comprehensive income attributable to: | | |
| Owners of the Company | (488,158) | (445,446) |
| Non-controlling interests | <u>(2,703)</u> | <u>(6,638)</u> |
| | <u>(490,861)</u> | <u>(452,084)</u> |

The notes on pages 14 to 67 are an integral part of these consolidated financial statements.

AFI DEVELOPMENT PLC

CONSOLIDATED STATEMENT OF CHANGES IN EQUITYFor the year ended 31 December 2015

| | <u>Attributable to the owners of the Company</u> | | | | | | <u>Non-controlling interests</u> | <u>Total</u> |
|--|--|----------------------|------------------------|----------------------------|--------------------------|------------------|----------------------------------|------------------|
| | <u>Share Capital</u> | <u>Share Premium</u> | <u>Capital reserve</u> | <u>Translation Reserve</u> | <u>Retained Earnings</u> | <u>Total</u> | | |
| | <u>US\$ '000</u> | <u>US\$ '000</u> | <u>US\$ '000</u> | <u>US\$ '000</u> | <u>US\$ '000</u> | <u>US\$ '000</u> | <u>US\$ '000</u> | <u>US\$ '000</u> |
| Balance at 1 January 2015 | <u>1,048</u> | <u>1,763,409</u> | <u>-</u> | <u>(314,880)</u> | <u>(158,982)</u> | <u>1,290,595</u> | <u>(8,817)</u> | <u>1,281,778</u> |
| Total comprehensive income for the period | | | | | | | | |
| Loss for the period | - | - | - | - | (464,087) | (464,087) | (2,592) | (466,679) |
| Other comprehensive income | - | - | - | (24,071) | - | (24,071) | (111) | (24,182) |
| Total comprehensive income for the period | <u>-</u> | <u>-</u> | <u>-</u> | <u>(24,071)</u> | <u>(464,087)</u> | <u>(488,158)</u> | <u>(2,703)</u> | <u>(490,861)</u> |
| Transactions with owners of the Company | | | | | | | | |
| Contributions and distributions | | | | | | | | |
| Share option expense | - | - | - | - | 2,283 | 2,283 | - | 2,283 |
| Changes in ownership interest | | | | | | | | |
| Acquisition of non-controlling interests (note 36) | - | - | (9,201) | - | - | (9,201) | 7,601 | (1,600) |
| Balance at 31 December 2015 | <u>1,048</u> | <u>1,763,409</u> | <u>(9,201)</u> | <u>(338,951)</u> | <u>(620,786)</u> | <u>795,519</u> | <u>(3,919)</u> | <u>791,600</u> |
| Balance at 1 January 2014 | <u>1,048</u> | <u>1,763,409</u> | <u>-</u> | <u>(150,454)</u> | <u>117,655</u> | <u>1,731,658</u> | <u>(2,179)</u> | <u>1,729,479</u> |
| Total comprehensive income for the period | | | | | | | | |
| Loss for the period | - | - | - | - | (281,020) | (281,020) | (6,275) | (287,295) |
| Other comprehensive income | - | - | - | (164,426) | - | (164,426) | (363) | (164,789) |
| Total comprehensive income for the period | <u>-</u> | <u>-</u> | <u>-</u> | <u>(164,426)</u> | <u>(281,020)</u> | <u>(445,446)</u> | <u>(6,638)</u> | <u>(452,084)</u> |
| Transactions with owners of the Company | | | | | | | | |
| Contributions and distributions | | | | | | | | |
| Share option expense | - | - | - | - | 4,383 | 4,383 | - | 4,383 |
| Balance at 31 December 2014 | <u>1,048</u> | <u>1,763,409</u> | <u>-</u> | <u>(314,880)</u> | <u>(158,982)</u> | <u>1,290,595</u> | <u>(8,817)</u> | <u>1,281,778</u> |

The notes on pages 14 to 67 are an integral part of these consolidated financial statements.

AFI DEVELOPMENT PLC

CONSOLIDATED STATEMENT OF FINANCIAL POSITION AS AT 31 DECEMBER 2015

| | Note | 2015 US\$ '000 | 2014 US\$ '000 |
|---|------|-------------------|-------------------|
| Assets | | | |
| Investment property | 15 | 933,700 | 1,375,416 |
| Investment property under development | 16 | 238,925 | 431,474 |
| Property, plant and equipment | 18 | 26,280 | 35,101 |
| Long-term loans receivable | 19 | 14,316 | 18,071 |
| Inventory of real estate | 20 | 18,570 | 20,111 |
| VAT recoverable | 21 | 33 | 42 |
| Non-current assets | | <u>1,231,824</u> | <u>1,880,215</u> |
| Trading properties | 22 | 2,062 | 2,979 |
| Trading properties under construction | 23 | 204,392 | 133,036 |
| Other investments | 24 | 15,921 | 6,499 |
| Inventory | | 477 | 615 |
| Short-term loans receivable | 19 | 101 | 1 |
| Trade and other receivables | 25 | 29,017 | 38,961 |
| Current tax assets | 13 | 1,622 | 1,307 |
| Cash and cash equivalents | 26 | <u>26,545</u> | <u>86,756</u> |
| Current assets | | <u>280,137</u> | <u>270,154</u> |
| Total assets | | <u>1,511,961</u> | <u>2,150,369</u> |
| Equity | | | |
| Share capital | 27 | 1,048 | 1,048 |
| Share premium | 27 | 1,763,409 | 1,763,409 |
| Translation reserve | 27 | (338,951) | (314,880) |
| Capital reserve | 27 | (9,201) | - |
| Accumulated losses | 27 | <u>(620,786)</u> | <u>(158,982)</u> |
| Equity attributable to owners of the Company | | 795,519 | 1,290,595 |
| Non-controlling interests | 35 | <u>(3,919)</u> | <u>(8,817)</u> |
| Total equity | | <u>791,600</u> | <u>1,281,778</u> |
| Liabilities | | | |
| Long-term loans and borrowings | 28 | 389,799 | 455,097 |
| Deferred tax liabilities | 29 | 25,567 | 102,621 |
| Deferred income | 32 | <u>8,543</u> | <u>12,966</u> |
| Non-current liabilities | | <u>423,909</u> | <u>570,684</u> |
| Short-term loans and borrowings | 28 | 224,315 | 231,684 |
| Trade and other payables | 30 | 18,163 | 28,216 |
| Advances from customers | 31 | <u>53,974</u> | <u>38,007</u> |
| Current liabilities | | <u>296,452</u> | <u>297,907</u> |
| Total liabilities | | <u>720,361</u> | <u>868,591</u> |
| Total equity and liabilities | | <u>1,511,961</u> | <u>2,150,369</u> |

The consolidated financial statements were approved by the Board of Directors on 17 March 2016.


Lev Leviev

Chairman


Christakis Klerides

Director

The notes on pages 14 to 67 are an integral part of these consolidated financial statements.

AFI DEVELOPMENT PLC

CONSOLIDATED STATEMENT OF CASH FLOWSFor the year ended 31 December 2015

| | Note | 2015 US\$'000 | 2014 US\$'000 |
|---|-------|------------------|------------------|
| Cash flows from operating activities | | | |
| Loss for the year | | (466,679) | (287,295) |
| Adjustments for: | | | |
| Depreciation | 18 | 963 | 1,595 |
| Net finance costs | 12 | 151,904 | 278,143 |
| Share option expense | | 2,283 | 4,383 |
| Decrease in fair value of properties | 15,16 | 434,364 | 85,884 |
| Impairment losses on properties | 20,23 | 12,651 | 8,892 |
| Share of loss in joint ventures | 17 | 1,321 | 4,451 |
| Profit on disposal of investment in subsidiaries | - | - | (114) |
| Profit on sale of property, plant and equipment | | (16) | (42) |
| Tax benefit | 13 | <u>(90,509)</u> | <u>(36,048)</u> |
| | | 46,282 | 59,849 |
| Change in trade and other receivables | | (1,420) | 24,300 |
| Change in inventory | | (3) | (323) |
| Change in trading properties and trading properties under construction | | (35,497) | (51,073) |
| Change in advances and amounts payable to builders of trading properties under construction | | (3,552) | (6,213) |
| Changes in advances from customers | | 29,455 | 54,744 |
| Change in trade and other payables | | (1,264) | (16,003) |
| Change in VAT recoverable | | 2,947 | (201) |
| Change in deferred income | | <u>(1,753)</u> | <u>164</u> |
| Cash generated from operating activities | | 35,195 | 65,244 |
| Taxes paid | | <u>(821)</u> | <u>(750)</u> |
| Net cash from operating activities | | <u>34,374</u> | <u>64,494</u> |
| Cash flows from investing activities | | | |
| Net cash inflow from the disposal of subsidiaries | | - | 1,400 |
| Proceeds from sale of other investments | | 15,239 | 2,150 |
| Proceeds from sale of property, plant and equipment | | 17 | 141 |
| Interest received | | 4,122 | 5,941 |
| Change in advances and amounts payable to builders | | (2,879) | (24,502) |
| Payments for construction of investment property under development | 16 | (10,906) | (54,813) |
| Payments for the acquisition/renovation of investment property | 15 | (2,013) | (43,800) |
| Change in VAT recoverable | | 2,617 | 3,472 |
| Acquisition of property, plant and equipment | 18 | (56) | (593) |
| Dividends received from joint ventures | 17 | 3,250 | - |
| Acquisition of other investments | 24 | (24,147) | (1,916) |
| Taxes paid on disposal of investment property | | - | (4,005) |
| Payments for loan receivable | | (154) | (591) |
| Proceeds from repayment of loans receivable | | <u>95</u> | <u>576</u> |
| Net cash used in investing activities | | <u>(14,815)</u> | <u>(116,540)</u> |

The notes on pages 14 to 67 are an integral part of these consolidated financial statements.

AFI DEVELOPMENT PLC

CONSOLIDATED STATEMENT OF CASH FLOWS (CONTINUED)For the year ended 31 December 2015

| | Note | 2015 US\$'000 | 2014 US\$'000 |
|--|------|------------------|------------------|
| Cash flows from financing activities | | | |
| Acquisition of non-controlling interests | 36 | (1,600) | - |
| Proceeds from loans and borrowings | 28 | 10,000 | 36,986 |
| Repayment of loans and borrowings | | (43,318) | (26,000) |
| Interest paid | | <u>(45,085)</u> | <u>(53,169)</u> |
| Net cash used in financing activities | | <u>(80,003)</u> | <u>(42,183)</u> |
| Effect of exchange rate fluctuations | | <u>233</u> | <u>(12,345)</u> |
| Net decrease in cash and cash equivalents | | <u>(60,211)</u> | <u>(106,574)</u> |
| Cash and cash equivalents at 1 January | | <u>86,756</u> | <u>193,330</u> |
| Cash and cash equivalents at 31 December | 26 | <u>26,545</u> | <u>86,756</u> |

The notes on pages 14 to 67 are an integral part of these consolidated financial statements.

AFI DEVELOPMENT PLC

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2015

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. The Company is a 64.88% (31/12/2014: 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 consolidated financial statements of the Company as at and for the year ended 31 December 2015 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 as presented in note 34 “Group Entities”.

2. BASIS OF PREPARATION

Statement of compliance

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union (EU) and the requirements of the Companies Law of Cyprus, Cap. 113.

The consolidated financial statements were authorised for issue by the Board of Directors on 17 March 2016.

Basis of measurement

These consolidated financial statements have been prepared on the historical cost basis as modified, up to 31 December 2003, by the provisions of IAS 29 “Reporting in Hyperinflationary Economies” which provides for the restatement of non-monetary assets and liabilities to account for the inflation. The historical cost basis is also modified in regard to investment property, investment property under development and other investments which are presented at fair value, and trading properties under developments and inventory of real estate which are presented at the lower of cost or net realisable value.

AFI DEVELOPMENT PLC

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTSFor the year ended 31 December 20152. BASIS OF PREPARATION (continued)Functional and presentation currency

These consolidated financial statements are presented in United States Dollars which is the Company's functional currency. All amounts have been rounded to the nearest thousand, unless otherwise indicated.

3. USE OF JUDGEMENTS AND ESTIMATES

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

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to estimates are recognised prospectively.

Judgements

Information about judgements made in applying accounting policies that have the most significant effect on the amounts recognised in the consolidated financial statements is included in the following notes:

- Note 17 – classification of the joint arrangements;
- Note 37 – lease classification;

Assumptions and estimation uncertainties

Information about assumptions and estimation uncertainties that have a significant risk of resulting in a material adjustment in the year ending 31 December 2015 is included in the following notes:

- Note 18 – valuation of land and buildings and buildings under construction
- Note 22 – valuation of trading properties
- Note 23 – valuation of trading properties under construction
- Note 13 – provision for tax liabilities
- Note 25 – recoverability of receivables
- Note 29 – utilisation of tax losses
- Note 39 – recognition and measurement of contingencies

Measurement of fair values

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

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 CFO.

AFI DEVELOPMENT PLC

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTSFor the year ended 31 December 20153. USE OF JUDGEMENTS AND ESTIMATES (continued)Assumptions and estimation uncertainties (continued)*Measurement of fair values (continued)*

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 such 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's Audit Committee.

When measuring the fair value of an asset or a liability, the Group uses observable market data as far as possible. Fair values are categorised into different levels in a fair value hierarchy based on the inputs used in the valuation techniques as follows:

- *Level 1*: quoted prices (unadjusted) in active markets for identical assets or liabilities.
- *Level 2*: inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).
- *Level 3*: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

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

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

Further information about the assumptions made in measuring fair values is included in the following notes:

- Note 15 – investment property
- Note 16 – investment property under development
- Note 24 – other investments
- Note 27 – share-based payment arrangements
- Note 33 – financial instruments

AFI DEVELOPMENT PLC

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2015

4. CHANGES IN ACCOUNTING POLICIES

The Group applied for the first time certain standards and amendments, which are effective for annual periods beginning on or after 1 January 2015. The Group has not early adopted any other standard, interpretation or amendment that has been issued but is not yet effective.

Those which were relevant to the Group are disclosed below. Although these new standards and amendments applied for the first time in 2015, they did not have a material impact on the annual consolidated financial statements of the Group.

- Improvements to IFRSs 2010-2012 (effective for annual periods beginning on or after 1 July 2014).
- Improvements to IFRSs 2011-2013 (effective for annual periods beginning on or after 1 July 2014).

5. SIGNIFICANT ACCOUNTING POLICIES

Except for the changes explained in Note 4, the Group has consistently applied the following accounting policies to all periods presented in these consolidated financial statements.

Basis of consolidation

Subsidiaries

Subsidiaries are entities controlled by the Group. The Group controls an entity when it is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. The financial statements of subsidiaries are included in the consolidated financial statements from the date on which control commences until the date on which control ceases.

Non-controlling interests (NCI)

NCI are measured at their proportionate share of the acquiree's identifiable net assets at the date of acquisition. Subsequently the Group attributes profit or loss and each components of Other Comprehensive Income (OCI) to the NCI even if this results in a deficit balance. Changes in the Group's interest in a subsidiary that do not result in a loss of control are accounted for as equity transactions.

Loss of control

When the Group loses control over a subsidiary, it derecognises the assets and liabilities of the subsidiary and any related NCI and other components of equity. Any resulting gain or loss is recognised in profit or loss. Any interest in the former subsidiary is measured at fair value when control is lost.

Interests in equity-accounted investees

The Group's interests in equity-accounted investees, comprise interests in joint ventures.

A joint venture is an arrangement in which the Group has joint control, whereby the Group has rights to the net assets of the arrangement, rather than rights to its assets and obligations for its liabilities.

Interests in joint ventures are accounted for using the equity method. They are initially recognised at cost, which includes transaction costs. Subsequent to initial recognition, the consolidated financial statements include the Group's share of the profit or loss and OCI of equity-accounted investees, until the date on which joint control ceases.

AFI DEVELOPMENT PLC

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTSFor the year ended 31 December 20155. SIGNIFICANT ACCOUNTING POLICIES (continued)Basis of consolidation (continued)*Transactions eliminated on consolidation*

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

Foreign currency*Foreign currency transactions*

Transactions in foreign currencies are translated into the respective functional currencies of Group entities at the exchange rates at the dates of the transactions.

Monetary assets and liabilities denominated in foreign currencies are translated into the functional currency at the exchange rate at the reporting date. Non-monetary assets and liabilities that are measured at fair value in a foreign currency are translated into the functional currency at the exchange rate when the fair value was determined. Non-monetary items that are measured based on historical cost in a foreign currency are translated at the exchange rate at the date of the transaction. Foreign currency differences are generally recognised in profit or loss.

Foreign operations

The assets and liabilities of foreign operations are translated into US Dollars at the exchange rates at the reporting date. The income and expenses of foreign operations are translated into US Dollars at the exchange rates at the dates of the transactions or average rate for the year for practical reasons. If the volatility of the exchange rates is high for a given year or period the Group uses the average rate for shorter periods i.e. quarters or months for income and expense items.

Foreign currency differences are recognised in OCI and accumulated in the translation reserve, except to the extent that the translation difference is allocated to NCI.

When a foreign operation is disposed of in its entirety or partially such that control or joint control is lost, the cumulative amount in the translation reserve related to that foreign operation is reclassified to profit or loss as part of the gain or loss on disposal. If the Group disposes of part of its interest in a subsidiary but retains control, then the relevant proportion of the cumulative amount is reattributed to NCI. When the Group disposes of only part of joint venture while retaining joint control, the relevant proportion of the cumulative amount is reclassified to profit or loss.

If the settlement of a monetary item receivable from or payable to a foreign operation is neither planned nor likely to occur in the foreseeable future, then foreign currency differences arising from such item form part of the net investment in a foreign operation. Accordingly, such differences are recognised in OCI, and accumulated in the translation reserve.

AFI DEVELOPMENT PLC

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTSFor the year ended 31 December 20155. SIGNIFICANT ACCOUNTING POLICIES (continued)Foreign currency (continued)*Foreign operations (continued)*

The table below shows the exchange rates of Russian Roubles which is the functional currency of the Russian subsidiaries of the Group:

| As of: | Exchange rate Russian Roubles for US\$1 | % Change |
|-----------------------------|---|----------|
| 31 December 2015 | 72.8827 | 29.5 |
| 31 December 2014 | 56.2584 | 71.9 |
| Average rate during: | | |
| Year ended 31 December 2015 | 60.9579 | 58.7 |
| Year ended 31 December 2014 | 38.4217 | 20.6 |

Financial Instruments

The Group classifies non-derivative financial assets into the following categories: financial assets at fair value through profit or loss and loans and receivables.

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

Non-derivative financial assets and financial liabilities-Recognition and derecognition

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

The Group derecognises a financial asset when the contractual rights to the cash flows from the asset expire, or it transfers the rights to receive the contractual cash flows in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred, or it neither transfers nor retains substantially all of the risks and rewards of ownership and does not retain control over the transferred asset. Any interest in such derecognised financial assets that is created or retained by the Group is recognised as a separate asset or liability.

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

Financial assets and liabilities are offset and the net amount presented in the statement of financial position when, and only when, the Group currently has a legally enforceable right to offset the amounts and intends either to settle them on a net basis or to realise the asset and settle the liability simultaneously.

AFI DEVELOPMENT PLC

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTSFor the year ended 31 December 20155. SIGNIFICANT ACCOUNTING POLICIES (continued)Financial Instruments (continued)*Non-derivative financial assets-measurement*

Financial assets at fair value through profit or loss

A financial asset is classified as at fair value through profit or loss if it is classified as held for trading or is designated as such on initial recognition. Directly attributable transaction costs are recognised in profit or loss as incurred. Financial assets at fair value through profit or loss are measured at fair value and changes therein, including any interest or dividend income, are recognised in profit or loss.

Cash and cash equivalents

For the purpose of the statement of cash flows, cash and cash equivalents comprise cash at bank, cash in hand and deposits on demand.

Loans and receivables

These assets are initially recognised at fair value plus any directly attributable transaction costs. Subsequent to initial recognition, they are measured at amortised cost using the effective interest method.

Non derivative financial liabilities-measurement

Non-derivative financial liabilities are initially measured at fair value less any directly attributable transaction costs. Subsequent to initial recognition, these liabilities are measured at amortised cost using the effective interest method.

Share capital*Ordinary shares*

Incremental costs directly attributable to the issue of ordinary shares, net of any tax effects, are recognised as a deduction from equity.

Investment Property

Investment property is initially measured at cost and subsequently at fair value with any change therein recognised in profit or loss.

Any gain or loss on disposal of investment property (calculated as the difference between the net proceeds from disposal and the carrying amount of the item) is recognised in profit or loss. When investment property that was previously classified as property, plant and equipment is sold, any related amount included in the revaluation reserve is transferred to retained earnings.

AFI DEVELOPMENT PLC

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTSFor the year ended 31 December 20155. SIGNIFICANT ACCOUNTING POLICIES (continued)Investment Property (continued)

When the use of a property changes from owner-occupied to investment property, the property is remeasured to fair value and reclassified accordingly. Any gain arising on this remeasurement is recognised in profit or loss to the extent that it reverses a previous impairment loss on the specific property, with any remaining gain recognised in OCI and presented in the revaluation reserve. Any loss is recognised in profit or loss.

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

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

Investment property under development

Property that is being constructed or developed for future use as investment property is classified as investment property under development and accounted for at fair value until construction or development is complete, at which time it is reclassified as investment property.

Certain development assets within the Group's portfolio that are in very early stages of development process were categorised as "land bank" without ascribing current market value to them. Any value ascribed to such land bank projects other than their cost, would result in a gain or loss to be recognised in profit or loss. This approach was adopted due to abnormal market volatility and will be reviewed in the future once market conditions are more stable.

All costs directly related with the purchase and construction of a property, land lease payments, and all subsequent capital expenditure for the development qualifying as acquisition costs are capitalised.

Capitalisation of borrowing costs

Borrowing costs are capitalised if they are directly attributable to the acquisition, construction or production of a qualifying asset as part of the cost of that asset. Capitalisation of borrowing costs commences when the activities to prepare the asset are in process and expenditures and borrowing costs are being incurred. Capitalisation of borrowing costs may continue until the assets are substantially ready for their intended use. If the resulting carrying amount of the asset exceeds its recoverable amount, an impairment loss is recognised. The capitalisation rate is arrived at by reference to the actual rate payable on borrowings for development purposes or, with regard to that part of the development cost financed out of general funds, to the average rate. The capitalised borrowing cost is limited to the amount of borrowing cost actually incurred.

Property, plant and equipment*Recognition and measurement*

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

AFI DEVELOPMENT PLC

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTSFor the year ended 31 December 20155. SIGNIFICANT ACCOUNTING POLICIES (continued)Property, plant and equipment (continued)

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

All hotels are treated as property, plant and equipment due to the Group's significant influence on their management.

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

Any gain or loss on disposal of an item of property, plant and equipment is recognised in profit or loss.

Subsequent expenditure

Subsequent expenditure is capitalised only if it is probable that the future economic benefits associated with the expenditure will flow to the Group.

Depreciation

Depreciation is calculated to write off the cost of items of property, plant and equipment less their estimated residual values using the straight-line method over their estimated useful lives, and is generally recognised in profit or loss. Leased assets are depreciated over the shorter of the lease term and their useful lives unless it is reasonably certain that the Group will obtain ownership by the end of the lease term. Land is not depreciated.

Items of property, plant and equipment are depreciated from the date that they are available for use, or in respect of self-constructed assets, from the date that the asset is completed and ready for use.

The annual depreciation rates for the current and comparative periods are as follows:

| | |
|------------------|---------|
| Buildings | 1-2% |
| Office equipment | 10-33⅓% |
| Motor vehicles | 33⅓% |

Depreciation methods, useful lives and residual values are reviewed at each reporting date and adjusted if appropriate.

Intangible assets and goodwill*Goodwill*

Goodwill arising on the acquisition of subsidiaries represents the excess of the cost of acquisition over the Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities of the acquiree. When the excess is negative (negative goodwill), it is recognised immediately in profit or loss.

AFI DEVELOPMENT PLC

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTSFor the year ended 31 December 20155. SIGNIFICANT ACCOUNTING POLICIES (continued)Intangible assets and goodwill (continued)*Goodwill (continued)*

Goodwill is measured at cost less accumulated impairment losses. In respect of equity-accounted investees, the carrying amount of goodwill is included in the carrying amount of the investment, and any impairment loss is allocated to the carrying amount of the equity-accounted investee as a whole.

Trading Properties

Trading Properties are measured at the lower of cost and net realisable value. Cost includes expenditure incurred in acquiring the properties and bringing them to their existing condition. In the case of constructed trading properties, cost includes an appropriate share of direct and borrowing costs. Net realisable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

Trading properties under construction

Trading properties under construction are defined as projects in which the Group participates as a contractor or as a promoter, and which include construction work with the intention to sell the entire building as a whole or parts thereof. Each project represents one building or a group of buildings.

A group of buildings is considered one project when the buildings at the same building site are being constructed according to one building plan and under one building license, and are offered for sale at the same time. Trading properties include cost of land or of rights to the land that constitutes the relative portion of the area, on which the construction work on projects is performed, plus the cost of the work executed on the projects as well as other costs allocated thereto, less the cumulative amounts recognised in profit or loss as cost of trading properties sold up to the end of the reported period.

Direct costs and expenses are charged to projects on a specific basis, whereas borrowing costs are allocated among the projects based on the relative proportion of the costs. Non-specific borrowing costs are capitalised to such qualifying asset, or portion thereof which was not financed with specific credit, by weighted-average rate of the borrowing cost up to the amount of borrowing cost actually incurred. Where the estimated expenses for a building project indicate that a loss is expected, an appropriate provision is set up. Buildings that are under construction are classified as trading properties under construction on the statement of financial position.

Inventory of real estate

Land for future development of trading properties is classified as "Inventory of real estate" as non-current asset when it is not expected to develop and sell the properties within the Group's normal operating cycle. It is presented at the lower of cost and net realisable value.

Deferred income

Income received in advance is classified under non-current and current liabilities as deferred income and comprise rental income received for future periods and amounts received in advance for the sale of trading properties, for which recognition of revenue has not yet commenced.

AFI DEVELOPMENT PLC

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTSFor the year ended 31 December 20155. SIGNIFICANT ACCOUNTING POLICIES (continued)Impairment*Non-derivative financial assets*

Financial assets not classified as at fair value through profit or loss, including an interest in equity-accounted investee are assessed at each reporting date to determine whether there is objective evidence of impairment.

Objective evidence that financial assets are impaired includes:

- default or delinquency by a debtor;
- restructuring of an amount due to the Group on terms that the Group would not consider otherwise;
- indications that a debtor or issuer will enter bankruptcy;
- adverse changes in the payment status of borrowers or issuers;
- the disappearance of an active market for a security because of financial difficulties; or
- observable data indicating that there is a measureable decrease in the expected cash flows from a group of financial assets.

For an investment in an equity security, objective evidence of impairment includes a significant or prolonged decline in its fair value below its cost.

Financial assets measured at amortised cost

The Group considers evidence of impairment for these assets at both an individual asset and a collective level. All individually significant assets are individually assessed for impairment. Those found not to be impaired are then collectively assessed for any impairment that has been incurred but not yet individually identified. Assets that are not individually significant are collectively assessed for impairment. Collective assessment is carried out by grouping together assets with similar risks characteristics.

In assessing collective impairment, the Group uses historical information on the timing of recoveries and the amount of loss incurred, and makes an adjustment if current economic and credit conditions are such that the actual losses are likely to be greater or lesser than suggested by historical trends.

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

Equity-accounted investees

An impairment loss in respect of an equity-accounted investee is measured by comparing the recoverable amount of the investment with its carrying amount. An impairment loss is recognised in profit or loss, and is reversed if there has been a favourable change in the estimates used to determine the recoverable amount.

AFI DEVELOPMENT PLC

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTSFor the year ended 31 December 20155. SIGNIFICANT ACCOUNTING POLICIES (continued)Impairment (continued)*Non-financial assets*

At each reporting date, the Group reviews the carrying amounts of its non-financial assets (other than investment property, investment property under development, VAT recoverable, inventories and deferred tax assets) to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated.

For impairment testing, assets are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets.

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

An impairment loss is recognised if the carrying amount of an asset exceeds its recoverable amount and recognised in profit or loss.

An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

Assets held for sale

Non-current assets, or disposal groups comprising assets and liabilities, are classified as held-for sale if it is highly probable that they will be recovered primarily through sale rather than through continuing use.

Such assets, or disposal groups, are generally measured at the lower of their carrying amount and fair value less costs to sell. Any impairment loss on a disposal group is allocated first to goodwill, and then to the remaining assets and liabilities on a pro rate basis, except that no loss is allocated to inventories, financial assets, deferred tax assets, employee benefit assets, investment property or investment property under development, which continue to be measured in accordance with the Group's other accounting policies. Impairment losses on initial classification as held-for-sale or held-for-distribution and subsequent gains and losses on remeasurement are recognised in profit or loss.

Once classified as held-for-sale, intangible assets, and property, plant and equipment are no longer amortised or depreciated and any equity-accounted investee is no longer equity accounted.

Employee benefits*Short-term employee benefits*

Short-term employee benefits are expensed as the related service is provided. A liability is recognised for the amount expected to be paid if the Group has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee and the obligation can be estimated reliably.

AFI DEVELOPMENT PLC

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTSFor the year ended 31 December 20155. SIGNIFICANT ACCOUNTING POLICIES (continued)Employee benefits (continued)*Share-based payment transactions*

The grant-date fair value of equity-settled share-based payment options granted to employees is generally recognised as an expense, with a corresponding increase in equity, over the period that the employees unconditionally become entitled to the options. The amount recognised as an expense is adjusted to reflect the actual number of share options that vest.

The fair value of the amount payable to employees in respect of share appreciation rights, which are settled in cash, is recognised as an expense, with a corresponding increase in liabilities, over the period during which the employees become unconditionally entitled to payment. The liability is remeasured at each reporting date and at settlement date based on the fair value of share appreciation rights. Any changes in the liability are recognised in profit or loss.

Provisions

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

Revenue*Sale of trading properties*

Revenue from sale of trading properties is recognised in profit or loss when the significant risks and rewards of ownership have been transferred to the buyer.

Construction Management fee

Revenue from construction management is recognised in profit or loss in proportion to the stage of completion of the transaction at the reporting date. The stage of completion is assessed by reference to surveys of work performed.

Investment Property Rental income

Rental income from investment property is recognised as revenue on a straight-line basis over the term of the lease. Lease incentives granted are recognised as an integral part of the total rental income, over the term of the lease.

Hotel operation income

Income from hotel operations comprises of accommodation, treatments and other services offered at the hotels operated by the group and sales of food and beverages and are recognised upon offering of the service and the acceptance by the client.

Gross Profit

Gross profit is the result of the Group's operations and comprises revenue and other income net of all cost for trading properties sold and operating, administrative and other expenses, recognised in profit or loss during the year.

AFI DEVELOPMENT PLC

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTSFor the year ended 31 December 20155. SIGNIFICANT ACCOUNTING POLICIES (continued)Finance income and finance costs

Finance income include interest income on funds invested and net gain on financial assets at fair value through profit or loss. Interest income is recognised as it accrues in profit or loss, using the effective interest method.

Finance costs include interest expense on borrowings, unwinding of the discount on provisions and deferred consideration, net loss on financial assets at fair value through profit or loss and impairment losses recognised on financial assets.

Borrowing costs are recognised in profit or loss using the effective interest method, net of interest capitalised.

Foreign currency gain or loss on financial assets and financial liabilities is reported on a net basis as either finance income or finance cost depending on whether foreign currency movements are in a net gain or net loss position.

Income tax

Income tax expense comprises current and deferred tax. It is recognised in profit or loss except to the extent that it relates to a business combination, or items recognised directly in equity or in OCI.

Current tax

Current tax comprises the expected tax payable or receivable on the taxable income or loss for the year and any adjustment to the tax payable or receivable in respect of previous years. The amount of current tax payable or receivable is the best estimate of the tax amount expected to be paid or received that reflects uncertainty related to income taxes, if any. It is measured using tax rates enacted or substantively enacted at the reporting date. Current tax also includes any tax arising from dividends.

Current tax assets and liabilities are offset only if they relate to income taxes levied by the same taxation authority and the taxation authority permits the entity to make or receive a single net payment. In Group's financial statements, a current tax asset of one entity in the group is offset against a current tax liability of another entity in the group if, and only if, the entities concerned have a legally enforceable right to make or receive a single net payment and the entities intend to make or receive such a net payment or to recover the asset and settle the liability simultaneously.

Deferred tax

Deferred tax is recognised in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes.

Deferred tax is not recognised for temporary differences on the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit or loss and temporary differences related to investments in subsidiaries and joint arrangements to the extent that the Group is able to control the timing of reversal of the temporary differences and it is probable that they will not reverse in the foreseeable future.

AFI DEVELOPMENT PLC

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2015

5. SIGNIFICANT ACCOUNTING POLICIES (continued)Income tax (continued)*Deferred tax (continued)*

Deferred tax assets are recognised for unused tax losses, unused tax credits and deductible temporary differences to the extent that it is probable that future taxable profits will be available against which they can be used. Future taxable profits are determined based on business plans for individual subsidiaries in the Group. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised; such reductions are reversed when the probability of future taxable profits improves.

Unrecognised deferred tax assets are reassessed at each reporting date and recognised to the extent that it has become probable that future taxable profits will be available against which they can be used.

Deferred tax is measured at the tax rates that are expected to be applied to temporary differences when they reverse, using tax rates enacted or substantively enacted at the reporting date.

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

Deferred tax assets and liabilities are offset if, and only if, the entity has a legally enforceable right to set off current tax liabilities and assets; and the deferred tax liabilities and assets relate to income taxes levied by the same tax authority on either the same taxable entity or different taxable entities, but these entities intend to settle current tax liabilities and assets on a net basis, or their tax assets and liabilities will be realised simultaneously for each future period in which these differences reverse.

The provision for taxation either current or deferred is based on the tax rate applicable to the country of residence of each subsidiary.

Discontinued operations

A discontinued operation is a component of the Group's business, the operations and cash flows of which can be clearly distinguished from the rest of the Group and which:

- represents a separate major line of business or geographical area of operations;
- is part of a singly co-ordinated plan to dispose of a separate major line of business or geographic area of operations; or
- is a subsidiary acquired exclusively with a view to re-sale.

Classification as a discontinued operation occurs at the earlier of disposal or when the operation meets the criteria to be classified as held-for-sale.

When an operation is classified as a discontinued operation, the comparative statement of profit or loss and OCI is re-presented as if the operation had been discontinued from the start of the comparative year.

Earnings per share

The Group presents basic and diluted earnings per share (EPS) data for its ordinary shares. Basic EPS is calculated by dividing the profit or loss attributable to the owners of the Company by the weighted average number of ordinary shares outstanding during the year. Diluted EPS is determined by adjusting the profit or loss attributable to the owners of the Company and the weighted average number of ordinary shares outstanding for the effects of all dilutive potential ordinary shares, which comprise share options granted to employees.

AFI DEVELOPMENT PLC

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTSFor the year ended 31 December 20155. SIGNIFICANT ACCOUNTING POLICIES (continued)Segment reporting

An operating segment is a component of the Group that engages in business activities from which it may earn revenues and incur expenses, including revenues and expenses that relate to transactions with any of the Group's other components. All segments results are reviewed regularly by the Group's management to make decisions about resources to be allocated to the segment and assess its performance, and for which discrete financial information is available.

Adoption of new and revised International Financial Reporting Standards and Interpretations

As from 1 January 2015, the Group adopted all changes to International Financial Reporting Standards (IFRSs) as adopted by the EU which are relevant to its operations.

The following Standards, Amendments to Standards and Interpretations have been issued but are not yet effective for annual periods beginning on 1 January 2015. Those which may be relevant to the Company are set out below. The Company does not plan to adopt these Standards early.

(i) Standards and Interpretations adopted by the EU

- Annual Improvements to IFRSs 2010-2012 (effective for annual periods beginning on or after 1 February 2015).
- IAS 1 (Amendments): Disclosure Initiative (effective for annual periods beginning on or after 1 January 2016).
- Annual Improvements to IFRSs 2012–2014 Cycle (effective for annual periods beginning on or after 1 January 2016).
- IAS 16 and IAS 38 (Amendments) "Clarification of acceptable methods of depreciation and amortisation" (effective for annual periods beginning on or after 1 January 2016).
- IFRS 11 (Amendments) "Accounting for acquisitions of interests in Joint Operations" (Amendments) (effective for annual periods beginning on or after 1 January 2016).
- IAS 16 and IAS 41 (Amendments) "Bearer plants" (effective for annual periods beginning on or after 1 January 2016).

(ii) Standards and Interpretations not adopted by the EU

- IFRS 14 "Regulatory Deferral Accounts" (effective for annual periods beginning on or after 1 January 2016).
- IAS 7 (Amendments) "Disclosure Initiative" (effective for annual accounting periods beginning on or after 1 January 2017).
- IAS 12 (Amendments) "Recognition of Deferred Tax Assets for Unrealised Losses" (effective for annual accounting periods beginning on or after 1 January 2017).
- IFRS 15 "Revenue from contracts with customers" (effective for annual periods beginning on or after 1 January 2018).
- IFRS 9 "Financial Instruments" (effective for annual periods beginning on or after 1 January 2018).
- IFRS 16 "Leases" (effective for annual periods beginning on or after 1 January 2019).

AFI DEVELOPMENT PLC

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTSFor the year ended 31 December 20155. SIGNIFICANT ACCOUNTING POLICIES (continued)Adoption of new and revised International Financial Reporting Standards and Interpretations (continued)

The Board of Directors expects that the adoption of the above financial reporting standards in future periods will not have a significant effect on the financial statements of the Company except of:

- The adoption of IFRSs 9,15 and 16 which could affect the consolidated financial statements.

The extent of the impact has not been determined.

6. OPERATING SEGMENTS

The Group has five reportable segments, as described below, which are the Group's strategic business units. The strategic business units offer different types of real estate products and services and are managed separately because they require different marketing strategies as they address different types of clients. For each strategic business unit the Group's management reviews internal management reports on at least monthly basis. The following summary describes the operation in each of the Group's reportable segments.

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

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.

AFI DEVELOPMENT PLC

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2015

6. OPERATING SEGMENTS (continued)

| | Reportable segments | | | | | | | | | | | | | | Total |
|--------------------------------------|----------------------|-----------|----------------------|----------|------------------|-----------|----------|----------|-----------------|----------|-----------|-----------|-------------------|----------|-------|
| | Development projects | | | | Asset management | | | | Hotel Operation | | | | Other - land bank | | |
| | Commercial projects | | Residential projects | | | | | | | | | | | | |
| | 2015 | 2014 | 2015 | 2014 | 2015 | 2014 | 2015 | 2014 | 2015 | 2014 | 2015 | 2014 | 2015 | 2014 | |
| | US\$'000 | US\$'000 | 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 | - | 117 | 815 | 2,512 | 76,753 | 117,348 | 11,346 | 15,288 | 4,812 | 8,823 | 93,726 | 144,088 | | | |
| Inter-segment revenue | 381 | 1 | 1,168 | 4 | - | - | - | 15 | - | 410 | 1,549 | 430 | | | |
| Segment revenue | 381 | 118 | 1,983 | 2,516 | 76,753 | 117,348 | 11,346 | 15,303 | 4,812 | 9,233 | 95,275 | 144,518 | | | |
| Segment (loss) profit before tax | (13,566) | (134,143) | (11,820) | (6,656) | (437,794) | (96,759) | 6,216 | 8,627 | (98,919) | (82,425) | (555,883) | (311,356) | | | |
| Interest income | - | 1,278 | 1 | 70 | 3 | 313 | 721 | 762 | 3,014 | 4,603 | 3,739 | 7,026 | | | |
| Interest expense | (15) | (44) | (59) | (60) | (45,796) | (56,428) | (122) | (153) | (186) | (4,153) | (46,178) | (60,838) | | | |
| Depreciation | - | - | (36) | (49) | (111) | (269) | (731) | (1,149) | (85) | (128) | (963) | (1,595) | | | |
| Share of loss of joint-ventures | - | - | - | - | - | - | (1,321) | (4,451) | - | - | (1,321) | (4,451) | | | |
| Other material non-cash items: | | | | | | | | | | | | | | | |
| Impairment loss on properties | - | - | (12,651) | (8,892) | - | - | - | - | - | - | (12,651) | (8,892) | | | |
| Decrease in fair value of properties | (9,444) | (129,467) | - | - | (327,104) | 123,278 | - | - | (97,816) | (79,695) | (434,364) | (85,884) | | | |
| Segment assets | 66,070 | 208,923 | 242,781 | 175,444 | 925,227 | 1,362,157 | 20,970 | 27,471 | 191,627 | 250,735 | 1,446,675 | 2,024,730 | | | |
| Capital expenditure | 1,634 | 16,240 | 36,440 | 65,340 | 7,020 | 20,698 | - | - | 4,520 | 49,637 | 49,614 | 151,915 | | | |
| Segment liabilities | 6,639 | 4,607 | 52,223 | 38,348 | 643,756 | 808,615 | - | - | 5,415 | 1,323 | 708,033 | 852,893 | | | |

AFI DEVELOPMENT PLC

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTSFor the year ended 31 December 20156. OPERATING SEGMENTS (continued)

Reconciliations of reportable segment revenues, profit or loss, assets and liabilities and other material items.

| | 2015 US\$'000 | 2014 US\$'000 |
|--|------------------|------------------|
| Revenues | | |
| Total revenue for reportable segments | 95,275 | 144,518 |
| Elimination of inter-segment revenue | <u>(1,549)</u> | <u>(430)</u> |
| Consolidated revenue | <u>93,726</u> | <u>144,088</u> |
| Profit before tax | | |
| Total profit before tax for reportable segments | (555,883) | (311,356) |
| Unallocated amounts: | | |
| Other profit or loss | 16 | (7,650) |
| Share of the after tax loss of joint ventures | (1,321) | (4,451) |
| Profit on disposal of investment in subsidiaries | <u>-</u> | <u>114</u> |
| Consolidated loss before tax | <u>(557,188)</u> | <u>(323,343)</u> |
| Assets | | |
| Total assets for reportable segments | 1,446,675 | 2,024,730 |
| Other unallocated amounts | <u>65,286</u> | <u>125,639</u> |
| Consolidated total assets | <u>1,511,961</u> | <u>2,150,369</u> |
| Liabilities | | |
| Total liabilities for reportable segments | 708,033 | 852,893 |
| Other unallocated amounts | <u>12,328</u> | <u>15,698</u> |
| Consolidated total liabilities | <u>720,361</u> | <u>868,591</u> |

| | Reportable segment totals US\$'000 | Adjustments US\$'000 | Consolidated totals US\$'000 |
|--------------------------------------|---|-------------------------|------------------------------------|
| Other material items 2015 | | | |
| Interest income | 3,739 | - | 3,739 |
| Interest expense | 46,178 | (395) | 45,783 |
| Capital expenditure | 49,614 | - | 49,614 |
| Depreciation | 963 | - | 963 |
| Decrease in fair value of properties | 434,364 | - | 434,364 |
| Impairment loss on properties | <u>12,651</u> | <u>-</u> | <u>12,651</u> |

AFI DEVELOPMENT PLC

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTSFor the year ended 31 December 20156. OPERATING SEGMENTS (continued)

| | Reportable segment totals | Adjustments | Consolidated totals |
|--------------------------------------|--|--------------------|--------------------------------|
| | US\$'000 | US\$'000 | US\$'000 |
| Other material items 2014 | | | |
| Interest income | 7,026 | - | 7,026 |
| Interest expense | 60,838 | (5,198) | 55,640 |
| Capital expenditure | 151,915 | - | 151,915 |
| Depreciation | 1,595 | - | 1,595 |
| Decrease in fair value of properties | 85,884 | - | 85,884 |
| Impairment loss on properties | <u>8,892</u> | <u>-</u> | <u>8,892</u> |

Geographical segments

Geographically the Group operates only in Russia and has no significant revenue or assets in other countries or geographical areas. Therefore no geographical segment reporting is presented.

Major customer

There was no concentration of revenue from any single customer in any of the segments.

7. REVENUE

| | 2015 US\$ '000 | 2014 US\$ '000 |
|---|-------------------|-------------------|
| Investment property rental income | 81,561 | 126,152 |
| Sales of trading properties (note 22) | 674 | 2,411 |
| Hotel operation income | 11,346 | 15,287 |
| Construction consulting/management fees | <u>145</u> | <u>238</u> |
| | <u>93,726</u> | <u>144,088</u> |

8. OTHER INCOME

| | 2015 US\$ '000 | 2014 US\$ '000 |
|---|-------------------|-------------------|
| Other income consists of: | | |
| Penalties charged to tenants | 345 | 1,219 |
| Reimbursement of depositary fees | 750 | 1,500 |
| Profit on sale of property, plant and equipment | 16 | 42 |
| Sundries | <u>2,014</u> | <u>746</u> |
| | <u>3,125</u> | <u>3,507</u> |

AFI DEVELOPMENT PLC

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTSFor the year ended 31 December 20159. OPERATING EXPENSES

| | 2015 US\$ '000 | 2014 US\$ '000 |
|--|-------------------|-------------------|
| Maintenance, utility and security expenses | 13,743 | 24,140 |
| Agency and brokerage fees | 701 | 825 |
| Advertising expenses | 3,672 | 4,462 |
| Salaries and wages | 10,724 | 17,553 |
| Consultancy fees | 499 | 994 |
| Depreciation | 849 | 1,412 |
| Insurance | 622 | 717 |
| Rent | 1,566 | 2,408 |
| Property and other taxes | 7,863 | 9,899 |
| Other operating expenses | 266 | 100 |
| | <u>40,505</u> | <u>62,510</u> |

10. ADMINISTRATIVE EXPENSES

| | 2015 US\$ '000 | 2014 US\$ '000 |
|------------------------------|-------------------|-------------------|
| Consultancy fees | 894 | 1,835 |
| Legal fees | 475 | 1,273 |
| Auditors' remuneration | 695 | 784 |
| Valuation expenses | 124 | 161 |
| Directors' remuneration | 1,472 | 2,024 |
| Salaries and wages | 6 | 16 |
| Depreciation | 114 | 183 |
| Insurance | 193 | 247 |
| Provision for Doubtful Debts | (99) | 4,568 |
| Share option expense | 2,283 | 4,383 |
| Donations | 2,811 | 4,834 |
| Other administrative expense | 1,672 | 1,995 |
| | <u>10,640</u> | <u>22,303</u> |

11. OTHER EXPENSES

| | 2015 US\$ '000 | 2014 US\$ '000 |
|--|-------------------|-------------------|
| Prior years' VAT non recoverable (note 21) | 125 | 600 |
| Legal claim | - | 1,453 |
| Sundries | 1,524 | 4,720 |
| | <u>1,649</u> | <u>6,773</u> |

AFI DEVELOPMENT PLC

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTSFor the year ended 31 December 201512. FINANCE INCOME AND FINANCE COSTS

| | 2015 US\$ '000 | 2014 US\$ '000 |
|--|-------------------|-------------------|
| Interest income | 3,739 | 7,026 |
| Net change in fair value of financial assets | 408 | - |
| Translation reserve reclassified upon disposal of subsidiaries | 275 | - |
| Loans payable written off | <u>74</u> | <u>-</u> |
| Finance income | <u>4,496</u> | <u>7,026</u> |
| Interest expense on loans and borrowings | (45,783) | (55,640) |
| Net change in fair value of financial assets | - | (3,263) |
| Other finance costs | (396) | (1,936) |
| Foreign exchange loss | <u>(110,617)</u> | <u>(224,794)</u> |
| Finance costs | <u>(156,796)</u> | <u>(285,633)</u> |
| Net finance costs | <u>(152,300)</u> | <u>(278,607)</u> |

The net foreign exchange loss recognised during 2015 is a result of the strengthening of the US Dollar to the Russian Rouble by 30%, during 2015. The recognised loss is mainly attributable to the US Dollar denominated loans held by Russian subsidiaries or branches where the functional currency is the Russian Rouble.

Subject to the provisions of IAS23 "Borrowing costs" in 2015 the Group did not capitalise any amount (2014 Nil) of financing costs to the projects that are in construction phase.

Loans payable written off during 2015 represent short term loans and borrowings of a Group's subsidiary, which were written off, during the first quarter of 2015 based on the understanding that neither legal nor implied obligations are no longer valid regarding these liabilities.

13. TAX EXPENSE/(BENEFIT)

| | 2015 US\$ '000 | 2014 US\$ '000 |
|---|-------------------|-------------------|
| Current tax expense | | |
| Current year | 753 | 508 |
| Adjustment for prior years | <u>-</u> | <u>107</u> |
| | <u>753</u> | <u>615</u> |
| Deferred tax benefit | | |
| Origination and reversal of temporary differences | <u>(91,262)</u> | <u>(36,663)</u> |
| Total tax benefit | <u>(90,509)</u> | <u>(36,048)</u> |

AFI DEVELOPMENT PLC

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTSFor the year ended 31 December 201513. TAX EXPENSE/(BENEFIT) (continued)

The provision for taxation either current or deferred is based on the tax rates applicable to the country of residence of each Group entity. Cypriot entities are subject to 12.5% corporate rate whereas Russian subsidiaries are subject to 20% corporate rate.

| | | 2015 | | 2014 |
|--|--------|------------------|--------|------------------|
| | % | US\$ '000 | % | US\$ '000 |
| Loss for the year after tax | | (466,679) | | (287,295) |
| Total tax benefit | | <u>(90,509)</u> | | <u>(36,048)</u> |
| Loss before tax | | <u>(557,188)</u> | | <u>(323,343)</u> |
| Tax using the Company's domestic tax rate | (12.5) | (69,463) | (12.5) | (40,418) |
| Effect of tax rates in foreign jurisdictions | (7.6) | (42,580) | (8.6) | (27,691) |
| Tax exempt income | (4.9) | (27,544) | (4.1) | (13,235) |
| Non-deductible expenses | 6.5 | 36,012 | 5.9 | 18,968 |
| Change in estimates related to prior years | - | - | - | 107 |
| Current year losses for which no deferred tax asset recognised | 2.3 | <u>13,066</u> | 8.1 | <u>26,221</u> |
| | (16.2) | <u>(90,509)</u> | (11.2) | <u>(36,048)</u> |

The current tax assets of US\$1,622 thousand as at 31 December 2015 (2014: asset US\$1,307 thousand), represents the net amount of income tax overpayment in respect of current and prior periods.

14. EARNINGS PER SHARE

| | 2015 | 2014 |
|--|---------------------|---------------------|
| <u>Basic earnings per share</u> | US\$ '000 | US\$ '000 |
| Loss attributable to ordinary shareholders | <u>(464,087)</u> | <u>(281,020)</u> |
| Weighted average number of ordinary shares | Shares in thousands | Shares in thousands |
| Weighted average number of shares | <u>1,047,694</u> | <u>1,047,694</u> |
| Earnings per share (cent) | <u>(44.30)</u> | <u>(26.82)</u> |

Diluted earnings per share are not presented as the assumed conversion of the employee share options outstanding would have an anti-dilutive effect i.e. increase in earnings per share.

AFI DEVELOPMENT PLC

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTSFor the year ended 31 December 201515. INVESTMENT PROPERTY

Reconciliation of carrying amount

| | 2015 US\$ '000 | 2014 US\$ '000 |
|--|-------------------|-------------------|
| Balance 1 January | 1,375,416 | 1,609,800 |
| Reclassification to trading properties (note 22) | - | (432) |
| Renovations/additional cost | 2,013 | 6,814 |
| Fair value adjustment | (332,361) | 110,782 |
| Effect of movement in foreign exchange rates | <u>(111,368)</u> | <u>(351,548)</u> |
| Balance 31 December | <u>933,700</u> | <u>1,375,416</u> |

Investment property comprises mainly retail and commercial property which is operated by the Group and is leased out to tenants.

The investment property was revalued by independent appraisers on 31 December 2015. The cumulative adjustments, for all projects, are shown in "Fair value adjustment" in the table above.

The decrease due to the effect of the foreign exchange rates is a result of the strengthening of the US Dollar to the Russian Rouble by 30%, during 2015 (2014: strengthening 72%).

The main reason for the fair value loss are the changes in the valuation assumptions to reflect a higher long-term vacancy rate (both in the retail and the office segments) and lower rental rates per square metre. At the AFIMALL, the long term vacancy was increased from 3% to 8.3% due to general increase in the retail market vacancy rate. The increasing switch of retail rents to roubles in most shopping centres has also undermined market rents. In addition, there is a divergence between the existing and new leases, with significant discounts having to be offered to lease currently vacant space, compared with higher deals that can be agreed with incumbents. All these factors influenced negatively the Estimated Rental Value "ERV" of the Mall. In the office segment, the process of switching rents from US dollars to roubles has been less evident, however this has had a depressing effect on market rental levels. ERVs have been reduced across the board, vacancy rates have been increased and for existing vacant space the lease-up period has been extended.

Measurement of fair value

Fair value hierarchy

The fair value of investment property was determined by external, registered independent property appraisers, having appropriate recognised professional qualifications and recent experience in the location and category of the property being valued. The independent appraisers calculate the fair value of the Group's investment property portfolio every six months. The same applies for investment property under development in note 16 below.

AFI DEVELOPMENT PLC

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTSFor the year ended 31 December 201515. INVESTMENT PROPERTY (continued)

The fair value measurement for investment property of US\$933,700 thousand (2014: US\$1,375,416 thousand) has been categorised as a level 3 fair value based on the inputs to the valuation technique used.

Level 3 fair value

The table presented in reconciliation of carrying amount above shows the reconciliation from the opening balances to the closing balances for level 3 fair values, since all fair values of investment properties of the Group, are categorised as level 3.

Valuation technique and significant unobservable inputs

The following table shows the valuation technique used in measuring the fair value of investment property, as well as the significant unobservable inputs used.

| Valuation technique | Significant unobservable inputs | Inter-relationship between key unobservable inputs and fair value measurement |
|---|--|---|
| Discounted cash flows: The valuation model considers the present value of net cash flows to be generated from each property, taking into account rental rates and expected rental growth rate, occupancy rate and void periods together reflected in vacancy rates, construction cost, opening and completion dates, lease incentive costs such rent free periods, taxes and other costs not paid by tenants. The expected net cash flows are discounted using the risk-adjusted discount rates plus the final year stream is discounted with an all-risk Yield. Among other factors, discount rate estimation considers type of property offered (retail, commercial, office) quality of building and its location, tenant credit quality and lease terms. | <ul style="list-style-type: none"> • Average Rental rates per sq.m.: Office prime class- \$640, class A \$500, class B \$200-\$280, Retail \$150-\$6,149 • Expected market rental growth office 0-5% average, retail 0-3% average, no ERV growth for AFIMALL • Vacancy rate (class prime A 5% class B 10-12.1%) • Risk-adjusted discount rates (14%-18%) • All-Risk Yield 9.5%-15.5% | <p>The estimated fair value would increase/(decrease) if:</p> <ul style="list-style-type: none"> • Average rental rates were higher/(lower) • Expected market rental growth were higher/(lower) • Void periods were shorter/(longer) • The vacancy rates were lower/(higher) • The risk-adjusted discount rates were lower (higher) • All-risk yields were lower/(higher) |

AFI DEVELOPMENT PLC

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTSFor the year ended 31 December 201515. INVESTMENT PROPERTY (continued)

Investment properties at fair value are categorised in the following:

| | 2015 US\$ '000 | 2014 US\$ '000 |
|-------------------------|-------------------|-------------------|
| Retail properties | 685,200 | 1,000,000 |
| Office space properties | <u>248,500</u> | <u>375,416</u> |
| | <u>933,700</u> | <u>1,375,416</u> |

Fair value sensitivity Analysis

Presented below is the effect on the fair value of the main investment property project, of an increase/(decrease) in the below inputs at the reporting date. This analysis assumes that all other variables remain constant.

AFI Mall City

| | | Rate used in fair value calculation as at 31/12/2015 | |
|----------------------------------|-----------------|--|-----------------|
| Capitalization Rates | Increase of 1 % | 10% | Decrease of 1% |
| Fair value (US\$ '000) | 645,900 | 685,200 | 733,200 |
| | | Rate used in fair value calculation as at 31/12/2015 | |
| Average rental rates per sq.m | Decrease of 5% | US\$1,103 sq.m. | Increase of 5% |
| Fair value (US\$ '000) | 649,400 | 685,200 | 721,000 |
| | Decrease of 10% | | Increase of 10% |
| | 613,600 | 685,200 | 756,800 |
| | | Rate used in fair value calculation as at 31/12/2015 | |
| Occupancy rates | Decrease of 2% | 91.7% | Increase of 2% |
| Fair value (US\$ '000) | 671,000 | 685,200 | 699,400 |

AFI DEVELOPMENT PLC

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2015

16. INVESTMENT PROPERTY UNDER DEVELOPMENT

| | 2015 US\$ '000 | 2014 US\$ '000 |
|---|-------------------|-------------------|
| Reconciliation of carrying amount | | |
| Balance 1 January | 431,474 | 635,266 |
| Construction costs | 10,906 | 83,820 |
| Transfer to trading properties under construction (note 23) | (69,300) | - |
| Disposal | - | (1,400) |
| Fair value adjustment | (102,003) | (196,666) |
| Effect of movements in foreign exchange rates | (32,152) | (89,546) |
| Balance 31 December | <u>238,925</u> | <u>431,474</u> |

On 30 September 2015 the Group transferred "Paveletskaya Phase II" project to trading properties under construction. The transfer was performed following the change in use evidenced by the commencement of development with a view to sale. The amount of US\$69,300 thousand represents the fair value of the project at the date of the transfer. The fair value was based on the valuation provided by the independent appraisers on 30 June 2015 which according to management assessment was not significantly different from the fair value at the date of change in use.

The investment property under development was revalued by independent appraisers on 31 December 2015. The cumulative adjustments, for all projects, are shown in line "Fair value adjustment" in the table above. The main reasons for the fair value adjustments, are described in note 15 above.

The decrease due to the effect of the foreign exchange rates is a result of the strengthening of the US Dollar to the Russian Rouble by 30%, during 2015 (2014: strengthening 72%).

Fair value hierarchy

The fair value measurement for investment property under development of US\$238,925 thousand (2014: US\$431,474 thousand) has been categorised as a level 3 fair value based on the inputs to the valuation technique used.

Level 3 fair value

The table presented above is the reconciliation from the opening balances to the closing balances for level 3 fair values, since all fair values of investment properties under development of the Group, are categorised as level 3.

Valuation technique and significant unobservable inputs

The valuation technique used in measuring the fair value of investment property under development, the significant unobservable inputs used, as well as the inter-relationship between key unobservable inputs and fair value measurement are discussed in note 15 above. In addition, the following inputs for investment property under development.

| Geographical location | Fair value US\$ '000 | Discount rate % | Rate of return for representative year % |
|--------------------------|----------------------------|-----------------------|--|
| Russia | 238,925 | 19-29 | 9.5-13 |

AFI DEVELOPMENT PLC

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTSFor the year ended 31 December 2015**17. SHARE OF INVESTMENT IN JOINT VENTURES**

The Group's joint ventures comprise the following:

50% interest in Nouana Limited and Craespon Management Ltd with their subsidiary Sanatorium Plaza LLC, owner of a hotel in Kislovodsk.

During last year, 2014, the Group's joint ventures incurred significant losses, as a result the Group's share of loss has exceeded its interest in these joint ventures. Therefore the Group discontinued recognising its share of further losses. The Group will resume recognising its share of future profits from the joint ventures only after its share of the future profits equals the share of losses not recognised.

The following table summarises the financial information of the joint ventures as included in their own financial statement, adjusted for fair value adjustments at acquisition. The table also reconciles the summarised financial information to the Group's interest in joint ventures:

| | 2015 US\$ '000 | 2014 US\$ '000 |
|--|-------------------|-------------------|
| Percentage ownership interest | 50% | 50% |
| Non-Current assets | 15,326 | 18,365 |
| Current assets (including cash and cash equivalents – 2015:\$7,498 thousand, 2014: \$10,818 thousand) | 8,210 | 11,622 |
| Non-Current liabilities (including non-current financial liabilities excluding trade and other payables and provisions- 2015:\$35,014 thousand, 2014: \$37,234 thousand) | (36,450) | (39,010) |
| Current liabilities (including current financial liabilities excluding trade and other payables and provisions- 2015:\$98 thousand, 2014:\$NIL) | (1,440) | (1,843) |
| Net liabilities (100%) | (14,354) | (10,866) |
| Group's share of net liabilities (50%) | (7,177) | (5,433) |
| Fair value adjustments at acquisition | 3,916 | 5,072 |
| Interest in joint ventures | (3,261) | (361) |
| Restriction of share of loss | 3,261 | 361 |
| Carrying amount of interest in joint ventures | - | - |
| Revenue | 23,836 | 39,126 |
| Depreciation | (173) | (295) |
| Interest expense | (2,844) | (3,840) |
| Income tax expense | (2,002) | (1,558) |
| Loss and total comprehensive income (100%) | (2,642) | (8,903) |
| Group's share of profit and total comprehensive income (50%) | (1,321) | (4,451) |
| Dividends received by the Group | 3,250 | - |

AFI DEVELOPMENT PLC

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2015

18. PROPERTY, PLANT AND EQUIPMENT

| | Buildings under construction US\$ '000 | Land & Buildings US\$ '000 | Office Equipment US\$ '000 | Motor Vehicles US\$ '000 | Total US\$ '000 |
|--|---|----------------------------------|----------------------------------|--------------------------------|--------------------|
| Cost | | | | | |
| Balance at 1 January 2015 | 4,242 | 32,144 | 2,568 | 1,124 | 40,078 |
| Additions | - | 33 | 23 | - | 56 |
| Transfer from trading properties (note 22) | - | 212 | - | - | 212 |
| Disposals | - | (226) | (1) | (33) | (260) |
| Effect of movement in foreign exchange rates | (923) | (7,611) | (603) | (251) | (9,388) |
| Balance at 31 December 2015 | <u>3,319</u> | <u>24,552</u> | <u>1,987</u> | <u>840</u> | <u>30,698</u> |
| Accumulated depreciation | | | | | |
| Balance at 1 January 2015 | - | 2,031 | 2,092 | 854 | 4,977 |
| Charge for the year | - | 712 | 162 | 89 | 963 |
| Disposals | - | (226) | - | (33) | (259) |
| Effect of movement in foreign exchange rates | - | (545) | (514) | (204) | (1,263) |
| Balance at 31 December 2015 | <u>-</u> | <u>1,972</u> | <u>1,740</u> | <u>706</u> | <u>4,418</u> |
| Carrying amount | | | | | |
| At 31 December 2015 | <u>3,319</u> | <u>22,580</u> | <u>247</u> | <u>134</u> | <u>26,280</u> |
| | Buildings under construction US\$ '000 | Land & Buildings US\$ '000 | Office Equipment US\$ '000 | Motor Vehicles US\$ '000 | Total US\$ '000 |
| Cost | | | | | |
| Balance at 1 January 2014 | 14,400 | 56,709 | 3,847 | 1,710 | 76,666 |
| Additions | - | 83 | 240 | 270 | 593 |
| Disposals | - | (439) | (177) | (76) | (692) |
| Effect of movement in foreign exchange rates | (10,158) | (24,209) | (1,342) | (780) | (36,489) |
| Balance at 31 December 2014 | <u>4,242</u> | <u>32,144</u> | <u>2,568</u> | <u>1,124</u> | <u>40,078</u> |
| Accumulated depreciation | | | | | |
| Balance at 1 January 2014 | - | 2,617 | 2,908 | 1,406 | 6,931 |
| Charge for the year | - | 1,114 | 354 | 127 | 1,595 |
| Disposals | - | (355) | (170) | (69) | (594) |
| Effect of movement in foreign exchange rates | - | (1,345) | (1,000) | (610) | (2,955) |
| Balance at 31 December 2014 | <u>-</u> | <u>2,031</u> | <u>2,092</u> | <u>854</u> | <u>4,977</u> |
| Carrying amount | | | | | |
| At 31 December 2014 | <u>4,242</u> | <u>30,113</u> | <u>476</u> | <u>270</u> | <u>35,101</u> |

The Group has preliminary agreed to dispose "Aquamarine Hotel" which is part of the Land & Buildings above, after the year end. More information in note 41 "Subsequent events".

AFI DEVELOPMENT PLC

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTSFor the year ended 31 December 201519. LOANS RECEIVABLE

| | 2015 US\$ '000 | 2014 US\$ '000 |
|-----------------------------------|-------------------|-------------------|
| Long-term loans | | |
| Loans to joint ventures (note 40) | 14,246 | 17,962 |
| Loans to non-related companies | <u>70</u> | <u>109</u> |
| | <u>14,316</u> | <u>18,071</u> |
| Short-term loans | | |
| Loans to joint ventures (note 40) | 98 | - |
| Loans to non-related companies | <u>3</u> | <u>1</u> |
| | <u>101</u> | <u>1</u> |

Terms and loan repayment schedule

Terms and conditions of outstanding loans were as follows:

| | Currency | Nominal interest rate | Year of maturity | 2015 US\$ '000 | 2014 US\$ '000 |
|---|----------|--------------------------|---------------------|-------------------|-------------------|
| Unsecured loans to joint ventures | USD | 11.5% | 2020 | 9,942 | 12,134 |
| | RUR | 14% | 2016 | 4,304 | 5,828 |
| | RUR | 2.35% | 2016 | 98 | - |
| Unsecured loans to non-related companies | RUR | - | 2016 | 49 | 89 |
| | RUR | 8.8% | 2016 | 15 | 20 |
| | RUR | 2.5% | 2020 | 6 | - |
| | RUR | 0.1-5.5% | on demand | <u>3</u> | <u>1</u> |
| | | | | <u>14,417</u> | <u>18,072</u> |

Loans receivable with a maturity within 2016 are classified as long term as it is expected that the repayment terms of such loans will be extended.

20. INVENTORY OF REAL ESTATE

Represents the rights to the project "Botanic Gardens" which is presented at net realisable value as calculated by independent appraisers at the yearend.

21. VAT RECOVERABLE

Represents VAT paid on construction costs and expenses which according to the Russian VAT law can be recovered upon completion of the construction. Part of this VAT is expected to be recovered after more than 12 months from the balance sheet date. Due to the uncertainties in the Russian tax and VAT law, the management has assessed the recoverability of this VAT and has provided for any amounts that their recoverability was deemed doubtful or questionable (see note 11). Under Russian VAT legislation, VAT can also be claimed during the period of construction provided that all required documentation is presented to the VAT authorities. The Group was successful in recovering VAT during the year, and it is estimated that part of the VAT recoverable as at the year-end will be recovered within the next 12 months, which is classified as trade and other receivables, note 25.

AFI DEVELOPMENT PLC

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTSFor the year ended 31 December 201522. TRADING PROPERTIES

| | 2015 US\$ '000 | 2014 US\$ '000 |
|---|-------------------|-------------------|
| Balance 1 January | 2,979 | 6,409 |
| Reclassification to property, plant and equipment | (212) | - |
| Reclassification from investment property (note 15) | - | 432 |
| Disposals | (609) | (1,632) |
| Effect of movements in exchange rates | (96) | (2,230) |
| Balance 31 December | <u>2,062</u> | <u>2,979</u> |

Trading properties comprise unsold apartment and parking spaces. During the year the Group has sold a number of the remaining apartments and parking places and their cost was transferred to profit or loss.

23. TRADING PROPERTIES UNDER CONSTRUCTION

| | 2015 US\$ '000 | 2014 US\$ '000 |
|---|-------------------|-------------------|
| Balance 1 January | 133,036 | 127,213 |
| Transfer from investment property under development (note 16) | 69,300 | - |
| Construction costs | 33,670 | 35,874 |
| Impairment loss | (13,400) | - |
| Effect of movements in exchange rates | (18,214) | (30,051) |
| Balance 31 December | <u>204,392</u> | <u>133,036</u> |

Trading properties under construction comprise "Odinburg" and "Paveletskaya Phase II" projects which involve primarily the construction of residential properties. For further details on the transfer of the "Paveletskaya Phase II" project refer to note 16.

The properties were tested for impairment at year end either based on internal valuation, Odinburg, or external independent appraiser's valuation, Paveletskaya Phase II. The effect of US\$13,400 thousand decrease in fair value of the properties, was recognised in the profit or loss as an impairment loss, to present the properties at their lower of cost or net realisable value.

24. OTHER INVESTMENTS

The increase in other investments is due to the investment in a US\$20 million portfolio of marketable securities using partly own funds and partly a loan from Bank Julius Baer & Co Ltd. These are carried at fair value and any changes during the year are recognised in the profit or loss as finance income or expenses. For further details of the loan refer to note 28.

AFI DEVELOPMENT PLC

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTSFor the year ended 31 December 201525. TRADE AND OTHER RECEIVABLES

| | 2015 US\$ '000 | 2014 US\$ '000 |
|---|-------------------|-------------------|
| Advances to builders | 18,383 | 20,200 |
| Amounts receivable from related parties (note 40) | 337 | 387 |
| Trade receivables net | 3,381 | 6,014 |
| Other receivables | 3,037 | 3,540 |
| VAT recoverable (note 21) | 858 | 7,141 |
| Tax receivable | <u>3,021</u> | <u>1,679</u> |
| | <u>29,017</u> | <u>38,961</u> |

Trade receivables net

Trade receivables are presented net of an accumulated provision for doubtful debts of US\$11,402 thousand (2014: US\$12,753 thousand).

26. CASH AND CASH EQUIVALENTS

| | 2015 US\$ '000 | 2014 US\$ '000 |
|---------------------------------------|-------------------|-------------------|
| Cash and cash equivalents consist of: | | |
| Cash at banks | 26,374 | 86,504 |
| Cash in hand | <u>171</u> | <u>252</u> |
| | <u>26,545</u> | <u>86,756</u> |

27. SHARE CAPITAL AND RESERVES

| | 2015 US\$ '000 | 2014 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 ordinary shares of US\$0.001 each | 524 | 524 |
| 523,847,027 B ordinary shares of US\$0.001 each | <u>524</u> | <u>524</u> |
| | <u>1,048</u> | <u>1,048</u> |

There were no changes to the authorised or the issued share capital of the Company during the year ended 31 December 2015.

2 Share premium

It represents the share premium on the issue of shares on 31 December 2006 for the conversion of the shareholders' loans to capital US\$421,325 thousand. It also includes the share premium on the issued shares which were represented by GDRs listed in the LSE in 2007. It was the result of the difference between the offering price, US\$14, and the nominal value of the shares, US\$0.001, after deduction of all listing expenses. An amount of US\$1,399,900 thousand less US\$57,292 thousand transaction costs was recognised during the year 2007. On 5 July 2010 an amount of US\$524 thousand was capitalised as a result of a bonus issue.

AFI DEVELOPMENT PLC

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTSFor the year ended 31 December 201527. SHARE CAPITAL AND RESERVES (continued)**3 Employee Share option plan**

The Company has established an employee share option plan operated by the Board of Directors, which is responsible for granting options and administering the employee share option plan. Eligible are employees and directors, excluding independent directors, of the Company. The employee share option plan is discretionary and options will be granted only when the Board so determines at an exercise price derived from the closing middle market price preceding the date of grant. No payment will be required for the grant of the options. In any 10 year period not more than 10 per cent of the issued ordinary share capital may be issued or be issuable under the employee share option plan.

As of 31 December 2015 the following options were outstanding.

- During 2007 and 2008 options over GDRs with an exercise price of US\$7 which have already vested, one-third on the second anniversary of the date of grant, a further one-third on the third anniversary and the remaining one-third, on the fourth anniversary of the date of grant provided that the participants remained in employment until the vesting date. The vesting was not subject to any performance conditions. On 31 December 2015 1,017,240 options, 0.1% of the issued share capital, were outstanding which have already vested and have a contractual life of ten years from the date of grant.
- On 21 May 2012, the Board of Directors approved the grant of additional options to Company's employees. Options over 16,763,104 B shares, 1.6% of the issued share capital, were granted with an exercise price equal to US\$0.7208, vesting one-third on the second anniversary of the date of grant, a further one-third on the third anniversary and the remaining one-third, on the fourth anniversary of the date of grant provided that the participants remain in employment until the vesting date. The vesting is not subject to any performance conditions. Their contractual life is five years from the date of grant. Up until 31 December 2015 2,095,388 options were cancelled, 14,667,716 valid options remain, out of which 9,778,477 options have already vested.
- On 22 November 2012, the Board of Directors approved the grant of additional options to the Company's executive chairman. Options over 31,430,822 B shares, 3% of the issued share capital, were granted with an exercise price equal to US\$0.5667, vesting one-third on the second anniversary of the date of grant, a further one-third on the third anniversary and the remaining one-third, on the fourth anniversary of the date of grant provided that the participants remain in employment until the vesting date. The vesting is not subject to any performance conditions. Their contractual life is five years from the date of grant. 20,953,882 options have vested till 31 December 2015.

If a participant ceases to be employed his options will normally lapse subject to certain exceptions. In the event of a takeover, reorganisation or winding up vested options may be exercised or exchanged for new equivalent options where appropriate. Shares/GDRs issued under the plan will rank equally with all other shares at the time of issue. The Board of Directors may satisfy, (with the consent of the participant), an option by paying the participant in cash or other assets the gain as an alternative of issuing and transferring the shares/GDRs.

AFI DEVELOPMENT PLC

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTSFor the year ended 31 December 201527. SHARE CAPITAL AND RESERVES (continued)**4 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.

5 Retained earnings

The amount at each reporting date is available for distribution. No dividends were proposed, declared or paid during the year ended 31 December 2015.

6 Capital reserve

Represents the effect of the acquisition of the 10% non-controlling interests in Bioka Investments Ltd and its subsidiary Nordservice LLC previously held at 90%. For further details refer to note 36.

28. LOANS AND BORROWINGS

| | 2015 US\$ '000 | 2014 US\$ '000 |
|--|-------------------|-------------------|
| Non-current liabilities | | |
| Secured bank loans | <u>389,799</u> | <u>455,097</u> |
| Current liabilities | | |
| Secured bank loans | 224,076 | 231,297 |
| Unsecured loans from other non-related companies | <u>239</u> | <u>387</u> |
| | <u>224,315</u> | <u>231,684</u> |

a. The outstanding loans on 31 December 2015 comprise of three loans as follows:VTB loan to Bellgate

A secured loan from VTB Bank JSC ("the Bank") signed on 22 June 2012 by one of the Group's subsidiary, Bellgate Construction Ltd ("Bellgate"). This new loan facility agreement offered a credit line totalling RUR 21 billion, which was drawn down in 5 tranches, each with a designated purpose: the majority of the funds were designated to refinance existing loans previously issued by the Bank. The remaining funds were designated for the refinancing of construction costs related to the AFIMALL City parking and for the financing of the outstanding payments constituting part of the consideration for the acquisition of the parking.

The Company has discretion over the currency of each tranche, which can be drawn down either in US dollars or in Russian roubles. The loan facility has differentiated interest rates which are currency dependent: 9.5% for loans drawn down in Russian roubles and 3 months LIBOR plus 5.02% for loans drawn down in US dollars.

AFI DEVELOPMENT PLC

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2015

28. LOANS AND BORROWINGS (continued)

VTB loan to Bellgate (continued)

The interest on the loans is payable on a quarterly basis, throughout the term of the credit line. Bellgate has undertaken to make equal quarterly payments of US\$6.5 million from 2014 to 2016, on account of the principal of the loans, while it has been agreed that the remainder of the loan will mature in April 2018.

The terms of the loan facility agreement are substantially similar to those of the loan facility agreement entered into in February 2012 with the Bank in relation to the financing of the acquisition of the AFIMALL City parking. However, certain conditions of the new loan facility will differ from the aforementioned loan, including the following:

- a) The guarantee of AFI Development Plc over the obligations of Bellgate under the loan facility agreement will be in the amount of US\$1 million, the nominal value of Bellgate's shares;
- b) Additional mortgage over the premises of "Aquamarine" Hotel will be registered in favour of the Bank. This shall be removed in the case that Bellgate redeems US\$20 million of principal;
- c) Additional guarantee will be provided to the Bank by Semprex LLC, a Russian company which is an indirect subsidiary of AFI Development Plc, and owner of the "Aquamarine" Hotel. This shall be removed in the case that Bellgate redeems US\$20 million of principal;
- d) The turnover covenant has been changed from monthly bank accounts turnovers of not less than RUR 200 million to quarterly revenues (including VAT) exceeding agreed thresholds, determined as amounts gradually increasing from RUR 651 million for Q3 2012 to the amount of RUR1,139 million for Q1 2018. The penalty for not meeting the covenant is changed from 1% additional interest for the next month to 0.5% additional interest for the next quarter.

The loan facility agreement contains other generally acceptable terms, such as the borrower undertaking to maintain the aggregate value of the pledged assets, securing the loan facility, providing the lender with periodic reporting and similar common conditions.

On 17 August 2013 Bellgate Constructions Limited signed an addendum to the current Loan Facility Agreement with the Bank. According to the new terms under the above mentioned addendum the applicable interest rate to the US Dollar denominated loan facility has been decreased from 3-month LIBOR plus 6.7% p.a. to 3-month LIBOR plus 5.02% p.a. The change was effective upon the registration date of the mortgage agreements, on 3 September 2013.

As of 31 December 2015 Bellgate is in compliance with the covenants of this loan

VTB Loan to Krown

On 25 January 2013 Krown Investments LLC ("Krown"), a 100% subsidiary, acquired a new secured loan from VTB Bank JSC ("the Bank") for refinancing the repayment of borrowings due to related parties. This loan agreement offers a credit line of US\$220 million, which was drawn down during the first quarter of 2013. The agreed interest is three-month LIBOR plus 5.7% p.a., payable every quarter. The loan repayment date is in 731 days from the date of signing the loan agreement. Securities provided to the Bank are on the 100% of the shares of Krown and on properties/buildings of Aquamarine Phase III. A decrease in the market value of the pledged buildings by more than 15% will enable the bank to demand repayment of the loan before the agreed maturity date. In case of disposal of the pledged building, at least 70% of sale proceeds should be directed to the Bank for the repayment of the loan.

AFI DEVELOPMENT PLC

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTSFor the year ended 31 December 201528. LOANS AND BORROWINGS (continued)VTB Loan to Krown (continued)

An amount of US\$15 million was repaid during 2013 out of the proceeds from sale of Building 1 of the Ozerkovskaya (Aquamarine) phase III.

In January 2015, prior to maturity, the subsidiary signed an addendum to the loan facility agreement with the Bank, extending the term of the loan to 26 January 2018 and the loan was reclassified to non-current liabilities. In addition to extending the term of the loan, the new addendum amended the payment schedule, interest rate conditions and introduced new covenants. The payment schedule anticipates repayments of the principal starting from the 4th quarter of 2015, while the new covenants included a "Debt Service Coverage Ratio" of 1.2 also applicable as from the 4th quarter of 2015 and a "Loan to Value ratio" of 65% applicable from January 2015. In line with the addendum, on 26th January 2015 Krown paid US\$10 million to the Bank, being a partial repayment of the outstanding loan amount, thus reducing the total to US\$195 million. Approximately 90% of the principal is to be paid at maturity.

b. Breach of loan covenants

Based on an independent valuation of the Ozerkovskaya III project as of 30 June 2015, there was a risk that the borrower, Krown, may not meet the Loan to Value covenant and the bank may require a partial repayment of the principal of the loan sufficient to rectify the breach of the covenants, within 90 calendar days from the date of the bank notification.

In November 2015, the Company received a notice from VTB Bank on decision of the Bank to postpone the applicability of covenants in the loan agreement of Krown Investments Limited ("Krown") for the Ozerkovskaya III project. According to the decision, the Loan to Value ratio covenant (previously applicable from Q1 2015 onwards) shall be applicable from Q2 2017, while the Debt Service Coverage Ratio covenant (previously applicable from Q4 2015 onwards), shall be applicable from Q2 2017 onwards (based on Q1 2017 financial results). In exchange to the waiver AFI Development's subsidiary, owning and operating AFIMALL City, Bellgate Construction Limited, will provide a new guarantee for the full amount of the loan of Krown (in addition to the existing guarantee of AFI Development Plc), and AFIMALL City premises will be mortgaged in a secondary mortgage as additional collateral for the loan by Krown. The decision of the Bank will become legally binding, following the execution of addendum to the loan agreement and related documents.

As of the date of publication of these Financial Statements, the addendum to the loan agreement and the related documents have not yet been signed, as the parties still negotiate issues in the addenda.

Based on the latest independent valuation as at 31 December 2015, of the Ozerkovskaya III project, Krown, has not met the Loan to Value covenant and the Bank may require a partial repayment of the principal of the loan sufficient to rectify the breach of the covenants, within 90 calendar days from the date of the Bank notification. The DSCR ratio covenant of the Krown loan agreement has not been met either, based on the performance results of Q4 2015.

Krown is, therefore, in breach of both covenants in its loan facility agreement. Based on this, the total amount of the outstanding loan (US\$193 million) was reclassified to current liabilities.

AFI DEVELOPMENT PLC

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTSFor the year ended 31 December 201528. LOANS AND BORROWINGS (continued)Julius Baer loan to AFID Finance

During the period, a subsidiary of the Group, AFID Finance S.A., obtained a short-term loan facility from Bank Julius Baer & Co Ltd, for an amount of US\$10 million. The loan was used for the acquisition of marketable securities through an investment account with the same bank. The interest rate is equal to the bank refinancing rate plus 0.75% p.a. and the loan is repayable on demand. The loan is guaranteed with the portfolio of assets managed by the bank.

c. Terms and debt repayment schedule

Terms and conditions of outstanding loans were as follows:

| | Currency | Nominal interest rate | Year of maturity | 2015 US\$ '000 | 2014 US\$ '000 |
|--|----------|-----------------------------------|---------------------|-----------------------|-----------------------|
| Secured loan from VTB Bank to Bellgate | RUR | 9.5% | 2018 | 132,413 | 184,711 |
| Secured loan from VTB Bank to Bellgate | USD | 3m USD LIBOR+ 5.02% | 2018 | 283,386 | 296,386 |
| Secured loan from VTB Bank to Krown | USD | 3m USD LIBOR+ 7% | 2018 | 193,376 | 205,297 |
| Secured loan from Julius to AFID Finance | USD | Bank refinancing rate+0.75% | on demand | 4,700 | - |
| Other | RUR | 3-12% | on demand | 239 <u>614,114</u> | 387 <u>686,781</u> |

| | 2015 US\$ '000 | 2014 US\$ '000 |
|--|-------------------|-------------------|
| The loans and borrowings are payable as follows: | | |
| Less than one year | 224,315 | 231,684 |
| Between one and five years | 389,799 | 455,097 |
| More than five years | - | - |
| | <u>614,114</u> | <u>686,781</u> |

AFI DEVELOPMENT PLC

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTSFor the year ended 31 December 201529. DEFERRED TAX ASSETS AND LIABILITIES

| | | |
|--|-----------------|-----------------|
| Deferred tax (assets) and liabilities are attributable to the following: | 2015 | 2014 |
| | US\$ '000 | US\$ '000 |
| Investment property | 100,109 | 157,429 |
| Investment property under development | 47 | 25,065 |
| Property, plant and equipment | 571 | (1,028) |
| Inventory of real estate | 1,115 | - |
| Trading properties | (1,203) | 1,507 |
| Trading properties under construction | 9,359 | (420) |
| Trade and other receivables | (6,326) | (5,204) |
| Trade and other payables | 1,020 | (372) |
| Loans and borrowings | (13) | (5) |
| Other items | (21) | (21) |
| Tax losses carried forward | <u>(79,091)</u> | <u>(74,330)</u> |
| Deferred tax liability | <u>25,567</u> | <u>102,621</u> |

30. TRADE AND OTHER PAYABLES

| | | |
|---------------------------------------|---------------|---------------|
| | 2015 | 2014 |
| | US\$ '000 | US\$ '000 |
| Trade payables | 7,815 | 8,654 |
| Payables to related parties (note 40) | 657 | 2,264 |
| Amount payable to builders | 3,297 | 7,626 |
| VAT and other taxes payable | 4,613 | 7,373 |
| Other payables | <u>1,781</u> | <u>2,299</u> |
| | <u>18,163</u> | <u>28,216</u> |

The above are payable within one year and bear no interest.

Payables to related parties

Include an amount of US\$27 thousand (31/12/14: US\$1,465 thousand) payable to Danya Cebus Rus LLC, related party of the Group, for contracts signed in relation to the construction of Group's projects.

31. ADVANCES FROM CUSTOMERS

Represent advances received from customers for the sale of residential properties at "Odinburg" project. During the period the Group has sold 251 properties and received additional down payments from customers.

32. DEFERRED INCOME

Represents rental income received in advance, which corresponds to periods after the reporting date.

AFI DEVELOPMENT PLC

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2015

33. FINANCIAL INSTRUMENTS – FAIR VALUES AND RISK MANAGEMENT (continued)

Accounting classifications and fair values (continued)

| | Carrying amount | | | | Fair value | | | |
|---|---------------------|-----------------------------------|--|---------------------------------|-----------------------------------|-----------|----------|-----------|
| | Loans Receivable | Trade and other receivables | investments, including derivatives | 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 2014 | | | | | | | | |
| Financial assets measured at fair value | | | | | | | | |
| Investment in listed debt securities | - | - | 6,499 | - | - | 6,499 | 6,499 | - |
| Financial assets not measured at fair value | | | | | | | | |
| Loans receivable | 18,072 | - | - | - | - | 18,072 | | |
| Trade and other receivables | - | 9,941 | - | - | - | 9,941 | | |
| Cash and cash equivalents | - | - | - | 86,756 | - | 86,756 | | |
| | 18,072 | 9,941 | - | 86,756 | - | 114,769 | | |
| Financial liabilities not measured at fair value | | | | | | | | |
| Interest bearing loans and borrowings | - | - | - | - | (686,781) | (686,781) | - | (636,469) |
| Trade and other payables | - | - | - | - | (20,843) | (20,843) | | |
| | - | - | - | - | (707,624) | (707,624) | | |

(636,469)

AFI DEVELOPMENT PLC

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTSFor the year ended 31 December 201533. FINANCIAL INSTRUMENTS - FAIR VALUES AND RISK MANAGEMENT (continued)**Financial risk management**

The Group has exposure to the following risks arising from financial instruments:

- credit risk
- liquidity risk
- market risk
- operational risk

Risk management framework

The Board of Directors has overall responsibility for the establishment and oversight of the Group's risk management framework and is responsible for developing and monitoring the Group's risk management policies.

The Group's risk management policies are established to identify and analyse the risks faced by the Group, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions and the Group's activities. The Group, through its training and management standards and procedures, aims to maintain a disciplined and constructive control environment in which all employees understand their roles and obligations.

The Audit Committee oversees how management monitors compliance with the Group's risk management policies and procedures, and reviews the adequacy of the risk management framework in relation to the risks faced by the Group. The Audit Committee is assisted in its oversight role by Internal Audit. Internal Audit undertakes both regular and ad hoc reviews of risk management controls and procedures, the results of which are reported to the Audit Committee.

Credit risk

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

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

Trade and other receivables

Financial assets which are potentially subject to credit risk consist principally of trade and other receivables as well as credit exposures with respect to rental customers and buyers of residential properties including outstanding receivables. The carrying amount of trade and other receivable represents the maximum amount exposed to credit risk. There is no concentration of credit risk to any single customer in any of the Group's segments. Geographically there is no concentration of credit risk. The Group has policies in place to ensure that, where possible rental contracts are made with customers with an appropriate credit history.

AFI DEVELOPMENT PLC

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTSFor the year ended 31 December 201533. FINANCIAL INSTRUMENTS - FAIR VALUES AND RISK MANAGEMENT (continued)**Financial risk management (continued)**Credit risk (continued)*Trade and other receivables (continued)***Impairment**

At 31 December 2015, the ageing of trade and other receivable that were not impaired was as follows:

| | 2015 US\$ '000 | 2014 US\$ '000 |
|-------------------------------|-------------------|-------------------|
| Neither past due nor impaired | 1,802 | 3,005 |
| Past due 1-30 days | 2,020 | 1,190 |
| Past due 31-90 days | 2,873 | 2,529 |
| Past due 91-120 days | <u>18,442</u> | <u>23,416</u> |
| | <u>25,137</u> | <u>30,140</u> |

Management believes that the unimpaired amounts that are past due by more than 30 days are still collectible in full, based on historical payment behaviour and extensive analysis of customer credit risk, including underlying customers' credit ratings if they are available.

The movement in the allowance for impairment in respect of trade and other receivables during the year was as follows:

| | Individual impairments US\$ '000 | Collective impairments US\$ '000 |
|------------------------------------|--|--|
| Balance at 1 January 2014 | 99 | 12,559 |
| Impairment loss recognised | (26) | 4,595 |
| Exchange difference effect | <u>(19)</u> | <u>(4,455)</u> |
| Balance at 31 December 2014 | 54 | 12,699 |
| Impairment loss recognised | 99 | - |
| Exchange difference effect | <u>(141)</u> | <u>(1,309)</u> |
| Balance at 31 December 2015 | <u>12</u> | <u>11,390</u> |

Debt securities

The Group limits its exposure to credit risk by investing only in liquid securities and only with counterparties that have a high credit rating. Management actively monitors credit ratings and given that the Group only has invested in securities with high credit ratings, management does not expect any counterparty to fail to meet its obligations.

Cash and cash equivalents

The Group held cash and cash equivalents of US\$26,545 thousand at 31 December 2015 (2014: US\$86,756). The cash and cash equivalents are held with bank and financial institution counterparties with a high credit rating. The utilisation of credit limits is regularly monitored.

The Group has no other significant concentrations of credit risk. Although collection of receivables could be influenced by economic factors, management believes that there is no significant risk of loss to the Group.

AFI DEVELOPMENT PLC

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTSFor the year ended 31 December 201533. FINANCIAL INSTRUMENTS - FAIR VALUES AND RISK MANAGEMENT (continued)**Financial risk management (continued)**Credit risk (continued)*Guarantees*

The Company's policy is to provide financial guarantees only to wholly-owned subsidiaries in exceptional cases. In negotiations with lending banks the Company is aiming to avoid recourse to AFI Development on loans taken by subsidiaries. As at 31 December 2015, there were two outstanding guarantees: one of AFI Development Plc for the amount of US\$1 million in favour of VTB Bank under a loan facility agreement of Bellgate Construction Limited and another one of AFI Development Plc for the amount of the current loan balance in favour of VTB Bank JSC under a loan facility agreement of Krown Investments LLC (project Aquamarine III).

Liquidity risk

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

Prudent liquidity risk management implies maintaining sufficient cash, the availability of funding through an adequate amount of committed credit facilities and the ability to close out market positions. Due to the dynamic nature of the underlying businesses, the Group aims to maintain flexibility in its funding requirements by keeping cash and committed credit lines available.

The Group's liquidity position is monitored by the management which take necessary actions if required. The Group structures its assets and liabilities in such a way that liquidity risk is minimised.

The Group maintains the following lines of credit as at 31 December 2015:

- A secure bank loan facility from VTB Bank JSC for RUR 21billion, with the majority of the funds designated for refinancing existing loans and the rest for the financing of the acquisition and construction AFIMALL City parking. The line was fully used up to the end of February 2014.
- A secure bank loan facility from VTB Bank JSC initially for US\$205 million, current balance US\$193 million, acquired for refinancing the construction costs for Ozerkovskaya III project.
- A secured loan facility from Bank Julius Baer & Co Ltd of initially US\$10 million, current balance US\$4.7 million, for investments in short term securities.

AFI DEVELOPMENT PLC

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTSFor the year ended 31 December 201533. FINANCIAL INSTRUMENTS - FAIR VALUES AND RISK MANAGEMENT (continued)**Financial risk management (continued)**Liquidity risk (continued)

The following are the remaining contractual maturities of financial liabilities at the reporting date, including estimated interest payments and excluding the impact of netting agreements:

| 31 December 2015 | Carrying Amount US\$'000 | Contractual Cash flow US\$'000 | 6 months or less US\$'000 | 6-12 months US\$'000 | 1-2 years US\$'000 | 2-5 years US\$'000 |
|--------------------------|--------------------------------|--------------------------------------|---------------------------------|----------------------------|-----------------------|-----------------------|
| Secured bank loans | 613,875 | (703,977) | (42,696) | (37,766) | (47,463) | (576,052) |
| Unsecured loans | 239 | (239) | (239) | - | - | - |
| Trade and other payables | 13,550 | (13,550) | (13,550) | - | - | - |
| 31 December 2014 | Carrying Amount US\$'000 | Contractual Cash flow US\$'000 | 6 months or less US\$'000 | 6-12 months US\$'000 | 1-2 years US\$'000 | 2-5 years US\$'000 |
| Secured bank loans | 686,394 | (785,535) | (235,311) | (28,991) | (56,541) | (464,692) |
| Unsecured loans | 387 | (401) | - | (401) | - | - |
| Trade and other payables | 20,843 | (20,843) | (20,843) | - | - | - |

Market risk

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

Currency risk

The Group is exposed to currency risk to the extent that there is a mismatch between the currencies in which sales, purchases of material and construction services and borrowings are denominated and the respective functional currencies of Group companies. The functional currencies of Group companies are primarily the Russian Roubles and US Dollars. The currencies in which these transactions are primarily denominated are Russian Roubles and US Dollars.

AFI DEVELOPMENT PLC

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTSFor the year ended 31 December 201533. FINANCIAL INSTRUMENTS - FAIR VALUES AND RISK MANAGEMENT (continued)**Financial risk management (continued)**Market risk (continued)*Currency risk (continued)****Sensitivity analysis***

The following shows the magnitude of changes in respect of a number of major factors influencing the Group's profit before taxes. The assessment has been made on the year-end figures.

A 10% strengthening of the United States Dollar against the following currencies at 31 December 2015 would have increased/(decreased) equity and profit for the year by the amounts shown below.

This analysis assumes that all other variables, in particular interest rates, remain constant. The analysis is performed on the same basis for 2014.

| | Equity US\$ '000 | Profit for the year US\$ '000 |
|-------------------------|---------------------|-------------------------------------|
| 31 December 2015 | | |
| Russian Roubles | (3,019) | (38,040) |
| Ukrainian Hryvnia | (2,846) | - |
| Euro | - | 21 |
| 31 December 2014 | | |
| Russian Roubles | (6,588) | (45,125) |
| Ukrainian Hryvnia | (3,492) | - |
| Euro | - | (118) |

A 10% weakening of the United States Dollar against the above currencies at 31 December 2015 would have the equal but opposite effect on the above currencies to the amounts shown above, on the basis that all other variables remain constant.

*Interest rate risk****Profile***

At the reporting date the interest rate profile of the Group's interest-bearing financial instruments is as follows:

| | Carrying amount | |
|----------------------------------|-------------------|-------------------|
| | 2015 US\$ '000 | 2014 US\$ '000 |
| Fixed rate instruments | | |
| Financial assets | 47,195 | 69,482 |
| Financial liabilities | <u>(132,652)</u> | <u>(185,098)</u> |
| | <u>(85,457)</u> | <u>(115,616)</u> |
| Variable rate instruments | | |
| Financial assets | - | - |
| Financial liabilities | <u>(481,462)</u> | <u>(501,683)</u> |
| | <u>(481,462)</u> | <u>(501,683)</u> |

AFI DEVELOPMENT PLC

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTSFor the year ended 31 December 201533. FINANCIAL INSTRUMENTS - FAIR VALUES AND RISK MANAGEMENT (continued)**Financial risk management (continued)**Market risk (continued)***Cash flow sensitivity analysis for variable rate instruments***

An increase of 100 basis points in interest rates at the reporting date would have increased/ (decreased) equity and profit for the year by the amounts shown below. This analysis assumes that all other variables, in particular foreign currency rates, remain constant. The analysis is performed on the same basis for 2014.

| | Equity US\$ '000 | Profit for the year US\$ '000 |
|---------------------------|---------------------|-------------------------------------|
| 31 December 2015 | | |
| Variable rate instruments | - | (4,815) |
| 31 December 2014 | | |
| Variable rate instruments | - | (5,014) |

A decrease of 100 basis points in interest rates at the reporting date would have the equal but opposite effect on the above instruments to the amounts shown above, on the basis that all other variables remain constant.

Operational risk

Operational risk is the risk of direct or indirect loss arising from a wide variety of causes associated with the Group's processes, personnel, technology and infrastructure, and from external factors other than credit, market and liquidity risks such as those arising from legal and regulatory requirements and generally accepted standards of corporate behaviour. Operational risks arise from all of the Group's operations.

The Group's objective is to manage operational risk so as to balance the avoidance of financial losses and damage to the Group's reputation with overall cost effectiveness and to avoid control procedures that restrict initiative and creativity.

AFI DEVELOPMENT PLC

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2015

33. FINANCIAL INSTRUMENTS - FAIR VALUES AND RISK MANAGEMENT (continued)

Financial risk management (continued)

Operational risk (continued)

The primary responsibility for the development and implementation of controls to address operational risk is assigned to senior management within each business unit. This responsibility is supported by the development of overall Group standards for the management of operational risk in the following areas:

- requirements for appropriate segregation of duties, including the independent authorisation of transactions
- requirements for the reconciliation and monitoring of transactions
- compliance with regulatory and other legal requirements
- documentation of controls and procedures
- requirements for the periodic assessment of operational risks faced, and the adequacy of controls and procedures to address the risks identified
- requirements for the reporting of operational losses and proposed remedial action
- development of contingency plans
- training and professional development
- ethical and business standards
- risk mitigation, including insurance where this is effective

Compliance with Group standards is supported by a programme of periodic reviews undertaken by Internal Audit. The results of Internal Audit reviews are discussed with the management of the business unit to which they relate, with summaries submitted to the Audit Committee and senior management of the Group.

Capital management

The Board's policy is to maintain a strong capital base so as to maintain investor, creditor and market confidence and to sustain future development of the business.

There were no changes in the Group's approach to capital management during the year. Neither the Company nor any of its subsidiaries are subject to externally imposed capital requirements.

The Company is committed to delivering the highest standards in boardroom practice and financial transparency through:

- clear and open communication with investors;
- maintaining accurate quarterly financial records which transparently and honestly reflect the financial position of its business; and
- endeavouring to maximise shareholder returns.

A full programme of investor relations activity ensures appropriate contact with institutional and private shareholders, with regular meetings, presentations and disclosure of important information. Great care is taken to provide suitably detailed information on the Group's activities and results to enable various stakeholders to understand the performance and prospects of the Group.

AFI DEVELOPMENT PLC

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTSFor the year ended 31 December 201533. FINANCIAL INSTRUMENTS - FAIR VALUES AND RISK MANAGEMENT (continued)**Financial risk management (continued)***Russian Business 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 conflict in Ukraine and related events has increased the perceived risks of doing business in the Russian Federation. The imposition of economic sanctions on Russian individuals and legal entities by the European Union, the United States of America, Japan, Canada, Australia and others, as well as retaliatory sanctions imposed by the Russian government, has resulted in increased economic uncertainty including more volatile equity markets, a depreciation of the Russian Rubble, a reduction in both local and foreign direct investment inflows and a significant tightening in the availability of credit. In particular, some Russian entities may be experiencing difficulties in accessing international equity and debt markets and may become increasingly dependent on Russian state banks to finance their operations. The longer term effects of recently implemented sanctions, as well as the threat of additional future sanctions, are difficult to determine.

Continuation of the above-mentioned events, and/or an increase in the severity thereof, could have an adverse effect on various facets of the Group's activities and/or data appearing in the financial statements, among others, as follows:

- An unfavourable impact on the revenues due to a decline in the demand in the commercial sector and residential sector;
- An increase in the Group's costs with respect to its activities in Russia;
- A decrease in the value of the real estate properties as a result of the decrease in the revenues and/or an increase in the risk premium in the economy and, in turn, an increase in the discount rate taken into account when determining the value;
- An increase in the financing expenses and/or an adverse impact on the available sources of financing;
- From an accounting standpoint, a devaluation of the ruble could have a negative impact on the Company's shareholders' equity.

The Company is monitoring the economic developments in Russia, in general, and in the real estate market, in particular. It is noted that due to the uncertainty prevailing in light of the events described above, the Company is reviewing the development plans and timetables of a number of its projects. Due to the inability to predict the duration or the manner of the future development of political and economic events, the Company is not able, at this stage, to estimate the future impact of these matters on the Group.

The consolidated financial statements reflect management's assessment of the impact of the Russian business environment on the operations and the financial position of the Group. The future business environment may differ from management's assessment.

AFI DEVELOPMENT PLC

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTSFor the year ended 31 December 201533. FINANCIAL INSTRUMENTS - FAIR VALUES AND RISK MANAGEMENT (continued)**Financial risk management (continued)***Taxation contingencies in the Russian Federation*

The taxation system in the Russian Federation continues to evolve and is characterised by frequent changes in legislation, official pronouncements and court decisions, which are sometimes contradictory and subject to varying interpretation by different tax authorities.

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

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

In addition, a number of new laws introducing changes to the Russian tax legislation have been recently adopted. In particular, starting from 1 January 2015 changes aimed at regulating tax consequences of transactions with foreign companies and their activities were introduced, such as concept of beneficial ownership of income, etc. These changes may potentially impact the Group's tax position and create additional tax risks going forward. This legislation is still evolving and the impact of legislative changes should be considered based on the actual circumstances.

AFI DEVELOPMENT PLC

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTSFor the year ended 31 December 201534. GROUP ENTITIES

Ultimate controlling party: Lev Leviev Israel

Ultimate holding company: Africa Israel Investments Limited Israel

Holding company: Africa Israel Investments Limited Israel

| Significant Subsidiaries | Ownership interest | | Country of incorporation |
|---|--------------------|-------|--------------------------|
| | 2015 | 2014 | |
| 1. OOO AFI RUS | 100 | 100 | Russian Federation |
| 2. OOO Avtostoyanka Tverskaya Zastava | 100 | 100 | Russian Federation |
| 3. OOO Krown Investments | 100 | 100 | Russian Federation |
| 4. OAO Moskovskiy Kartonazhno-poligraphicheskiy Kombinat (MKPK) | 99.17 | 99.17 | Russian Federation |
| 5. Bellgate Constructions Limited | 100 | 100 | Cyprus |
| 6. OOO Regionalnoe AgroProizvodstvennoe Objedinenie (RAPO) | 100 | 100 | Russian Federation |
| 7. OOO Aristeya | 100 | 100 | Russian Federation |
| 8. Scotson Limited | 100 | 100 | Cyprus |
| 9. ZAO Nedra Publishing | 93.86 | 93.86 | Russian Federation |
| 10. OOO Titon | 100 | 100 | Russian Federation |
| 11. ZAO MTOK | 99.71 | 99.71 | Russian Federation |
| 12. Triumvirate I S.a r.l | 100 | 100 | Russian Federation |
| 13. OOO Nordservice | 100 | 90 | Russian Federation |
| 14. OOO Plaza SPA | 100 | 100 | Russian Federation |
| 15. OOO Semprex | 100 | 100 | Russian Federation |
| 16. OOO Zheldoruslugi | 95 | 95 | Russian Federation |
| 17. OOO Bizar | 74 | 74 | Russian Federation |
| 18. AFI D Finance SA | 100 | 100 | British Virgin Islands |

35. NON-CONTROLLING INTERESTS

There were no individually significant subsidiaries which have material NCI.

36. ACQUISITION OF NON-CONTROLLING INTERESTS (NCI)

In August 2015, the Group acquired an additional 10% interest in Bioka Investments Limited and its Russian subsidiary Nordservice LLC for US\$1,600 thousand, increasing its ownership from 90% to 100%. The Group recognised:

- a decrease in the negative NCI of US\$7,601 thousand;
- a decrease in equity of US\$9,201 thousand which is presented as a negative capital reserve.

The carrying amount of Bioka Investment's and its subsidiary's net liabilities in the Group's financial statements on the date of acquisition was US\$32,116 thousand.

AFI DEVELOPMENT PLC

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTSFor the year ended 31 December 201536. ACQUISITION OF NON-CONTROLLING INTERESTS (NCI) (continued)

The following table summarises the effect of changes in the Company's ownership interest in Bioka Investments and Nordservice LLC.

| | US\$'000 |
|--|-----------------|
| Company's ownership interest at 1 January | (32,582) |
| Effect of increase in Company's ownership interest | <u>(7,601)</u> |
| Company's ownership interest at 31 December 2015 | <u>(40,183)</u> |

37. OPERATING LEASES**Leases as lessee**

Non-cancellable operating lease rentals are payable as follows:

| | 2015 US\$ '000 | 2014 US\$ '000 |
|---|-------------------|-------------------|
| Less than a year | 4,764 | 6,688 |
| Between one and five years | 22,017 | 26,327 |
| More than five years | <u>32,747</u> | <u>40,213</u> |
| | <u>59,528</u> | <u>73,228</u> |
| Amount recognised as an expense during the year | <u>1,567</u> | <u>2,298</u> |

The ownership of land in the Russian Federation is rare and especially within Moscow region, in which all of the property with only a few exceptions, is owned by the City of Moscow. The majority of land is occupied by private entities pursuant to lease agreements between occupants, of the building located on the land, and the City of Moscow. The Group has several long-term operating leases for land. These leases are entered into with the intention and right to develop the land and carry out construction. Typically they run for an initial period of one to five years which is the period of development and upon completion of development the developer has the right to renew for a long term period of usually up to 49 years. Under both leases the lessee is required to make periodic lease payments, generally on a quarterly basis to the City of Moscow.

There is also the option of long term land lease prior to commencement of construction which the developer can acquire with a lump sum payment that is determined from time to time by the City of Moscow and is based on the size of the land, its location and the proximity to amenities. The Group has two such land rights and they run for period of 49 years.

AFI DEVELOPMENT PLC

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTSFor the year ended 31 December 201537. OPERATING LEASES (continued)**Leases as lessor**

The Group leases out investment property under operating leases, see note 15. The future minimum lease payments under non-cancellable leases are as follows:

| | 2015 US\$ '000 | 2014 US\$ '000 |
|---|-------------------|-------------------|
| Less than a year | 85,343 | 122,501 |
| Between one and five years | 127,608 | 169,227 |
| More than five years | <u>25,412</u> | <u>51,603</u> |
| | <u>238,363</u> | <u>343,331</u> |
| Amount recognised as income during the year | <u>81,338</u> | <u>122,226</u> |

38. CAPITAL COMMITMENTS

Up to 31 December 2015 the Group has entered into a number of contracts for the construction of investment or trading properties:

| Project name | Commitment | |
|---------------------|-------------------|-------------------|
| | 2015 US\$ '000 | 2014 US\$ '000 |
| Odinburg | 33,645 | 16,081 |
| Kosinskaya | 244 | 1,560 |
| TVZ Plaza IC | 730 | 2,600 |
| Serebryakova | 5,060 | 7,243 |
| Pavaletskaya II | 32,200 | 4,311 |
| TVZ Plaza IV | 89 | 140 |
| TVZ Plaza II | 384 | 1,080 |
| Bolshaya Pochtovaya | <u>1,538</u> | <u>474</u> |
| | <u>73,890</u> | <u>33,489</u> |

39. CONTINGENCIES

There were not any contingent liabilities as at 31 December 2015.

40. RELATED PARTIES

| Outstanding balances with related parties | 2015 US\$ '000 | 2014 US\$ '000 |
|--|-------------------|-------------------|
| <u>Assets</u> | | |
| Amounts receivable from joint ventures | 10 | 20 |
| Amounts receivable from ultimate holding company | 203 | 203 |
| Amounts receivable from other related companies | 124 | 164 |
| Long term loans receivable from joint ventures | 14,246 | 17,962 |
| Short term loans receivable from joint ventures | <u>98</u> | <u>-</u> |

AFI DEVELOPMENT PLC

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTSFor the year ended 31 December 201540. RELATED PARTIES (continued)

| Outstanding balances with related parties (continued) | 2015 | 2014 |
|--|------------------|------------------|
| | US\$ '000 | US\$ '000 |
| <u>Liabilities</u> | | |
| Amounts payable to joint ventures | 6 | 131 |
| Amounts payable to ultimate holding company | 492 | 433 |
| Amounts payable to other related companies | 159 | 1,700 |
| Deferred income from related company | <u>125</u> | <u>156</u> |

All outstanding balances with these parties are priced at an arm's length basis and are to be settled in cash. None of the balances is secured.

| Transactions with the key management personnel | 2015 | 2014 |
|---|------------------|------------------|
| | US\$ '000 | US\$ '000 |
| Key management personnel compensation comprised: | | |
| Short-term employee benefits | 2,798 | 5,311 |
| Share option scheme expense | <u>2,283</u> | <u>4,383</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.

| Other related party transactions | 2015 | 2014 |
|--|------------------|------------------|
| | US\$ '000 | US\$ '000 |
| Revenue | | |
| Joint venture – consulting services | 145 | 238 |
| Joint venture – interest income | 1,422 | 1,920 |
| Related company – rental income | <u>802</u> | <u>1,519</u> |
| Expenses | | |
| Ultimate holding company – administrative expenses | 330 | 766 |
| Joint venture – operating expenses | <u>59</u> | <u>177</u> |
| Other related party transactions | 2015 | 2014 |
| | US\$ '000 | US\$ '000 |
| Construction services capitalised | | |
| Related company – construction services | <u>954</u> | <u>13,728</u> |

AFI DEVELOPMENT PLC

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTSFor the year ended 31 December 201541. SUBSEQUENT EVENTS

Subsequent to 31 December 2015 there were no events that took place which have a bearing on the understanding of these financial statements except of the following:

- In March 2016 the Company's subsidiary, Semprex LLC, entered into a preliminary agreement on the disposal of the Aquamarine Hotel and 25 underground parking places located at the Ozerkovskaya II project for total consideration of US\$27.5 million. The potential buyer is currently performing due diligence of the project, at the end of which the parties agreed to negotiate the final sale-purchase agreement. The Company expects the net cash flow from the transaction, should it be completed, to be circa US\$5 million, following partial repayment of the loan facility of Bellgate Constructions Limited ("Bellgate") (as stipulated by the mortgage agreement of the Aquamarine Hotel premises for the Bellgate's loan).