

25 August 2016

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

RESULTS FOR THE SIX MONTHS TO 30 JUNE 2016

Continued delivery of development pipeline despite difficult market conditions

AFI Development, a leading real estate company focused on developing property in Russia, has today announced its financial results for the six months ended 30 June 2016.

H1 2016 financial highlights

- Revenues for the six months to 30 June 2016, including proceeds from the sale of residential properties, reached US\$89.7 million:
 - Revenue recognised from sales of apartments at Odinburg was a major contributor at US\$49.7 million
 - Rental and hotel operating income declined 21% year-on-year to US\$39.9 million
 - AFIMALL City contribution stood at US\$31.0 million (H1 2015: US\$38.5 million), down 19% year-on-year
- Gross profit for H1 2016 increased 5% year-on-year to US\$27.2 million (H1 2015: US\$25.8 million)
- Net loss for H1 2016 was US\$ 53.3 million, against a net loss of US\$33.2 million in H1 2015, largely due to valuation losses
- Total gross value of portfolio of properties decreased to US\$1.39 billion at the end of Q2 2016, compared to US\$1.42 billion at the end of Q1 2016
- Cash, cash equivalents and marketable securities as of 30 June 2016 were US\$29.5 million

H1 2016 operational highlights

- At **Odinburg**, the delivery of apartments in Building 1 commenced in March 2016, while the construction of Building 2 continues. As of 30 June 2016, 682 apartments in Building 1 have been delivered to customers. The number of sale contracts signed amounted to 695 (96% of total) in Building 1 and 235 (33% of total) in Building 2 as of 24 August 2016

- At the **AFI Residence Paveletskaya** residential development, the main construction phase and pre-sales of residential units which started in December 2015 continue to plan; 77 “flats” and 14 “apartments”¹ have been pre-sold to date
- Despite the continued difficult market conditions in the retail segment, **AFIMALL City** retained the majority of its tenants and welcomed several new retailers to the Mall during second the quarter
 - NOI declined to US\$24.6 million in H1 2016 compared to US\$29.1 million in H1 2015

For an update on the current status of negotiations with Bank VTB PJSC please refer to the Subsequent Events section on page 6.

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

“As the Chairman and the main shareholder of the Company, my belief in AFI Development’s business potential and its ability to create value for its shareholders remains firm. Despite the current situation in the market and the ongoing negotiations with VTB Bank, AFI Development continues to deliver its development pipeline with construction and sales of its key projects progressing to plan. The first half of the year has brought about some stabilisation in the macroeconomic indicators which have largely been responsible for the current difficult conditions in the real estate market and we look forward to further improvement in our market conditions going forward. In the meantime, I will make every effort to negotiate the best terms possible with VTB Bank to ensure AFI Development retains its position as one of the leading companies in its market for the long-term.”

H1 2016 results conference call:

AFI Development will hold a conference call for analysts and investors to discuss its H1 2016 financial results on Friday, 26 August 2016.

The details for the conference call are as follows:

Date:	Friday, 26 August 2016		
Time:	3pm BST (5pm Moscow)		
Dial-in Tel:	International:	+44 (0) 20 3003 2666	
	UK toll free:	0808 109 0700	
	US toll-free:	1 866 966 5335	
	Russia toll-free:	8 10 8002 4902044	
Password:	AFI		

¹ At AFI Residence Paveletskaya there are two types of residential units: fully residentially zoned units referred to as “flats” and commercially zoned units that, according to common market practice in Russia, are sold and referred to as “apartments” and can be used for permanent residence

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.

Prior to the conference call, the H1 2016 Investor Presentation will be published on the Company website at <http://www.afi-development.com/en/investor-relations/reports-presentations> on 26 August 2016 by 12pm BST (2pm Moscow time).

- ends -

For further information, please contact:

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David Westover

Sandra Novakov

This announcement contains inside information.

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.

Legal disclaimer

Some of the information in these materials may contain projections or other forward-looking statements regarding future events, the future financial performance of the Company, its intentions, beliefs or current expectations and those of its officers, directors and employees concerning, among other things, the Company's results of operations, financial condition, liquidity, prospects, growth, strategies and business. You can identify forward looking statements by terms such as "expect", "believe", "anticipate", "estimate", "intend", "will", "could," "may" or "might" or the negative of such terms or other similar expressions. These statements are only predictions and that actual events or results may differ materially. Unless otherwise required by applicable law, regulation or accounting standard, the Company does not intend to update these statements to reflect events and circumstances occurring after the date hereof or to reflect the occurrence of unanticipated events. Many factors could cause the actual results to differ materially from those contained in projections or forward-looking statements of the Company, including, among others, general economic conditions, the competitive environment, risks associated with operating in Russia and market change in the industries the Company operates in, as well as many other risks specifically related to the Company and its operations.

Executive Chairman's statement

While the macroeconomic indicators in Russia have started to show signs of stabilisation, the situation in the real estate market remains difficult, especially in the commercial segments.

During the first half of the year, the management has been focused on the development of Odinburg, where we are finalising the delivery of apartments in Building 1 and constructing Building 2, on the construction and marketing of AFI Residence Paveletskaya, and on preparations for active construction at AFI Residence Pochtovaya and the Botanic Garden.

As a result of successful sales of apartments at Odinburg, the project contributed US\$49.7 million of revenues to the total figure of US\$89.7 million.

In addition to active development of the residential projects, we remain focused on streamlining the operations of our yielding properties – the AFIMALL City, office properties in Moscow and the hotels. As a result of these efforts, our gross profit for the first half of the year increased by 5% year-on-year to US\$27.2 million.

With respect to our negotiations with the VTB Bank PJSC, the terms of the Disposal of three assets in exchange for the outstanding debt under the Ozerkovskaya III and AFIMALL City loan have been agreed with the Bank and approved by the General Meeting of Shareholders. However, should our negotiations on the personal guarantee result in conclusion of an agreement (subject to the required approvals), the Board of Directors of AFI Development will decide whether to proceed with the Disposal Transaction (as defined in the Shareholder Circular published on 15 July 2016) or with the alternative route of the guarantee (for details please refer to the Subsequent Events section below).

Changes in the board of directors

On 13th July 2016, the Company received a resignation notice from Mr Christakis Klerides effective on the same day, due to family reasons. Mr Panayiotis Demetriou has been appointed Senior Independent Director of the Company on 21st July 2016.

Key Events Subsequent to 30 June 2016

Following the end of H1 2016 the following key events occurred:

Disposal Transaction

On 1 August 2016, the General Meeting of the Company approved the entering by the Company into a Disposal Transaction, which would release the AFI Development group from all of its obligations in respect of the loans taken by Krown Investments Limited and Bellgate Constructions Limited in exchange for the Disposal to VTB Bank PJSC (“VTB”) of the following Properties:

- AFIMALL City Shopping Centre, a shopping and entertainment centre in the business district of Moscow;

- Ozerkovskaya III, a completed Class A office complex in Moscow; and
- Aquamarine Hotel, a modern 4-star hotel, located in the Ozerkovskaya complex.

Details of the Disposal Transaction and the background to it are contained in the 15 July 2016 announcement and in the shareholder circular published on the same date. These can be found on the Company's website (<http://www.afi-development.com>).

As announced on 2 August 2016, the Company has been informed that at a meeting on 1 August 2016 between the Executive Chairman of the company, Mr Lev Leviev and VTB, Mr Leviev executed a unilateral Guarantee Deed - a personal guarantee and indemnity deed under English law from Mr Leviev to VTB, pursuant to which Mr Leviev has agreed to guarantee the obligations of Krown under the Ozerkovskaya III Loan Facility for a period of 12 months (the "**Guarantee Deed**").

Following the meeting on 1 August 2016, the Company received a letter from VTB, stating that in view of Mr Leviev having provided the Personal Guarantee (as defined below), VTB would defer completion of the Disposal Transaction until 30 September 2016.

Personal Guarantee

As announced on 15 July 2016, Mr Leviev and VTB continue to negotiate the terms of a personal guarantee that may be provided by Mr Leviev to VTB in respect of the Group's obligations under the Ozerkovskaya III Loan Facility (the "**Personal Guarantee**") as an alternative to the Disposal Transaction. If these discussions result in the Personal Guarantee and related documentation being agreed prior to completion of the Disposal Transaction then, subject to obtaining all approvals required (including if necessary any shareholder approvals) in relation to the Personal Guarantee, the Board of the Company may determine not to proceed with the Disposal Transaction.

In connection with, and as a condition to, the entry into of the Personal Guarantee, it is currently anticipated that VTB will agree to defer payment of principal amounts due under each of the Ozerkovskaya III Loan Facility and the AFIMALL City Loan Facility (together the "**Loan Facility Agreements**") for a period of 10 months from the date of the Guarantee (the "**Deferrals**") and not to enforce for prior breaches of such facilities (the "**Standstill**"). The Deferrals and the Standstill are intended to provide the Company with a 10 month period in which to repay in full the Ozerkovskaya III Loan Facility, the outstanding balance of which currently amounts to US\$191.1 million, from the proceeds from the planned disposal of Ozerkovskaya III and potentially other properties of the Company. Should the Ozerkovskaya III Loan Facility not be repaid in full within this 10 month period, the Personal Guarantee would become enforceable. Should VTB enforce the Guarantee, and following payment by Mr Leviev of all amounts outstanding under and the subsequent discharge of the Ozerkovskaya III Loan Facility, a new loan between the Company and Mr Leviev would become effective which would have the same interest rate and maturity as the existing Ozerkovskaya III Loan Facility but would be unsecured (the "**New Loan**").

As the Guarantee, Standstill and Deferrals and the terms of the New Loan are still under negotiation, there is no certainty as to whether they will be agreed, approved

(if necessary) or entered into prior to completion of the Disposal and there is no certainty as to what their final terms may be.

The Personal Guarantee is expected to be on similar terms to the existing AFI Development suretyship, which currently secures the Ozerkovskaya III Loan Facility. Under the Personal Guarantee, Mr Leviev proposes to guarantee for a period of 12 months all the obligations of Krown under the Ozerkovskaya III Loan Facility and all the obligations of the Company as a guarantor of Krown's obligations under the Ozerkovskaya III Loan Facility.

The Standstill and Deferrals will be effected as addenda (the "Addenda") to the Ozerkovskaya III Loan Facility and the AFIMALL City Loan Facility, respectively. Pursuant to the Addenda, it is proposed that all quarterly principal amounts payable under the Loan Facility Agreements, including the quarterly payments due on 30 June 2016, will be deferred for a period of 10 months following the date of the Personal Guarantee and will become payable upon the expiry of such 10 month period. In addition, pursuant to the Addendum to the Ozerkovskaya III Loan Facility, VTB proposes not to accelerate the Loan Facility Agreements for a period of 10 months following the date of the Personal Guarantee as a result of VTB's claim that there has been a material adverse change in the financial condition of Krown and/or Bellgate which occurred prior to the date of the Guarantee or as a result of the breaches of the financial covenants in the Ozerkovskaya III Loan Facility.

It is anticipated that VTB would be provided with the following proposed additional security for the period of 12 months following the date of the Guarantee:

- In respect of the Ozerkovskaya III Loan Facility: (i) a second ranking pledge of the shares in Titon LLC, (which holds the Company's interest in the Kossinskaya project); (ii) a guarantee from Titon LLC and the pledgor of the shares in LLC Titon; and (iii) a second ranking mortgage of an office complex and lease rights in relation to the underlying land plot held by Titon LLC.
- In respect of the AFIMALL City Loan Facility: (i) a first ranking pledge of 100% of the shares in Titon LLC; (ii) a guarantee from Titon LLC and the pledgor of the shares in Titon LLC; and (iii) a first ranking mortgage of an office complex and lease rights in relation to the underlying land plot held by Titon LLC.

In addition, Krown and Bellgate would undertake, amongst other things, not to distribute dividends without VTB's consent during the 12 month period.

As announced on 2 August 2016, the Company had been informed that at a meeting on 1 August 2016 between Mr Leviev and VTB, Mr Leviev executed a unilateral Guarantee Deed - a personal guarantee and indemnity deed under English law from Mr Leviev to VTB, pursuant to which Mr Leviev has agreed to guarantee the obligations of Krown under the Ozerkovskaya III Loan Facility for a period of 12 months (the "**Guarantee Deed**").

The Guarantee Deed, when accepted by VTB, is expected to lead to the conclusion of the Personal Guarantee as defined above. At the date of this announcement, the negotiations between Mr Leviev and VTB are still ongoing.

Deferral of Q2 2016 principal payments

On 1 July 2016 the Company announced its decision not to make the quarterly principal payments of US\$1.815 million and US\$6.5 million due on 30th June 2016, ("the **Principal Payments**") under the loan facilities provided to each of Krown Investments LLC ("**Krown**") and Bellgate Constructions Limited ("**Bellgate**") (together "the **Loan Facilities**"). The decision followed the respective application made by the Company to VTB Bank PJSC ("**VTB**") against the background of negotiations between the Company Chairman, Mr Leviev, and VTB on the Personal Guarantee.

On 27 July 2016 Krown, Bellgate, AFI Development and Semprex LLC executed addenda to the loan facility agreements and respective security agreements with VTB, according to which the due date for the Principal Payments has been deferred to 30th September 2016 under both Loan Facilities.

Transaction between Africa Israel Investments Ltd and Mr Leviev

On 19 July 2016 the Company announced that it had received a notice from its controlling shareholder, Africa Israel Investments Ltd ("**AI**"), that it had agreed the terms of a transaction (the "**AI transaction**"), according to which Mr Leviev will purchase AI's entire holdings of securities of AFI Development (the "Purchased Securities") and will provide VTB with his personal guarantee, under terms to be agreed with VTB, in a manner that will prevent the Disposal Transaction as defined above. The completion of the AI Transaction requires the approval of the AI Bondholders and is conditioned upon the approval of the Tel Aviv District Court and on receiving a mandatory tender offer exemption from the Cyprus Security and Exchange Commission ("**CySEC**") under the Cyprus Takeover Code (the "Conditions Precedent"), by no later than August 1, 2016 or any agreed deferred date.

In consideration for the AFID Securities Mr. Leviev will pay AI an amount in cash of NIS 550 million, within 36 days following the fulfilment of the Conditions Precedent.

Mr Leviev will, at completion of the AI Transaction, grant AI a call option to purchase from him, throughout a period of three years, securities of AFI Development constituting up to 10% of AFI Development's issued share capital, at a price reflecting 122% of the price to be paid by Mr Leviev under the Purchase Transaction (the "**Purchase Option**"). The Purchase Option will be assigned by AI to the Trustees at the closing of the Purchase Transaction who may exercise it within three years from the date of completion of the Purchase Transaction upon instructions of the AI Bondholders.

According to further announcements by the Company, AI, Mr Leviev and the AI Bondholders entered into a legally binding agreement (subject to the Conditions Precedent) on 25 July 2016. As announced by the Company on 8 August 2016, it had been notified by AI that the Conditions Precedent were fully met on 5 August 2016. As of the date of publication of this announcement, the completion of the AI Transaction has not yet taken place (the parties have 36 days from the date of meeting of the last Condition Precedent to complete the transaction).

Projects update

AFIMALL City

In an environment of continued macroeconomic pressure negatively affecting the retail market in Russia, the management of the AFIMALL City has been focused on stimulating traffic to the Mall through various marketing initiatives, retaining the existing tenant base and attracting new retailers to the centre.

During the second quarter, a number of new tenants entered AFIMALL City including Technopark, a well-known Russian consumer electronics chain, Newby Teas London, and Beauty Brand Store. At the same time, TSUM extended its presence in the Mall by opening a TSUM Optics store, while Massimo Dutti extended their outlet by renting 900 sq.m of additional space.

Odinburg

With the majority of pre-sold apartments in Building 1 delivered to customers during the first half of 2016, resulting in US\$49.7 million of revenue from residential sales, construction works and sales and marketing activities at Odinburg are now focused on Building 2 of Phase 1.

As of the date of publication of this report, 695 (96%) of contracts for sale of apartments in Building 1 have been signed (there were some cancellations/exchanges for apartments in Building 2 in Q2 2016), while 235 (33%) of contracts for Building 2 have been signed.

AFI Residence Paveletskaya (Paveletskaya II)

In December 2015, AFI Development successfully launched the main construction phase of the project. At AFI Residence Paveletskaya there are two types of residential units: fully residentially zoned units referred to as “flats” and commercially zoned units that, according to common market practice in Russia, are sold and referred to as “apartments” and can be used for permanent residence. Pre-sales of both “flats” and “apartments” started simultaneously with the construction launch. As of the date of publication of this report, 77 contracts for sales of “flats” and 14 for sales of “apartments” have been signed.

Aquamarine III (Ozerkovskaya III)

The Company continues to market office space in the complex to potential buyers and tenants.

AFI Residence Pochtovaya

The Company is on track to launch the main construction phase of the Bolshaya Pochtovaya project in Q4 2016. The project will be marketed as AFI Residence Pochtovaya.

Botanic Garden

AFI Development is finalising the revised design and project documentation for the project and is planning to launch the active construction phase in Q4 2016.

Market overview – general Moscow real estate

Macroeconomic environment

Despite continued GDP contraction, the Russian economy continues to show signs of coming out of recession. However, the extension of the EU sanctions against Russia, the renewed tensions over Crimea and the decline in oil prices will continue to influence the economy's recovery pace. A GDP decline of 1% is forecast for 2016 with a growth of 1.5% expected in 2017.

The rate of inflation in June 2016 reached 7.5%, from 7.3% for the previous month. As a result, the Central Bank of Russia paused its easing cycle, making any further easing conditional on the path of inflation.

Lower oil prices affected fiscal performance leading to a budget deficit of 4.3% of GDP in H1 2016.

(Source: Country Economic Forecast-Russia, 1 Aug 2016, Oxford Economics)

Moscow office market

During H1 2016, new office completions declined by 53% year-on-year to 175,000 sq. m, marking a record low over the past decade. At the same time, demand during Q2 2016 increased by 11% year-on-year to 310,000 sq.m, bringing the total for the half year to 578,000 sq.m.

At the end of June 2016, the overall vacancy rate in the Moscow office market was virtually unchanged at 15.6% versus 15.8% in Q1 2016 and 16% at the end of 2015. The vacancy rate in Class A properties declined marginally as well, to 21.0% from 22.4% in Q1 2016.

Take-up volume in H1 2016 increased by 69% year-on-year to 557,100 sq.m, driven mainly by Class A offices.

Rental rates remained stable during the first half of the year. Class A Prime rents in the high quality buildings in the Central Business District were in the range of USD\$600-800 per sq.m per year with Class A rents in the range of USD\$400-600 per sq.m per year.

(Source: Moscow Office Market, Q2 2016, CBRE; Moscow Office Market, Q2 2016, JLL)

Moscow retail market

During H1 2016, 20 new retail chains entered the Moscow retail market. The average vacancy rate in quality shopping centres remained stable, reaching 9.3% by the end of Q2 2016.

Looking to the second half of 2016, 18 new brands have announced their plans to enter the market during 2016. At the same time, six new shopping centres are expected to open by year-end with a total rentable area of close to 300,000 sq.m. The pricing policy of Moscow quality shopping centre landlords remained broadly unchanged during H1 2016, with rental rates ranging from 2% to 12% of turnover for anchor tenants and up to 20% for shopping gallery tenants and small format stores.

(Source: Moscow Retail, Q2 2016, CBRE Research; Moscow Office Market, Q2 2016, JLL)

Moscow and Moscow Region residential market

According to the Moscow Statistics Agency, the volume of commissioned residential construction in Moscow for the first five months of 2016 amounted to 1 million sq.m, down 32% on the same period of 2015².

The supply of Moscow primary residential housing in H1 2016 was 2.1 million sq.m (around 30,800 residential units), which is up 15% on Q4 2015, but down 7% on Q1 2016.

While the growth of primary residential real estate in Moscow slowed down in H1 2016, the weighted average asking price per sq.m increased marginally in US dollar terms to US\$2,986, from US\$2,967 per sq.m at the end of December 2015, driven primarily by the currency fluctuations.

By the end of June 2016, the weighted average asking price in the newly built business class residential market in Moscow amounted to RUR258,660 per sq.m (US\$3,979, USD/RUB = 65). Compared with the end of March 2016, prices increased on average by 3.3% in rouble terms. In the comfort class, the weighted average asking price was RUR160,990 per sq.m (US\$2,476, USD/RUB = 65). In the Moscow Region, as of June 2016, the weighted average price per sq.m was RUR79,143 (US\$1,217, USD/RUB = 65).

Despite the marginal increase in house prices in Moscow, demand during H1 2016 saw an 11% increase in legal completions on the same period of last year. This is attributable to a number of factors, in particular the stabilisation of the economy and the stability of interest rates at 10.5%, the government mortgage lending support programme introduced in March 2015, and a wide variety of deals offered by developers making purchases more affordable. The level of mortgage application approval rates during H1 2016 was 22% higher compared to H1 2015.

(Source: Blackwood H1 2016 Moscow Residential Market Overview, Peresvet Q2 2016 Moscow Region Primary Residential Market Overview)

Lev Leviev
Executive Chairman of the Board

² Excluding “apartments” which are legally not considered residential

ANNEX A

30.6.2016 – Very significant property disclosure

1. AFIMALL City

(Data based on 100%. Share of the Company in the property – 100%)	Current quarter (Q2 2016)	Current quarter (Q1 2016)	Comparative data		
	Q2 2016	Q1 2016	Q4 2015	Q3 2015	Q2 2015
Value of the property (000'USD)	656,800	666,000	685,200	990,000	990,000
NOI in the period (000'US\$)	10,971	13,600 ³	12,259	11,943	15,395
Revaluation gains (losses) in the period (000'US\$)	(24,700)	(33,356)	(276,764)	59,918	(28,970)
Occupancy rate at the end of the period (%)	78%	82%	78%	76%	77%
Rate of return (%)	6.7%	8.2%	7.8%	5.5%	5.9%
Average rent per sq.m. (US\$/annum)	941	828	1,103	1,057	1,144
Average rent per sq.m. <u>in agreements signed in the period</u> (US\$/annum)	487	248 ⁴	989	664	1,399

³ Changed after adjustments of OPEX in the first quarter of 2016

⁴ Represented mainly by the exhibition areas (6th floor, ci. 4,000 sq.m) formerly leased by a single tenant

ANNEX B

30.6.2016 – Very significant loans disclosure

Balance as of 30.06.2016	Lender type: Bank, Institutional etc.	Indexation/ currency exposure & interest rate	Liens and material legal restrictions on the property	Covenants	Cross default mechanism	Any other covenants or restriction that might increase the cost of debt	In-case it is a credit line facility - what are the terms&conditions for draw downs	The methods/way that the covenant is calculated	Covenant calculation results	The date of H1 2016 financial statement were reported	The date that the lender is checking the borrower is line with the covenants
USD 276,885,605 and RUR 9,850,623,032 (USD 150,186,718). Total amount in USD as of 30.06.2016 is USD 427,077,322	Specific project financed by VTB Bank JSC	RUR/USD loan provided in five tranches totalling RUR 2.1 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: 9.5% for loans drawn down in Russian ruble and 3 months LIBOR + 5.02% for loans drawn down in US dollars. The interest on the loans is payable on a quarterly basis, throughout the term of the credit line. The principal is due to be fully repaid in April 2018. The RUR interest rate may be unilaterally increased by the lending bank, should one of the interest indicators stipulated by the Russian Central Bank and specified in the loan agreement be increased; the interest rate will be increased by the amount of the interest indicator increase.	1. Liens over all the Beligate's shares 2. AFI Development PLC company guarantee, limited to USD 1,000,000 3. Mortgage over 100% of the premises of AFIMALL City 4. Mortgage over the premises in the parking owned by Beligate, upon registration of Beligate's rights to land plot under the Parking 5. Permission to debit Beligate's account held in the lending bank 6. Additional mortgage over the premises of the "Aquamarine" Hotel in Moscow, to be removed in case Beligate (the borrower) redeems USD 20 million of the principal 7. Additional guarantee by Sempres LLC, a Russian Company - an indirect subsidiary of AFI Development PLC, to be removed in case Beligate (the borrower) redeems USD 20 million of the principal	(1) Beligate (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 agreement- applicable only for the quarter when the aforesaid 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 2,252,000,000), 3rd tranche of RUR 1,300,000,000 drawn down on 01.02.2013, 4th tranche of RUR 1,333,333,333.33 drawn down on 28.02.2013, 5th tranche of RUR 1,333,333,333.34 drawn down on 28.02.2014.	(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 Q2 2016 was 1 084 millions Roubles incl. VAT; (2) Liquidation Value determined by an external valuer appointed by the Bank is USD 477.5 million/RUR 31.5 bln (VAT not included)	25 August 2016	(1) Borrowers revenues are checked quarterly; (2) Liquidation value is checked twice a year, on December and on August.

AFI DEVELOPMENT PLC

CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

For the period from 1 January 2016 to 30 June 2016

AFI DEVELOPMENT PLC

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

In accordance with Article 10, sections (3)(c) and (7) of the Transparency Requirements (Traded Securities in Regulated Markets) Law 190 (I)/2007 we, the members of the Board of Directors and the Company officials responsible for the drafting of the condensed consolidated interim financial statements of AFI Development Plc for the period ended 30 June 2016, confirm to the best of our knowledge that:

- a) the condensed consolidated interim financial statements for the period ended 30 June 2016 which are presented on pages 2 to 28:
 - (i) have been prepared in accordance with the International Financial Reporting Standard IAS 34 "Interim Financial Reporting" as adopted by the EU and according to the requirements of the article 10, section (4) of the Transparency Requirements Law and
 - (ii) give a true and fair view of the assets and liabilities, the financial position and the profit or loss of the Company and the undertakings included in the consolidation as a whole, and
- b) the adoption of a going concern basis for the preparation of the financial statements continues to be appropriate based on the foregoing and having reviewed the forecast financial position of the Group; and
- c) the interim management report includes a fair review of the development and performance of the business and the position of the Company and the undertakings included in the consolidation as a whole, together with a description of the principal risks and uncertainties that they face.

Members of the Board of Directors

Executive directors

Lev Leviev – Chairman

Non-executive director

Avraham Noach Novogrocki

Non-executive independent directors

Moshe Amit

Panayiotis Demetriou

Responsible for the drafting of the condensed consolidated interim financial statements

Natalia Pirogova

AFI DEVELOPMENT PLC

CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

For the period from 1 January 2016 to 30 June 2016

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

Introduction

We have reviewed the accompanying condensed consolidated statement of financial position of AFI Development PLC as at 30 June 2016, the condensed consolidated statements of income, comprehensive income, changes in equity and cash flows for the three-month period then ended, and notes to the interim financial statements ('the condensed consolidated interim financial statements'). The Company's Board of Directors is responsible for the preparation and presentation of this condensed consolidated interim financial statements in accordance with IAS 34 "Interim Financial Reporting". Our responsibility is to express a conclusion on this condensed consolidated interim financial statements based on our review.

Scope of Review

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

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the accompanying condensed consolidated interim financial statements as at 30 June 2016 is not prepared, in all material respects, in accordance with IAS 34 "Interim Financial Reporting".

Emphasis of Matter

Without qualifying our conclusion, we draw attention to note 2i to the condensed consolidated interim financial statements which describes that the Group incurred a net loss of US\$53,292 thousand for the six-month period ended 30 June 2016, as at that date current liabilities exceed current assets by US\$413,250 thousand and that the Group is in final stages of resolution of the VTB bank loans issue. These conditions along with other matters as set forth in note 2i, indicate the existence of a material uncertainty that may cast significant doubt about the Group's ability to continue as a going concern.



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

For and on behalf of

KPMG Limited
Certified Public Accountants and Registered Auditors

14 Esperidon Street
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24 August 2016

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AFI DEVELOPMENT PLC

CONDENSED CONSOLIDATED INCOME STATEMENTFor the period from 1 January 2016 to 30 June 2016

		For the three months ended		For the six months ended	
		1/4/16- 30/6/16 US\$ '000	1/4/15- 30/6/15 US\$ '000	1/1/16- 30/6/16 US\$ '000	1/1/15- 30/6/15 US\$ '000
	Note				
Revenue	6	<u>62,342</u>	<u>26,630</u>	<u>89,707</u>	<u>51,076</u>
Other income		<u>300</u>	<u>273</u>	<u>2,484</u>	<u>1,408</u>
Operating expenses	8	(10,032)	(9,732)	(17,725)	(21,127)
Carrying value of trading properties sold	14	(39,384)	(635)	(45,566)	(635)
Administrative expenses	7	(1,747)	(2,214)	(3,411)	(4,928)
Other expenses		<u>(594)</u>	<u>(622)</u>	<u>(607)</u>	<u>(1,019)</u>
Total expenses		<u>(51,757)</u>	<u>(13,203)</u>	<u>(67,309)</u>	<u>(27,709)</u>
Share of the after tax profit of joint ventures		<u>1,241</u>	<u>901</u>	<u>2,299</u>	<u>1,023</u>
Gross Profit		<u>12,126</u>	<u>14,601</u>	<u>27,181</u>	<u>25,798</u>
Profit on disposal of investment property		<u>1,738</u>	<u>-</u>	<u>1,738</u>	<u>-</u>
Decrease in fair value of properties	11,12	(40,585)	(63,781)	(100,860)	(42,337)
Impairment loss on inventory of real estate		<u>-</u>	<u>(4)</u>	<u>-</u>	<u>(662)</u>
		<u>(40,585)</u>	<u>(63,785)</u>	<u>(100,860)</u>	<u>(42,999)</u>
Results from operating activities		<u>(26,721)</u>	<u>(49,184)</u>	<u>(71,941)</u>	<u>(17,201)</u>
Finance income		16,789	21,187	37,984	6,485
Finance costs		<u>(11,077)</u>	<u>(12,101)</u>	<u>(21,746)</u>	<u>(23,432)</u>
Net finance income/(costs)	9	<u>5,712</u>	<u>9,086</u>	<u>16,238</u>	<u>(16,947)</u>
(Loss)/profit before tax		(21,009)	(40,098)	(55,703)	(34,148)
Tax (expense)/benefit	10	<u>(422)</u>	<u>892</u>	<u>2,411</u>	<u>942</u>
Loss for the period		<u>(21,431)</u>	<u>(39,206)</u>	<u>(53,292)</u>	<u>(33,206)</u>
Loss attributable to:					
Owners of the Company		(21,346)	(39,050)	(53,133)	(33,106)
Non-controlling interests		<u>(85)</u>	<u>(156)</u>	<u>(159)</u>	<u>(100)</u>
		<u>(21,431)</u>	<u>(39,206)</u>	<u>(53,292)</u>	<u>(33,206)</u>
Earnings per share					
Basic and diluted earnings per share (cent)		<u>(2.04)</u>	<u>(3.73)</u>	<u>(5.07)</u>	<u>(3.16)</u>

The notes on pages 7 to 28 form an integral part of the condensed consolidated interim financial statements.

AFI DEVELOPMENT PLC
CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the period from 1 January 2016 to 30 June 2016

	For the three months ended		For the six months ended	
	1/4/16- 30/6/16 US\$ '000	1/4/15- 30/6/15 US\$ '000	1/1/16- 30/6/16 US\$ '000	1/1/15- 30/6/15 US\$ '000
Loss for the period	<u>(21,431)</u>	<u>(39,206)</u>	<u>(53,292)</u>	<u>(33,206)</u>
Other comprehensive income				
Items that are or may be reclassified subsequently to profit or loss				
Realised translation differences on disposal of subsidiaries transferred to income statement	-	-	-	(830)
Foreign currency translation differences for foreign operations	<u>9,561</u>	<u>9,588</u>	<u>23,957</u>	<u>4,671</u>
Other comprehensive income for the period	<u>9,561</u>	<u>9,588</u>	<u>23,957</u>	<u>3,841</u>
Total comprehensive income for the period	<u>(11,870)</u>	<u>(29,618)</u>	<u>(29,335)</u>	<u>(29,365)</u>
Total comprehensive income attributable to:				
Owners of the parent	(11,813)	(29,488)	(29,303)	(29,371)
Non-controlling interests	<u>(57)</u>	<u>(130)</u>	<u>(32)</u>	<u>6</u>
	<u>(11,870)</u>	<u>(29,618)</u>	<u>(29,335)</u>	<u>(29,365)</u>

The notes on pages 7 to 28 form an integral part of the condensed consolidated interim financial statements.

AFI DEVELOPMENT PLC
CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the period from 1 January 2016 to 30 June 2016

	<u>Attributable to the owners of the Company</u>						<u>Non-controlling interests</u>	<u>Total equity</u>
	<u>Share Capital</u> US\$ '000	<u>Share Premium</u> US\$ '000	<u>Capital reserve</u> US\$ '000	<u>Translation Reserve</u> US\$ '000	<u>Retained Earnings</u> US\$ '000	<u>Total</u> US\$ '000	US\$ '000	US\$ '000
Balance at 1 January 2016	<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>
Total comprehensive income for the period								
Loss for the period	-	-	-	-	(53,133)	(53,133)	(159)	(53,292)
Other comprehensive income	-	-	-	23,830	-	23,830	127	23,957
Total comprehensive income for the period	-	-	-	23,830	(53,133)	(29,303)	(32)	(29,335)
Transactions with owners of the Company Contributions and distributions								
Share option expense	-	-	-	-	530	530	-	530
Balance at 30 June 2016	<u>1,048</u>	<u>1,763,409</u>	<u>(9,201)</u>	<u>(315,121)</u>	<u>(673,389)</u>	<u>766,746</u>	<u>(3,951)</u>	<u>762,795</u>
Balance at 1 January 2015	<u>1,048</u>	<u>1,763,409</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	-	-	-	-	(33,106)	(33,106)	(100)	(33,206)
Other comprehensive income	-	-	-	3,735	-	3,735	106	3,841
Total comprehensive income for the period	-	-	-	3,735	(33,106)	(29,371)	6	(29,365)
Transactions with owners of the Company Contributions and distributions								
Share option expense	-	-	-	-	1,275	1,275	-	1,275
Balance at 30 June 2015	<u>1,048</u>	<u>1,763,409</u>	-	<u>(311,145)</u>	<u>(190,813)</u>	<u>1,262,499</u>	<u>(8,811)</u>	<u>1,253,688</u>

The notes on pages 7 to 28 form an integral part of the condensed consolidated interim financial statements.

AFI DEVELOPMENT PLC
CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AS AT 30 JUNE 2016

	Note	30/6/16 US\$ '000	31/12/15 US\$ '000
Assets			
Investment property	11	904,400	933,700
Investment property under development	12	231,865	238,925
Property, plant and equipment	13	29,715	26,280
Long-term loans receivable		15,498	14,316
Inventory of real estate		21,505	18,570
VAT recoverable		<u>12</u>	<u>33</u>
Non-current assets		<u>1,202,995</u>	<u>1,231,824</u>
Trading properties	14	8,909	2,062
Trading properties under construction	15	181,711	204,392
Other investments	16	7,045	15,921
Inventory		566	477
Short-term loans receivable		25	101
Trade and other receivables	17	33,057	29,017
Current tax assets		1,622	1,622
Cash and cash equivalents	18	<u>22,491</u>	<u>26,545</u>
Current assets		<u>255,426</u>	<u>280,137</u>
Total assets		<u>1,458,421</u>	<u>1,511,961</u>
Equity			
Share capital		1,048	1,048
Share premium		1,763,409	1,763,409
Translation reserve		(315,121)	(338,951)
Capital reserve		(9,201)	(9,201)
Retained earnings		<u>(673,389)</u>	<u>(620,786)</u>
Equity attributable to owners of the Company	19	766,746	795,519
Non-controlling interests		<u>(3,951)</u>	<u>(3,919)</u>
Total equity		<u>762,795</u>	<u>791,600</u>
Liabilities			
Long-term loans and borrowings	20	-	389,799
Deferred tax liabilities		17,520	25,567
Deferred income		<u>9,430</u>	<u>8,543</u>
Non-current liabilities		<u>26,950</u>	<u>423,909</u>
Short-term loans and borrowings	20	620,372	224,315
Trade and other payables	21	23,335	18,163
Advances from customers		<u>24,969</u>	<u>53,974</u>
Current liabilities		<u>668,676</u>	<u>296,452</u>
Total liabilities		<u>695,626</u>	<u>720,361</u>
Total equity and liabilities		<u>1,458,421</u>	<u>1,511,961</u>

The condensed consolidated interim financial statements were approved by the Board of Directors on 24 August 2016.

The notes on pages 7 to 28 form an integral part of the condensed consolidated interim financial statements.

AFI DEVELOPMENT PLC
CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

For the period from 1 January 2016 to 30 June 2016

	Note	1/1/16- 30/6/16 US\$ '000	1/1/15- 30/6/15 US\$ '000
Cash flows from operating activities			
Loss for the period		(53,292)	(33,206)
<i>Adjustments for:</i>			
Depreciation	13	370	493
Net finance costs	9	(16,424)	16,761
Share option expense		530	1,275
Decrease in fair value of properties	11,12	100,860	42,337
Impairment loss on inventory of real estate		-	662
Share of profit in joint ventures		(2,299)	(1,023)
Profit on disposal of investment property		(1,738)	-
Profit on sale of property, plant and equipment		(25)	-
Tax benefit	10	(2,411)	(942)
		<u>25,571</u>	<u>26,357</u>
Change in trade and other receivables		1,185	(663)
Change in inventories		(24)	234
Change in trading properties and trading properties under construction		25,013	(10,948)
Change in advances and amounts payable to builders of trading properties under construction		4,530	(7,011)
Change in advances from customers		(33,154)	16,342
Change in trade and other payables		566	(5,086)
Change in VAT recoverable		(2,003)	2,625
Change in deferred income		(238)	(1,778)
Cash generated from operating activities		<u>21,446</u>	<u>20,072</u>
Taxes paid		(189)	(459)
Net cash from operating activities		<u>21,257</u>	<u>19,613</u>
Cash flows from investing activities			
Proceeds from sale of other investments		14,464	1,172
Proceeds from disposal of investment property		1,099	-
Proceeds from sale of property, plant and equipment		92	1
Interest received		2,891	1,856
Change in advances and amounts payable to builders		(1,457)	(2,388)
Payments for construction of investment property under development	12	(1,547)	(2,632)
Payments for the acquisition/renovation of investment property	11	(62)	(1,576)
Dividends received from joint ventures		213	3,250
Change in VAT recoverable		(134)	2,828
Acquisition of property, plant and equipment	13	(229)	(20)
Acquisition of other investments		(5,729)	(20,551)
Proceeds from repayments of loans receivable		132	-
Payments for loans receivable		(3)	(106)
Net cash used in investing activities		<u>9,730</u>	<u>(18,166)</u>
Cash flows from financing activities			
Proceeds from loans and borrowings	20	-	10,000
Repayment of loans and borrowings		(11,550)	(23,000)
Interest paid		(22,054)	(23,409)
Net cash used in financing activities		<u>(33,604)</u>	<u>(36,409)</u>
Effect of exchange rate fluctuations		<u>(1,437)</u>	<u>(216)</u>
Net decrease in cash and cash equivalents		<u>(4,054)</u>	<u>(35,178)</u>
Cash and cash equivalents at 1 January		<u>26,545</u>	<u>86,756</u>
Cash and cash equivalents at 30 June	18	<u>22,491</u>	<u>51,578</u>

The notes on pages 7 to 28 form an integral part of the condensed consolidated interim financial statements.

AFI DEVELOPMENT PLC
NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

For the period from 1 January 2016 to 30 June 2016

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% subsidiary of Africa Israel Investments Ltd (“Africa-Israel”), which is listed in the Tel Aviv Stock Exchange (“TASE”). The remaining shareholding of “A” shares is held by a custodian bank in exchange for the GDRs issued and listed in the London Stock Exchange (“LSE”). On 5 July 2010 the Company issued by way of a bonus issue, 523,847,027 “B” shares, which were admitted to a premium listing on the Official List of the UK Listing Authority and to trading on the main market of LSE. On the same date, the ordinary shares of the Company were designated as “A” shares.

These condensed consolidated interim financial statements (“interim financial statements”) as at and for the six months ended 30 June 2016 comprise the Company and its subsidiaries (together referred to as the “Group”) and the Group’s interest in jointly controlled entities.

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

2. BASIS OF ACCOUNTING

i. Going concern basis of accounting

As set out in its results for the year ended 31 December 2015, the Company has experienced difficult trading conditions driven by macro-economic and geopolitical developments affecting the Russian economy as a whole and a deterioration in demand for real estate assets across the country. Whilst the general economy has shown some signs of stabilisation during the first half of 2016 (with higher oil prices and inflation on a downward trend), the performance of the real estate sector remains weak.

Against this backdrop, AFI Development reported net losses during the year ended 31 December 2015 of US\$467 million, which predominately related to a decrease in the value of the Group’s property assets by approximately US\$0.5 billion to US\$1.4 billion. Cash and cash equivalents and marketable securities also declined by US\$50.8 million during 2015 to US\$42.5 million as at 31 December 2015.

For the six-month period ended 30 June 2016, the Group has recognised a net loss after tax of US\$53,292 thousand and as at that date, current liabilities exceed current assets by US\$413,250 thousand, as a result of the loans being reclassified from long-term liabilities to current liabilities (described further below). These conditions, along with other matters set forth below, indicate the existence of material uncertainty which may cast significant doubt about the Group’s ability to continue as a going concern.

AFI DEVELOPMENT PLC
NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

For the period from 1 January 2016 to 30 June 2016

2. **BASIS OF ACCOUNTING (continued)**

i. Going concern basis of accounting (continued)

In more detail, as previously announced by the company, on 29 March 2016 an operating subsidiary of the Company, AFI RUS LLC, received a letter from Bank VTB PJSC (“the Bank”). The letter stated that the Bank had reached a conclusion that Bellgate Construction Limited and Krown Investments LLC (the borrowers under the AFIMALL City and the Ozerkovskaya III loan facilities respectively) had experienced, in the opinion of the Bank, material adverse changes in their financial conditions and there had appeared other circumstances that indicate that their obligations under the loan facility agreements could be not met on time. According to the letter, the Bank proposed that the Company “implement steps aimed at removing possible negative consequences of the aforesaid circumstances, no later than 30 calendar days from today”, otherwise the Bank will exercise its right under the loan facility agreements to claim early repayment of the loans. Based on this, the total amount of the outstanding loan of Bellgate Construction Ltd (US\$420 million) was also reclassified to current liabilities, in addition to the Ozerkovskaya III loan which was already reclassified during 2015.

Following the above letter and further to a series of negotiations and discussions between the Company and the Bank, the Group has ended up with two possible alternatives to follow, the “Disposal Transaction” or the “Personal Guarantee” described below.

The Disposal Transaction

The Disposal Transaction announced on 15 July 2016 involves an agreement which would release the AFI Development group from all of its obligations in respect of the loans taken by Krown Investments Limited and Bellgate Constructions Limited, which amount to US\$619.1 thousand as at 14 July 2016, in exchange for the Disposal to VTB Bank PJSC (“VTB”) of the following properties:

- AFIMALL City Shopping Centre, a shopping and entertainment centre in the business district of Moscow;
- Ozerkovskaya III, a completed Class A office complex in Moscow; and
- Aquamarine Hotel, a modern 4-star hotel, located in the Ozerkovskaya complex.

The combined value of the properties of US\$867.4 million is more than the total amount outstanding under the Loans, by US\$248.3 million. The Bank has stated that the above properties are the minimum group of assets that the Bank is willing to accept in consideration for the release and the Board is of the view that the terms of the Disposal are consistent with valuations that could be achieved for the properties in a distressed sale. As AFIMALL City Shopping Centre and Ozerkovskaya III are recorded in the Group’s financial accounts at market value, the Disposal will result in the realisation of a significant loss in the Group’s financial accounts. The Group is estimating that the effect of the Disposal Transaction will be a decrease in its equity in the amount of approximately US\$266 million. Apart from loss on disposal the transaction may attract income tax, VAT, deferred tax liability and translation reserve adjustments.

In this respect the Company issued a class1 circular on the 15 July 2016 and the transaction was approved at the General Meeting held on 1 August 2016.

AFI DEVELOPMENT PLC
NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

For the period from 1 January 2016 to 30 June 2016

2. BASIS OF ACCOUNTING (continued)

i. Going concern basis of accounting (continued)

The Personal Guarantee.

In parallel to the Disposal Transaction, as announced on 2 August 2016, the Company has been informed that at a meeting on 1 August 2016 between the Executive Chairman of the Company, Mr Lev Leviev and VTB, Mr Leviev executed a unilateral Guarantee Deed - a personal guarantee and indemnity deed under English law from Mr Leviev to VTB, pursuant to which Mr Leviev has agreed to guarantee the obligations of Krown under the Ozerkovskaya III Loan Facility for a period of 12 months (the "Guarantee Deed").

Following the meeting on 1 August 2016, the Company received a letter from VTB, stating that in view of Mr Leviev having provided the Personal Guarantee, VTB would defer completion of the Disposal Transaction until 30 September 2016. In addition the Group executed addenda to the loan facility agreements and respective security agreements with VTB, according to which the due date for the Principal Payments have been deferred to 30th September 2016 (the "Deferrals") and not to enforce for prior breaches of such facilities (the "Standstill").

Management believes the Personal Guarantee together with the Deferrals and the Standstill are intended to provide the Company with a 10 month period in which to repay in full the Ozerkovskaya III Loan Facility, the outstanding balance of which currently amounts to US\$191.1 million, from the proceeds of the planned disposal of Ozerkovskaya III and potentially other properties of the Company. In the event that the Ozerkovskaya III Loan Facility has not been repaid in full within this 10 month period, the Guarantee would become enforceable. Should VTB enforce the Guarantee, and following payment by Mr Leviev of all amounts outstanding under and the subsequent discharge of the Ozerkovskaya III Loan Facility, a new loan between the Company and Mr Leviev would become effective which would have the same interest rate and maturity as the existing Ozerkovskaya III Loan Facility but would be unsecured (the "New Loan").

As the Guarantee, has not been accepted by VTB, there is no certainty as to whether the Personal Guarantee option as described above will be available to the Company. At the date of this financial statements, the acceptance by VTB is still pending as negotiations between Mr Leviev and VTB are still ongoing.

Both options are described in more detail in the post balance sheet events note 26 and in the regulatory announcements made by the Company, from 29 March 2016 till today.

Management is confident that the rest of the Group's projects will not be affected. Management anticipates that any additional financing budgeted based on its estimated operating cash flows will be secured by new bank facilities and loans, some of which are well into negotiations with other banks. Management expects to continue the construction of projects classified as "Trading properties under construction" as described in Note 15, which are "Odinburg" and "Paveleskaya phase II" and commence the construction of "Pochtovaya".

Management acknowledges that uncertainty remains over the Group's ability to meet its funding requirements and to refinance or repay its bank loan facilities as they fall due. However, as described above, Management considers that the Group has taken and is taking adequate steps to resolve the issue with the VTB loan facilities and secure further financing to continue in operational existence for the foreseeable future.

AFI DEVELOPMENT PLC
NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

For the period from 1 January 2016 to 30 June 2016

2. BASIS OF ACCOUNTING (continued)

i. Going concern basis of accounting (continued)

If for any reason the Group is unable to continue as a going concern, then this could have an impact on the Group's ability to realise assets at their recognised values, in particular investment properties and trading properties and to extinguish liabilities in the normal course of business at the amounts stated in the interim consolidated financial statements.

The cumulative impact of these factors creates uncertainty regarding the Group's ability to execute its business plans in an orderly and/or timely manner and with respect to its ability to pay its liabilities in an orderly and/or timely manner. The interim financial statements have been prepared on a going concern basis, which assumes that the Group will be in a position to continue its operations in the foreseeable future and it is noted that no reclassifications or adjustments were included with reference to the values of the Group's assets and liabilities, which may be required if the Group is not able to continue operating as a "going concern".

In reaching such a conclusion, Management has made several assumptions and judgements as to the outcome of future events. The most material assumptions are:

- a) The Group will successfully resolve the issue with the Bank either through the Disposal Transaction or the Personal Guarantee option which will offer the Company a 10 month period in which to repay in full the Ozerkovskaya III Loan Facility from the proceeds from the planned disposal of Ozerkovskaya III and potentially other properties of the Company.
- b) The Group will be in position to service the AFI Mall loan through its own cash flows.
- c) The Group will be in a position to secure financing, if needed, for its residential properties so as to continue their construction.
- d) The Group will achieve the sales volume and sale prices as projected in its estimated operational cash flows.

ii. Statement of compliance

These interim financial statements have been prepared in accordance with IAS 34 "Interim Financial Reporting" and should be read in conjunction with the Group's last annual consolidated financial statements as at and for the year ended 31 December 2015 ('last annual financial statements'). They do not include all of the information required for a complete set of IFRS financial statements. However, selected explanatory notes are included to explain events and transactions that are significant to an understanding of the changes in the Group's financial position and performance since the last financial statements.

iii. Functional and presentation currency

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

Foreign operations

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

AFI DEVELOPMENT PLC
NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

For the period from 1 January 2016 to 30 June 2016

2. BASIS OF ACCOUNTING (continued)

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

Exchange rate	Russian Roubles for US\$1	% change quarter	% change six months/ year
As of:			
30 June 2016	64.2575	(5.0)	(11.8)
31 March 2016	67.6076	(7.2)	
31 December 2015	72.8827		29.5
30 June 2015	55.5240		(1.3)
Average rate during:			
Six-month period ended 30 June 2016	70.2583		22.4
Three-month period ended 31 March 2016	74.6283		20.0
Six-month period ended 30 June 2015	57.3968		64.1

3. USE OF JUDGEMENTS AND ESTIMATES

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

The significant judgments made by management in applying the Group's accounting policies and the key sources of estimation uncertainty were the same as those that applied to the consolidated financial statements as at and for the year ended 31 December 2015.

a. Measurement of fair values

The Group has an established control framework with respect to the measurement of fair values. This includes a valuation team that has overall responsibility for overseeing all significant fair value measurements, including Level 3 fair values, and reports directly to the 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 these valuations meet the requirements of IFRS, including the level in the fair value hierarchy in which such valuations should be classified.

Significant valuation issues are reported to the Group Audit Committee.

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

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

AFI DEVELOPMENT PLC
NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

For the period from 1 January 2016 to 30 June 2016

3. USE OF JUDGEMENTS AND ESTIMATES (continued)

a. Measurement of fair values (continued)

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

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

4. SIGNIFICANT ACCOUNTING POLICIES

The accounting policies applied in these interim financial statements are the same as those applied in the Group's consolidated financial statements as at and for the year ended 31 December 2015.

New standards, interpretations and amendments adopted by the Group

The accounting policies adopted in the preparation of the interim condensed consolidated financial statements are consistent with those followed in the preparation of the Group's annual consolidated financial statements for the year ended 31 December 2015, except for the adoption of new standards and interpretations effective as of 1 January 2016.

Several new standards and amendments apply for the first time in 2016. However, they do not impact the annual consolidated financial statements of the Group or the interim condensed consolidated financial statements of the Group.

Standards, amendments to standards, and interpretations issued but not yet endorsed by the EU

IFRS 15 – "Revenue from Contracts with Customers". The new standard provides a unified application that regulates the accounting treatment of revenue arising from contracts with customers. This standard supersedes IAS 18 "Revenue" and IAS 11 "Construction Contracts" and the accompanying interpretations thereof. The core principle of the standard is the recognition of revenue from the transfer of goods or services to customers in an amount that represents the economic benefits that the entity expects to receive in return for them. As such, the standard stipulates that the recognition of revenue will occur when the entity transfers the goods and/or services to the customer and the customer obtains control of those goods or services.

The standard is effective for annual periods beginning on or after 1 January 2018, with early adoption permitted under IFRS. However since not endorsed by the EU yet, early adoption is not permitted by the Group.

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For the period from 1 January 2016 to 30 June 2016

5. OPERATING SEGMENTS

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

- Development Projects – 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.
- Hotel Operation: Includes the 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 CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTSFor the period from 1 January 2016 to 30 June 20165. OPERATING SEGMENTS (continued)

Reconciliation of reportable segment profit or loss

	1/1/16- 30/6/16 US\$ '000	1/1/15- 30/6/15 US\$ '000
Total loss before tax for reportable segments	(59,877)	(35,115)
Unallocated amounts:		
Other profit or loss	1,875	(56)
Share of profit of joint ventures, net of tax	2,299	1,023
Loss before tax	<u>(55,703)</u>	<u>(34,148)</u>

6. REVENUE

	For the three months ended		For the six months ended	
	1/4/16- 30/6/16 US\$ '000	1/4/15- 30/6/15 US\$ '000	1/1/16- 30/6/16 US\$ '000	1/1/15- 30/6/15 US\$ '000
Investment property rental income	16,905	22,702	34,567	44,668
Sales of trading properties (note 14)	42,427	595	49,724	595
Hotel operation income	2,944	3,298	5,306	5,736
Construction consulting/management fees	66	35	110	77
	<u>62,342</u>	<u>26,630</u>	<u>89,707</u>	<u>51,076</u>

7. ADMINISTRATIVE EXPENSES

	For the three months ended		For the six months ended	
	1/4/16- 30/6/16 US\$ '000	1/4/15- 30/6/15 US\$ '000	1/1/16- 30/6/16 US\$ '000	1/1/15- 30/6/15 US\$ '000
Consultancy fees	552	182	688	363
Legal fees	190	94	279	258
Auditors' remuneration	81	220	149	286
Valuation expenses	56	32	56	67
Directors' remuneration	352	476	692	728
Depreciation	32	20	62	50
Insurance	67	45	113	97
Provision for Doubtful Debts	(583)	(744)	(583)	(596)
Share option expense	248	618	530	1,275
Donations	341	702	641	1,412
Other administrative expense	411	569	784	988
	<u>1,747</u>	<u>2,214</u>	<u>3,411</u>	<u>4,928</u>

AFI DEVELOPMENT PLC
NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

For the period from 1 January 2016 to 30 June 2016

8. OPERATING EXPENSES

The decrease during the period relates to the continues effort of the Group for a cost saving optimisation program and a reversal of last year's over provision of property tax amounting to US\$1,229 thousand.

9. FINANCE COST AND FINANCE INCOME

	For the three months ended		For the six months ended	
	1/4/16- 30/6/16 US\$ '000	1/4/15- 30/6/15 US\$ '000	1/1/16- 30/6/16 US\$ '000	1/1/15- 30/6/15 US\$ '000
Interest income	502	999	1,246	1,759
Translation reserve reclassified upon disposal of subsidiary	-	-	-	830
Loans write off	-	6	-	79
Net foreign exchange gain	16,287	19,949	36,738	2,922
Net change in fair value of financial assets	-	233	-	895
Finance income	<u>16,789</u>	<u>21,187</u>	<u>37,984</u>	<u>6,485</u>
Interest expense on loans and borrowings	(10,862)	(11,999)	(21,324)	(23,246)
Net change in fair value of financial assets	(122)	-	(236)	-
Other finance costs	(93)	(102)	(186)	(186)
Finance costs	<u>(11,077)</u>	<u>(12,101)</u>	<u>(21,746)</u>	<u>(23,432)</u>
Net finance income/(costs)	<u>5,712</u>	<u>9,086</u>	<u>16,238</u>	<u>(16,947)</u>

10. TAX BENEFIT

	For the three months ended		For the six months ended	
	1/4/16- 30/6/16 US\$ '000	1/4/15- 30/6/15 US\$ '000	1/1/16- 30/6/16 US\$ '000	1/1/15- 30/6/15 US\$ '000
Current tax expense				
Current year	<u>71</u>	<u>155</u>	<u>128</u>	<u>356</u>
Deferred tax expense/(benefit)				
Origination and reversal of temporary differences	<u>351</u>	<u>(1,047)</u>	<u>(2,539)</u>	<u>(1,298)</u>
Total income tax expense/(benefit)	<u>422</u>	<u>(892)</u>	<u>(2,411)</u>	<u>(942)</u>

AFI DEVELOPMENT PLC
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For the period from 1 January 2016 to 30 June 2016

11. INVESTMENT PROPERTY

Reconciliation of carrying amount

	30/6/16 US\$ '000	31/12/15 US\$ '000
Balance 1 January	933,700	1,375,416
Renovations/additional cost	62	2,013
Disposals	(500)	-
Fair value adjustment	(78,633)	(332,361)
Effect of movement in foreign exchange rates	49,771	(111,368)
Balance 30 June / 31 December	<u>904,400</u>	<u>933,700</u>

The increase due to the effect of the foreign exchange rates is a result of the strengthening of the Rouble compared to the US Dollar by 11.8%, during the first half of 2016.

The investment property was revalued by independent appraisers on 30 June 2016 with an overall decrease in the carrying amount of the properties of US\$78,633 thousand. The fair value adjustment is mainly a result of the effect of the Russian economic conditions on the real estate market and partly relates to the Rouble strengthening offsetting the increase thereof.

12. INVESTMENT PROPERTY UNDER DEVELOPMENT

	30/6/16 US\$ '000	31/12/15 US\$ '000
Balance 1 January	238,925	431,474
Construction costs	1,547	10,906
Transfer to trading properties under construction (note 15)	-	(69,300)
Fair value adjustment	(22,227)	(102,003)
Effect of movements in foreign exchange rates	13,620	(32,152)
Balance 30 June / 31 December	<u>231,865</u>	<u>238,925</u>

The increase due to the effect of the foreign exchange rates is a result of the strengthening of the Rouble compared to the US Dollar by 11.8%, during the first half of 2016. The investment property under development was revalued by independent appraisers on 30 June 2016 showing an overall decrease in the carrying amount of US\$22,227 thousand. The fair value adjustment is mainly a result of the effect of the Russian economic conditions on the real estate market and partly relates to the Rouble strengthening offsetting the increase thereof.

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For the period from 1 January 2016 to 30 June 2016

13. PROPERTY, PLANT AND EQUIPMENT

	30/6/16 US\$ '000	31/12/15 US\$ '000
Balance 1 January	26,280	35,101
Additions	229	56
Transfer from trading properties (note 14)	-	212
Depreciation for the period / year	(370)	(963)
Disposals	(67)	(1)
Effect of movements in foreign exchange rates	<u>3,643</u>	<u>(8,125)</u>
Balance 30 June / 31 December	<u>29,715</u>	<u>26,280</u>

14. TRADING PROPERTIES

	30/6/16 US\$ '000	31/12/15 US\$ '000
Balance 1 January	2,062	2,979
Transfer from trading properties under construction (note 15)	56,233	-
Transfer to property, plant and equipment (note 13)	-	(212)
Disposals	(45,792)	(609)
Effect of movements in exchange rates	<u>(3,594)</u>	<u>(96)</u>
Balance 30 June / 31 December	<u>8,909</u>	<u>2,062</u>

Trading properties comprise of unsold apartments and parking places.

The transfer from trading properties under construction represents the completion of the construction of a number of flats of "Odinburg" project. During the period the sale of 682 flats, 2 offices and 38 parking places were recognised, upon transferring of the rights to the buyers according to the signed acts of acceptance, in the income statement.

15. TRADING PROPERTIES UNDER CONSTRUCTION

	30/6/16 US\$ '000	31/12/15 US\$ '000
Balance 1 January	204,392	133,036
Transfer to trading properties (note 14)	(56,233)	-
Transfer from investment property under development (note 12)	-	69,300
Construction costs	20,281	33,670
Impairment loss	-	(13,400)
Effect of movements in exchange rates	<u>13,271</u>	<u>(18,214)</u>
Balance 30 June / 31 December	<u>181,711</u>	<u>204,392</u>

Trading properties under construction comprise "Odinburg" and "Paveletskaya Phase II" projects, which involves primarily the construction of residential properties.

16. OTHER INVESTMENTS

The decrease in other investments is due to sale of bonds for US\$8.9 million during the period.

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17. TRADE AND OTHER RECEIVABLES

	30/6/16 US\$ '000	31/12/15 US\$ '000
Advances to builders	20,972	18,383
Amounts receivable from related parties (note 25)	339	337
Trade receivables, net	2,523	3,381
Other receivables	2,862	3,037
VAT recoverable	3,336	858
Tax receivables	<u>3,025</u>	<u>3,021</u>
	<u>33,057</u>	<u>29,017</u>

Trade receivables net

Trade receivables are presented net of an accumulated provision for doubtful debts of US\$10,686 thousand (31/12/2015: US\$11,402 thousand).

18. CASH AND CASH EQUIVALENTS

	30/6/16 US\$ '000	31/12/15 US\$ '000
Cash and cash equivalents consist of:		
Cash at banks	22,274	26,374
Cash in hand	<u>217</u>	<u>171</u>
	<u>22,491</u>	<u>26,545</u>

19. SHARE CAPITAL AND RESERVES

	30/6/16 US\$ '000	31/12/15 US\$ '000
1. Share capital		
Authorised 2,000,000,000 shares of US\$0.001 each	<u>2,000</u>	<u>2,000</u>
Issued and fully paid		
523,847,027 A shares of US\$0.001 each	524	524
523,847,027 B shares of US\$0.001 each	<u>524</u>	<u>524</u>
	<u>1,048</u>	<u>1,048</u>

2. Employee Share option plan

There were no changes as to the employee share option plan during the six-month period ended 30 June 2016.

3. 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.

4. Retained earnings

Retained earnings are available for distribution at each reporting date. No dividends were proposed, declared or paid during the six-month period ended 30 June 2016.

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For the period from 1 January 2016 to 30 June 2016

20. LOANS AND BORROWINGS

	30/6/16 US\$ '000	31/12/15 US\$ '000
<u>Non-current liabilities</u>		
Secured bank loans	-	<u>389,799</u>
<u>Current liabilities</u>		
Secured bank loans	620,100	224,076
Unsecured loans from other non-related companies	<u>272</u>	<u>239</u>
	<u>620,372</u>	<u>224,315</u>

The following changes to the loans took place during the six-month period ended 30 June 2016:

Based on the events as described in note 2i going concern, the total amount of the outstanding loan of Bellgate Construction Ltd (US\$420 million) was also reclassified to current liabilities, in addition to the Ozerkovskaya III loan which was already reclassified during 2015.

On 1 July 2016 the Company announced on its decision not to make the quarterly principal payments of US\$1.815 million and US\$6.5 million due on 30th June 2016, ("the Principal Payments") under the loan facilities provided to each of Krown Investments LLC ("Krown") and Bellgate Constructions Limited ("Bellgate") (together "the Loan Facilities"). The decision followed the respective application made by the Company to VTB Bank PJSC ("VTB") against the background of negotiations between the Company Chairman, Mr Leviev, and VTB on the Personal Guarantee (note 26).

On 27 July 2016 Krown, Bellgate, AFI Development and Semprex LLC executed addenda to the loan facility agreements and respective security agreements with VTB, according to which the due date for the Principal Payments have been deferred to 30th September 2016.

For complete description of negotiations with VTB, please, refer to note 26.

21. TRADE AND OTHER PAYABLES

	30/6/16 US\$ '000	31/12/15 US\$ '000
Trade payables	6,055	7,815
Payables to related parties (note 25)	610	657
Amount payable to builders	7,220	3,297
VAT and other taxes payable	6,166	4,613
Other payables	<u>3,284</u>	<u>1,781</u>
	<u>23,335</u>	<u>18,163</u>

Payables to related parties

Include an amount of US\$28 thousand (31/12/15: US\$27 thousand) payable to Danya Cebus Rus LLC, related party of the Group, for contracts signed in relation to the construction of Group's project.

AFI DEVELOPMENT PLC

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For the period from 1 January 2016 to 30 June 2016

22. FINANCIAL INSTRUMENTS

Carrying amounts and fair values

The following table shows the carrying amounts and fair values of financial assets and financial liabilities, including their levels and the fair value hierarchy for financial instruments measured at fair value. It does not include fair value information for financial assets and financial liabilities not measured at fair value if the carrying amount is a reasonable approximation of fair value.

	Carrying amount						Fair value			
	Non-current assets			Current assets						
	Loans Receivable	Trade and other receivables	investments, including derivatives	Cash and cash equivalents	Loans receivable	Total	Level 1	Level 2	Level 3	Total
	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000
30 June 2016										
Financial assets measured at fair value										
Investment in listed debt securities	-	-	7,024	-	-	7,024	7,024	-	-	7,024
Financial assets not measured at fair value										
Loans receivable	15,498	-	-	-	25	15,523	-	-	-	-
Trade and other receivables	-	5,724	-	-	-	5,724	-	-	-	-
Cash and cash equivalents	-	-	-	22,491	-	22,491	-	-	-	-
	15,498	5,724	7,024	22,491	25	50,762				
31 December 2015										
Financial assets measured at fair value										
Investment in listed debt securities	-	-	15,901	-	-	15,901	15,901	-	-	15,901
Financial assets not measured at fair value										
Loans receivable	14,316	-	-	-	101	14,417	-	-	-	-
Trade and other receivables	-	6,755	-	-	-	6,755	-	-	-	-
Cash and cash equivalents	-	-	-	26,545	-	26,545	-	-	-	-
	14,316	6,755	15,901	26,545	101	63,618				

AFI DEVELOPMENT PLC

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For the period from 1 January 2016 to 30 June 2016

22. FINANCIAL INSTRUMENTS (continued)**Carrying amounts and fair values (continued)**

	Carrying amount				Fair value			
	Non-current liabilities		Current liabilities					
	Interest bearing loans and borrowings	Trade and other payables	Interest bearing loans and borrowings	Total	Level 1	Level 2	Level 3	Total
30 June 2016	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000
Financial liabilities not measured at fair value								
Interest bearing loans and borrowings	-	-	(620,372)	(620,372)				(620,372)
Trade and other payables	-	(17,169)	-	(17,169)				
	-	(17,169)	(620,372)	(637,541)				
31 December 2015								
Financial liabilities not measured at fair value								
Interest bearing loans and borrowings	(389,799)	-	(224,315)	(614,114)				(583,635)
Trade and other payables	-	(13,550)	-	(13,550)				
	(389,799)	(13,550)	(224,315)	(627,664)				

AFI DEVELOPMENT PLC

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTSFor the period from 1 January 2016 to 30 June 201623. CONTINGENCIES

There weren't any contingent liabilities as at 30 June 2016.

24. FINANCIAL RISK MANAGEMENT

The Group's financial risk management objectives and policies are consistent with that disclosed in the consolidated financial statements as at and for the year ended 31 December 2015.

Russian business and economic environment

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

Russian economy continues to show signs of edging out of recession as contraction eases. Despite GDP tightening by 1.2% year on year in Q1, consumption was more positive than expected while investment declined sharply.

The extension of EU sanctions against Russia, the renewed tensions over Crimea and the decline in oil prices will continue to influence the economy's recovery pace. A GDP decline of 1% is expected for 2016 with a recovery of 1.5% for 2017. Inflation has shown a falling trend as the CBR paused its easing cycle giving scope to a path of interest rate cuts. By year end the policy rate is expected to go down to 9.5% further stimulating the recovery in business activity.

Lower oil prices affected fiscal performance which was worse than anticipated during the first half of the year with a deficit of 4.3% of GDP.

Investments into real estate assets amounted to rub 25 bn which was 50% lower than in Q2 2015 driven to a large extent by a stronger rouble. The currency appreciation lead to a review of the agreed value as the investor capital is initially in foreign currency. This decline did not affect first half of 2016 volume, which was twice higher than in the first half of 2015 and amounted to USD 2,3 bn.

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

25. RELATED PARTIES

	30/6/16	31/12/15
(i) Outstanding balances with related parties	US\$ '000	US\$ '000
<u>Assets</u>		
Amounts receivable from joint ventures	11	10
Amounts receivable from ultimate holding company	203	203
Amounts receivable from other related companies	125	124
Long term loans receivable from joint ventures	15,458	14,246
Short term loan receivable from joint venture	<u>-</u>	<u>98</u>

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For the period from 1 January 2016 to 30 June 2016

25. RELATED PARTIES (continued)

	30/6/16 US\$ '000	31/12/15 US\$ '000
(ii) Outstanding balances with related parties (continued)		
Liabilities		
Amounts payable to joint ventures	13	6
Amounts payable to ultimate holding company	449	492
Amounts payable to other related companies	148	159
Deferred income from related company	<u>141</u>	<u>125</u>
(iii) Transactions with the key management personnel	1/1/16- 30/6/16 US\$ '000	1/1/15- 30/6/15 US\$ '000
Key management personnel compensation		
Short-term employee benefits	1,335	1,532
Share option scheme expense	<u>530</u>	<u>1,275</u>
<p>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.</p>		
(iv) Other related party transactions	1/1/16- 30/6/16 US\$ '000	1/1/15- 30/6/15 US\$ '000
Revenue		
Related companies – rental income	293	458
Joint venture – consulting services	83	77
Joint venture – interest income	<u>645</u>	<u>725</u>
Expenses		
Ultimate holding company – administrative expenses	117	172
Joint venture – operating expenses	<u>26</u>	<u>31</u>
(v) Other related party transactions	1/1/16- 30/6/16 US\$ '000	1/1/15- 30/6/15 US\$ '000
Construction services capitalised or recognised in advances to builders		
Related company – construction services	=	<u>935</u>

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26. SUBSEQUENT EVENTS

There were no events that took place after 30 June 2016 and up to the date of approval of these interim financial statements apart from the following:

The Disposal Transaction

On 1 August the general meeting of the Company has approved the entering by the Company into a Disposal Transaction, which would release the AFI Development group from all of its obligations in respect of the loans taken by Krown Investments Limited and Bellgate Constructions Limited in exchange for the Disposal to VTB Bank PJSC (“VTB”) of the following Properties:

- AFIMALL City Shopping Centre, a shopping and entertainment centre in the business district of Moscow;
- Ozerkovskaya III, a completed Class A office complex in Moscow; and
- Aquamarine Hotel, a modern 4-star hotel, located in the Ozerkovskaya complex.

Details of the Disposal Transaction and the background to it are contained in the 15 July 2016 announcement and in the shareholder circular published on the same date. These can be found on the Company’s website (<http://www.afi-development.com>).

As announced on 2 August 2016, the Company has been informed that at a meeting on 1 August 2016 between the Executive Chairman of the Company, Mr Lev Leviev and VTB, Mr Leviev executed a unilateral Guarantee Deed - a personal guarantee and indemnity deed under English law from Mr Leviev to VTB, pursuant to which Mr Leviev has agreed to guarantee the obligations of Krown under the Ozerkovskaya III Loan Facility for a period of 12 months (the “Guarantee Deed”).

Following the meeting on 1 August 2016, the Company received a letter from VTB, stating that in view of Mr Leviev having provided the Personal Guarantee (as defined below), VTB would defer completion of the Disposal Transaction until 30 September 2016.

Personal Guarantee

As announced on 15 July 2016, Mr Leviev and VTB continue to negotiate the terms of a personal guarantee that may be provided by Mr Leviev to VTB in respect of the Group’s obligations under the Ozerkovskaya III Loan Facility (the “Personal Guarantee”) as an alternative to the Disposal Transaction. If these discussions result in the Personal Guarantee and related documentation being agreed prior to completion of the Disposal Transaction then, subject to obtaining all approvals required (including if necessary any shareholder approvals) in relation to the Personal Guarantee, the Board of the Company may determine not to proceed with the Disposal Transaction.

In connection with, and as a condition to, the entry into of the Personal Guarantee, it is currently anticipated that VTB will agree to defer payment of principal amounts due under each of the Ozerkovskaya III Loan Facility and the AFIMALL City Loan Facility (together the “Loan Facility Agreements”) for a period of 10 months from the date of the Guarantee (the “Deferrals”) and not to enforce for prior breaches of such facilities (the “Standstill”). The Deferrals and the Standstill are intended to provide the Company with a 10 month period in which to repay in full the Ozerkovskaya III Loan Facility, the outstanding balance of which currently amounts to US\$191.1 million, from the proceeds from the planned disposal of Ozerkovskaya III and potentially other properties of the Company. Should the Ozerkovskaya III Loan Facility not be repaid in full within this 10 month period, the Personal Guarantee would become enforceable.

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26. SUBSEQUENT EVENTS (continued)

Personal Guarantee (continued)

Should VTB enforce the Guarantee, and following payment by Mr Leviev of all amounts outstanding under and the subsequent discharge of the Ozerkovskaya III Loan Facility, a new loan between the Company and Mr Leviev would become effective which would have the same interest rate and maturity as the existing Ozerkovskaya III Loan Facility but would be unsecured (the "New Loan").

As the Guarantee, Standstill and Deferrals and the terms of the New Loan are still under negotiation, there is no certainty as to whether they will be agreed, approved (if necessary) or entered into prior to completion of the Disposal and there is no certainty as to what their final terms may be.

The Personal Guarantee is expected to be on similar terms to the existing AFI Development suretyship, which currently secures the Ozerkovskaya III Loan Facility. Under the Personal Guarantee, Mr Leviev proposes to guarantee for a period of 12 months all the obligations of Krown under the Ozerkovskaya III Loan Facility and all the obligations of the Company as a guarantor of Krown's obligations under the Ozerkovskaya III Loan Facility.

The Standstill and Deferrals will be effected as addenda (the "Addenda") to the Ozerkovskaya III Loan Facility and the AFIMALL City Loan Facility, respectively. Pursuant to the Addenda, it is proposed that all quarterly principal amounts payable under the Loan Facility Agreements, including the quarterly payments due on 30 June 2016, will be deferred for a period of 10 months following the date of the Personal Guarantee and will become payable upon the expiry of such 10 month period. In addition, pursuant to the Addendum to the Ozerkovskaya III Loan Facility, VTB proposes not to accelerate the Loan Facility Agreements for a period of 10 months following the date of the Personal Guarantee as a result of VTB's claim that there has been a material adverse change in the financial condition of Krown and/or Bellgate which occurred prior to the date of the Guarantee or as a result of the breaches of the financial covenants in the Ozerkovskaya III Loan Facility.

The Deferrals and the Standstill are intended to provide the Company with a 10 month period in which to repay in full the Ozerkovskaya III Loan Facility, the outstanding balance of which currently amounts to US\$191.1 million, from the proceeds from the planned disposal of Ozerkovskaya III and potentially other properties of the Company. In the event that the Ozerkovskaya III Loan Facility has not been repaid in full within this 10 month period, the Guarantee would become enforceable.

If Mr Leviev ceases to have effective control the Company, his liability under the Guarantee shall be decreased to US\$100,000, and VTB may immediately terminate the Standstill and the Deferrals. In such circumstances, VTB would be able to enforce its security under the Loan Facility Agreements (without any further consent or approvals required from either the Company or its shareholders).

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26. SUBSEQUENT EVENTS (continued)

Personal Guarantee (continued)

It is anticipated that VTB would be provided with the following proposed additional security for the period of 12 months following the date of the Guarantee:

- In respect of the Ozerkovskaya III Loan Facility: (i) a second ranking pledge of the shares in Titon LLC, (which holds the Company's interest in the Kossinskaya project); (ii) a guarantee from Titon LLC and the pledger of the shares in LLC Titon; and (iii) a second ranking mortgage of an office complex and lease rights in relation to the underlying land plot held by Titon LLC.
- In respect of the AFIMALL City Loan Facility: (i) a first ranking pledge of 100% of the shares in Titon LLC; (ii) a guarantee from Titon LLC and the pledger of the shares in Titon LLC; and (iii) a first ranking mortgage of an office complex and lease rights in relation to the underlying land plot held by Titon LLC.

In addition, Krown and Bellgate would undertake, amongst other things, not to distribute dividends without VTB's consent during the 12 month period.

As announced on 2 August 2016, the Company had been informed that at a meeting on 1 August 2016 between Mr Leviev and VTB, Mr Leviev executed a unilateral Guarantee Deed - a personal guarantee and indemnity deed under English law from Mr Leviev to VTB, pursuant to which Mr Leviev has agreed to guarantee the obligations of Krown under the Ozerkovskaya III Loan Facility for a period of 12 months (the "Guarantee Deed").

The Guarantee Deed, when accepted by VTB, is expected to lead to the conclusion of the Personal Guarantee as defined above. At the date of this announcement, the negotiations between Mr Leviev and VTB are still ongoing.

Deferral of Q2 2016 principal payments

On 1 July 2016 the Company announced on its decision not to make the quarterly principal payments of US\$1.815 million and US\$6.5 million due on 30th June 2016, ("the Principal Payments") under the loan facilities provided to each of Krown Investments LLC ("Krown") and Bellgate Constructions Limited ("Bellgate") (together "the Loan Facilities"). The decision followed the respective application made by the Company to VTB Bank PJSC ("VTB") against the background of negotiations between the Company Chairman, Mr Leviev, and VTB on the Personal Guarantee.

On 27 July 2016 Krown, Bellgate, AFI Development and Semprex LLC executed addenda to the loan facility agreements and respective security agreements with VTB, according to which the due date for the Principal Payments have been deferred to 30th September 2016.

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26. **SUBSEQUENT EVENTS (continued)**

Transaction between Africa Israel Investments Ltd and Mr Leviev

On 19 July 2016 the Company announced that it had received a notice from its controlling shareholder, Africa Israel Investments Ltd ("AI"), that it had agreed the terms of a transaction (the "AI transaction"), according to which Mr Leviev will purchase AI's entire holdings of securities of AFI Development (the "Purchased Securities") and will provide VTB with his personal guarantee, under terms to be agreed with VTB, in a manner that will prevent the Disposal Transaction as defined above. The completion of the AI Transaction requires the approval of the AI Bondholders and is conditioned upon the approval of the Tel Aviv District Court and on receiving a mandatory tender offer exemption from the Cyprus Security and Exchange Commission ("CySEC") under the Cyprus Takeover Code (the "Conditions Precedent"), by no later than August 1, 2016 or any agreed deferred date.

In consideration for the AFID Securities Mr. Leviev will pay AI an amount in cash of NIS 550 million, equivalent to US\$143 million, within 36 days following the fulfilment of the Conditions Precedent.

Mr Leviev will, at completion of the AI Transaction, grant AI a call option to purchase from him, throughout a period of three years, securities of AFI Development constituting up to 10% of AFI Development's issued share capital, at a price reflecting 122% of the price to be paid by Mr Leviev under the Purchase Transaction (the "Purchase Option"). The Purchase Option will be assigned by AI to the Trustees at the closing of the Purchase Transaction who may exercise it within three years from the date of completion of the purchase transaction upon instructions of the AI Bondholders.

According to further announcements by the Company, AI, Mr Leviev entered into a legally binding agreement (subject to the Conditions Precedent) on 25 July 2016. As announced by the Company on 8 August 2016, it had been notified by AI that the Conditions Precedent were fully met on 5 August 2016. As of the date of publication of this announcement, the completion of the AI Transaction has not yet taken place.

Mr Christakis Klerides resignation from the Board

On 13 July 2016, the Company received notice from Mr. Christakis Klerides, the senior independent non-executive director of the Company, of his resignation from the Board, effective from 13 July 2016.