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17 April 2018

AFI DEVELOPMENT PLC
(“AFI DEVELOPMENT” OR “THE COMPANY”)

PRELIMINARY STATEMENT OF RESULTS FOR THE YEAR ENDED 31 DECEMBER 2017

STRONG OPERATIONAL RESULTS SUPPORTED BY IMPROVED COMMERCIAL INCOME AND RESIDENTIAL SALES

AFI Development, a leading real estate company focused on developing property in Russia, has today announced its preliminary audited financial results for the year ended 31 December 2017.

Financial highlights:

- **Revenue** for the year, including proceeds from the sale of trading properties, reached US$179.1 million (30% increase year-on-year):
  - Sales of trading properties (residential real estate) contributed US$61.8 million
  - Rental and hotel operating income increased 40% year-on-year to US$117.0 million
  - AFIMALL City contribution increased to US$81.8 million (2016: US$66.2 million), a 24% increase year-on-year
- **Gross profit** increased by 24% year-on-year to US$61.0 million (2016: US$49.4 million)
- Largely as a result of increased financing costs and a higher income tax, the Company incurred a **net loss** of US$4.7 million in 2017, an improvement on the loss of US$47.9 million recorded in 2016
- **Total gross value of portfolio of properties** was largely unchanged at US$1.42 billion, a slight decrease from the 2016 figure of US$1.44 billion
- **Cash, cash equivalents and marketable securities** as of 31 December 2017 stood at US$106.0 million

Operational highlights

- All four of the Company’s residential projects, Odinburg, AFI Residence Paveletskaya, Bolshaya Pochtovaya and Botanic Garden, are in the active construction and sales stage.
- Construction and pre-sales at projects launched in 2017, **Bolshaya Pochtovaya** and **Botanic Garden**, are progressing to plan. As of 10 April 2018, 48 apartments (26% of Phase I) are pre-sold at Bolshaya Pochtovaya and 78 apartments (10% of Phase I) at Botanic Garden.
- At **Odinburg**, construction of Building 6 (phase II) started in the second quarter, while the construction of Building 3 (phase I) commenced in the third quarter. As of 10 April 2018, the number of signed sale contracts stood at 676 (96% of total) in Building 2, 144 (64% of total) in Building 6 and 134 (14% of total) in Building 3.
- The planned construction and pre-sale of apartments at **AFI Residence Paveletskaya**, proceeded according to schedule with 404 residential unit pre-sale contracts (63% of units under pre-sales) signed as of 10 April 2018.
- **AFIMALL City** continues to record solid NOI growth, reaching US$62.1 million in 2017, up from US$50.1 million in 2016.

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

"We are pleased to report growth in revenue and gross profit for 2017, facilitated by strong residential sales and a somewhat improving macroeconomic environment. The strong performance registered in 2017 by our flagship AFIMALL City project and increasing revenue from the residential sales give us some optimism for 2018. However, we remain cautious on the macroeconomic recovery in Russia and are conservatively optimistic on the Moscow real estate market going forward into 2018."

FY 2017 Results Conference Call

AFI Development will hold a conference call for analysts and investors to discuss its full year 2017 results, following their publication.

The details for the conference call are as follows:

Date:	**Wednesday, 18 April 2018**	
Time:	**15:00 UK (17:00 Moscow)**	
Dial-in Tel:	**International:**	**+44 (0)20 3003 2666**
	UK toll free:	**0808 109 0700**
	US toll-free:	**1 866 966 5335**
	Russia toll-free:	**8 10 8002 4902044**
Password:	**AFI**	

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.

The FY 2017 investor presentation will be published on the Company's website: http://www.afi-development.com/en/investor-relations/reports-presentations at 11.00 UK (13.00 Moscow) on 18 April 2018.

For further information, please contact:

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This announcement contains inside information.

About AFI Development

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

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

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

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

Forward-looking Statements

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

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

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

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

Executive Chairman's Statement

For the Russian economy in general, 2017 was a year of stabilisation as inflation fell to rates not seen in years (2.51%, Rosstat) and oil prices settled at a comfortable level. The Russian Central Bank has been gradually reducing the key lending rate (currently 7.25%), however it remains high relative to inflation. In 2017 the Russian economy returned to growth, though at modest rates (1.33% according to the World Bank).

For AFI Development, the year was marked by launch of construction and sales at two additional residential projects in Moscow, the Botanic Garden and Bolshaya Pochtovaya, bringing the number of actively constructed residential projects to four. The sales of residential and parking units now play a significant role in our revenue generation alongside the revenue accrued from rent and hotel operations.

This past year we made significant progress at our Odinburg development where we delivered Building 2 and began the construction and pre-sale of Building 6 and Building 3. At AFI Residence Paveletskaya we are also preparing to deliver the first apartments to customers in several completed buildings. Meanwhile at the Botanic Garden and Bolshaya Pochtovaya projects, construction and pre-sale remain on schedule.

Revenue for the Company in 2017 grew by 30% year-on-year to US$179.1 million, supported by strong residential sales while gross profit increased by 24% to US$ 61 million.

Our yielding properties performed well throughout 2017, with strong figures from our flagship project, the AFIMALL City, which generated US$ 81.8 million in revenue, up 24% from the prior year. Our hotels also demonstrated good performance, accruing US$ 29.3 million in revenue.

Looking ahead to 2018, we expect further stabilisation in the Russian macroeconomy. As demand for commercial real estate registers a slow improvement, we will continue to adapt our strategy to ensure the sustainable growth of our business in the future.

Valuation

As at 31 December 2017, based on the Jones Lang LaSalle LLC ("JLL") independent appraisers' report and on accounting book value of properties, the value of AFI Development's portfolio of investment properties stood at US$0.82 billion, while the value of the portfolio of investment property under development stood at US$0.16 billion.

Consequently, the total value of the Company's assets, mainly based on independent valuation as of 31 December 2017, was US$1.42 billion, compared to US$1.44 billion as at 31 December 2016.

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

Liquidity

We ended 2017 with approximately US$106.0 million of cash, cash equivalents and marketable securities on our balance sheet and a debt[1] to equity level of 75%. This position reflects the Company's ability to successfully balance liquidity requirements from a number of sources.

Our financing strategy aims to maximise the amount of debt financing for projects under construction, while maintaining healthy loan-to-value levels. After delivery and commissioning, we aim to refinance the properties at more favourable terms, including longer amortisation periods, lower interest rates and higher principal

[1] Debt includes all loans and borrowings. For further details please see note 26 to the Financial Statements.

balloon payments. Property rights and shares of property holding companies are mainly used as collateral for the debt. We strongly prefer, whenever possible, to use non-recourse project level financing.

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

Key developments since financial year end

Following the year-end, the following key events occurred:

- In January 2017, AFI Development Plc announced that it had reached an agreement to restructure its loan agreements with VTB Bank PJSC ("VTB") in relation to the AFIMALL City project and the Ozerkovskaya III project. It has been agreed that the Company subsidiary Bellgate Constructions Limited ("Bellgate", the owner of AFIMALL City) signs a new loan facility agreement ("the New Loan"), which would be used to refinance the existing Bellgate loan from VTB and to repay its loan from AFI Development. Bellgate will receive the New Loan in five tranches, in Euros and in Russian Roubles. The blended interest rate on the New Loan is circa 5.6% (assuming current EUR/RUR exchange rate and current Russian Central Bank key lending rate). The interest and the principal of the New Loan are to be paid quarterly, while the term of the loan is 5 years. After drawdown of all the tranches, Bellgate will have loan obligations in Russian Roubles of a maximum amount of RUR9.6 billion and in Euros in the equivalent of US$360 million. AFI Development used the funds received by Bellgate to repay the remainder of Ozerkovskaya III loan.This was made on 26 January 2018. Taking into account partial repayment of this loan from proceeds received from disposal of two buildings at Ozerkovskaya III in December 2017, the Ozerkovskaya III loan at VTB has now been fully repaid.
- In January 2018 the Company's subsidiary MKPK PJSC (the owner of the AFI Residence Paveletskaya Project) received a loan from VTB Bank PJSC in the amount of RUR711 million to refinance the previously incurred costs for the construction of the project. The loan bears floating interest rate of the Russian Central Bank key lending rate + 1.5%. The principal on the loan is payable monthly, while the interest is payable quarterly. The loan matures in July 2019.

Portfolio Update

AFIMALL City

During 2017 our flagship project, AFIMALL City, demonstrated solid growth in footfall, revenue and NOI.

Average daily footfall in December 2017 was 18% higher than in December 2016, reflecting improved consumer sentiment and the continued development of the Moscow City area (such as improving transportation infrastructure and the opening of new office space).

Revenue grew 24% year-on-year (US$ 81.8 million for 2017) and NOI increased 26% year-on-year (US$62.1 for 2017). Occupancy stood at 89% at the end of 2017

A number of new retailers entered the mall during the past year including: Gulliver and Reima children goods outlets, Otto Berg men's fashion, a large fragrance and beauty shop "Golden Apple" and Tumi travel accessories.

AQUAMARINE III (OZERKOVSKAYA III)

The project saw a significant turnaround in 2017: following a major lease agreement with Deutsche Bank in July, the Company agreed to dispose of buildings 2 and 4 to one of the leading Russian banks for RUR7.89

billion (circa US$135 million) in November 2017. The transaction was successfully completed in February 2018.

The Company currently owns one remaining building in the complex (GBA 18,805 sq.m including underground parking), which is leased to Deutsche Bank, Brown-Forman and other tenants.

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

HOTELS

AFI Development's hospitality portfolio, which consists of one Moscow city-hotel (Aquamarine) and two resorts in the Caucasus mineral waters region (Plaza Spa Kislovodsk and Plaza Spa Zheleznovodsk), performed well in 2017. The Plaza Spa Kislovodsk project has been fully owned by AFI Development since February 2017 following the acquisition of the remaining 50% stake.

ODINBURG

At Odinburg, construction work and marketing continued throughout the year. Building 2 of Phase 1 was delivered in the third quarter of 2017. Construction of Building 6 (phase II) started in the second quarter, while the construction of Building 3 (phase I) – in the third quarter. Currently, the Company actively markets Building 2 (completed apartments), Building 6 and Building 3 (pre-sales). As of 10 April 2018, the number of signed sale contracts amounted to 676 (96% of total) in Building 2, 144 (64% of total) in Building 6 and 134 (14% of total) in Building 3.

AFI RESIDENCE PAVELETSKAYA (PAVELETSKAYA PHASE II)

In December 2015, AFI Development successfully launched the main construction phase of the project. The pre-sale of apartments and "special units"[2] began simultaneously with the onset of construction and the project continues to be marketed as "AFI Residence Paveletskaya".

In 2017, construction work and marketing at AFI Residence Paveletskaya proceeded according to schedule. As of 10 April 2018, 404 residential unit pre-sale contracts (63% of units under pre-sales) were signed.

The Company is preparing to initiate the delivery of apartments to customers in the beginning of Q2 2018.

BOLSHAYA POCHTOVAYA

The main construction phase and pre-sale of apartments was launched in Q1 2017 at Bolshaya Pochtovaya. During 2017, the construction and marketing of the projected progressed according to plan and as of 10 April 2018, 105 apartments (54% of Phase I) had been pre-sold to customers.

[2] At AFI Residence Paveletskaya there are two types of residential units: fully residentially zoned units referred to as "apartments" and commercially zoned units that, according to common market practice in Russia, are sold and referred to as "special units" and can be used for permanent residence.

BOTANIC GARDEN

The main construction phase and pre-sale of apartments at Botanic Garden began in Q1 2017 with the development and marketing of the project progressing as expected. As of 10 April 2018, 142 apartments (18% of Phase I) had been pre-sold to customers.

TVERSKAYA PLAZA II

In Q2 2017, the Company obtained development rights for the project, which has been approved for development by the Moscow constructions authorities as a “recreational centre” with a gross buildable area of 22 thousand sq.m.

Market Overview – General Moscow Real Estate

Macroeconomic Environment

After two years of contraction, the Russian economy exhibited tepid signs of recovery in 2017, with GDP growing by 1.8% (IMF). Reduced financial outflows combined with higher oil prices allowed economic activity to stabilise and a 0.5% rise in real wages alongside falling inflation proved conducive to consumption.

Inflation fell by more than expected in 2017 to 4.2%, while consumer debt grew for the first time in two years in Q4 2017.

Investment volumes expanded by 27% year-on-year to €4.06 billion in 2017, however foreign capital comprised only 14% of total investment for the year and such figures remain considerably below the €10 billion recorded in 2013.

The gradual recovery of the Russian economy is expected to continue in 2018, with GDP growth forecast to reach approximately 1.7% for the year.

(Sources: Russian Federation: In Search of a New Growth Model, February 2018, IMF; Marketbeat - Commercial Real Estate Russia, January 2018, Cushman & Wakefield)

Moscow Office Market

Demand in the Moscow office market continued to improve in 2017 as uptake rose by 21% to 1.28 million sqm. Supply also recorded a notable recovery as the total volume of new office completions grew by 29% year-on-year to 408,000 sqm.

Demand for Class A and B+ office space remained the driving force behind the Moscow office market. The two classes equated to 90% of all deals agreed in 2017 and contributed to a decline in the overall office vacancy rate from 15.5% to 13.8%.

Rents remained relatively stable throughout 2017, with foreign currency denominated leases amounting to only 7% of total leased space. Class A rental rates reached RUB24,000-40,000 per sqm. per year with Class B+ rents at RUB12,000-25,000 per sqm. per year.

(Source: Moscow Office Market, Q4 2017, JLL; Marketbeat - Commercial Real Estate Russia, January 2018, Cushman & Wakefield)

Moscow Retail Market

Despite the completion of three new shopping centres in Moscow this past year, total new retail construction in Moscow more than halved in 2017 year-on-year as developers focused on optimising their existing portfolios.

The vacancy rate in quality Moscow shopping centres reached 9.4% by year-end.

The Russian retail market recorded turnover growth of 1.2% year-on-year in 2017, and the entry of 49 new international brands such as Disney and Under Armour into the Moscow retail market reflects the sustained interest in the sector held by global firms.

(Source: Marketbeat - Commercial Real Estate Russia, January 2018, Cushman & Wakefield)

Moscow Residential Market

By the end of Q4 2017 supply on the 'Old Moscow' residential market stood at 2.84 million sq.m, largely in-line with supply in Q3 2017. The 'New Moscow' residential market however registered a decline in supply of 12.3% in Q4 2017 from the previous quarter as only a single new project entered the market in the period.

The weighted average asking price for newly built business-class properties reached RUR 247,500 per sq.m. (US$4,267) at the end of Q4 2017, a 1.7% increase from the quarter prior.

(Source: Overview of Newly Built Housing in Moscow, December 2017, Miel Real Estate)

Board of Directors

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

Mr. Lev Leviev, Executive Chairman of the Board
Mr. Panayiotis Demetriou, Senior Non-Executive Independent Director
Mr. David Tahan, Non-Executive Independent Director

Lev Leviev
Executive Chairman of the Board

17 April 2018

MANAGEMENT DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Overview

As at 31 December 2017, the Company's portfolio consisted of 7 investment properties, 4 investment properties under development, 4 trading properties under development and 4 hotel projects. The portfolio comprises commercial projects focused on offices, shopping centres, hotels and mixed-use properties, as well as residential projects, in prime locations in Moscow. The total value of the Company's assets, based predominantly on independent valuation as of 31 December 2017, was US$1.4 billion[3]. About 58% of the assets book value is attributed to yielding properties.

Revenues for 2017 increased by 30. % year-on-year to US$179.1 million, mainly as a result of strengthening of the rouble against the US dollar and addition of full revenue from Plaza Spa Kislovodsk operations. The average exchange rate of the Russian rouble to US dollar decreased by 13% during 2017. Mainly due to these two factors, AFI Development recorded a 24% year-on-year decrease in gross profit to US$61,0 million. Cash, cash equivalents and marketable securities increased by 535% to US$106.0 million as at 31 December 2017 as a result of a sale of two buildings at Aquamarine III Business Centre in the amount of circa US$135 million

In 2017, AFI Development incurred a net loss of US$4.7 million, compared to net loss of US$47.9 million in 2016.

Key Factors Affecting our Financial Results

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

Macroeconomic Factors

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

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

	Year ended 31 December 2016, %	Year ended 31 December 2015, %
Real Gross Domestic Product growth	1.8	-0.8
Consumer prices growth (inflation)	4.2	7.2

Source: The International Monetary Fund

The following factors affected our performance in 2017:

- In February 2017 the Company completed the acquisition of 50% stake in the Plaza Spa Kislovodsk project from its partner, increasing its stake in the project to 100%. The transaction involved a payment of US$5.6 million in cash for project companies' shares and repayment of debt in the amount of US$16.9 million. The acquisition was financed by a loan from VTB Bank PJSC.
- At the Odinburg project, Building 2 of Phase 1 was delivered to customers in Q3 2017, which enabled the Company to recognise revenue from sale of trading properties in the amount of US$61.4 million.

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

Key Portfolio Updates

<u>YIELDING ASSETS</u>

AFIMALL City

AFIMALL City is a major retail centre located in the high-rise business district of Moscow, “Moscow-City”. With a total GBA of nearly 275,046 sq.m (including parking), and GLA of nearly 107,000 sq.m, the project has a shopping gallery of nearly 460 shops, an 11-screen movie theatre and a number of additional outstanding leisure facilities. AFIMALL City is one of Europe’s largest and most ambitious retail developments in recent years. The Mall introduces a new standard of quality to the Russian retail sector and offers visitors a combined shopping, dining and entertainment experience unmatched in any other retail development in Moscow.

During 2017 our flagship project, AFIMALL City, demonstrated solid growth in footfall, revenue and NOI.

Average daily footfall in December 2017 was 18% higher than in December 2016, reflecting improving consumer sentiment and the further development of the Moscow City area (such as improving transportation infrastructure and the opening of new office space).

Revenue grew 25% year-on-year (US$ 82.7 million for 2017) and NOI increased 26% year-on-year (US$63.0 for 2017). Occupancy at the end of 2017 stood at 89%.

A number of new retailers entered the mall during the year, including: Gulliver and Reima children goods outlets, Otto Berg men’s fashion, a large fragrance and beauty shop “Golden Apple” and Tumi travel accessories.

According to independent appraisers JLL, the market value of AFIMALL City as of 31 December 2017 was US$696.0 million.

AQUAMARINE III *(*OZERKOVSKAYA III)

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

The project saw a significant turnaround in 2017. Following a major lease agreement with Deutsche Bank in July, Company agreed to dispose of buildings 2 and 4 to one of the leading Russian banks for RUR7.89 billion (circa US$135 million) in November 2017. The transaction was successfully completed in February 2018.

The Company currently owns one remaining building in the complex (GBA 18,805 sq.m including underground parking), which is leased to Deutsche Bank, Brown-Forman and other tenants.

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

According to independent appraisers JLL, the market value of the remaining building of the Complex as of 31 December 2017 was US$63.2 million.

HOTELS

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

AQUAMARINE HOTEL

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

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

Despite a slowdown in international business activity in Moscow and growing competition in the market, the hotel demonstrated strong performance in 2017, with average occupancy of 75%.

The balance sheet value of the project as of 31 December 2017 was US$15.8 million.

PLAZA SPA HOTEL ZHELEZNOVODSK

Plaza Spa Zheleznovodsk is a sanatorium project that was launched in the summer of 2012 and is located in Zheleznovodsk, in the Caucasus mineral waters region. The hotel comprises 134 guest rooms on 11,701 sq.m of gross buildable area. The spa provides diagnostic assessment and treatment of urological diseases.

During 2017 the hotel performed in-line with expectations with occupancy levels reaching an average of 70% for the year. The performance of the hotel was negatively influenced by increasing competition in the sector and weaker domestic demand in comparison to recent years.

The balance sheet value of the project as of 31 December 2017 was US$11.8 million.

PLAZA SPA KISLOVODSK

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

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

In 2017 the hotel performed well, with average annual occupancy at 73% for the year.

Since February 2017, AFI Development has owned 100% of the project, after acquiring a 50% stake from its partner.

The balance sheet value of the Company share in the project as of 31 December 2017 stood at US$44.9 million.

DEVELOPMENT PROJECTS

ODINBURG

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

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

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

Phase I – Construction of a 22-section residential building named Korona (Crown) and of the infrastructure for the kindergartens and schools. This will have a total sellable area of 153,839 sq.m (2,846 apartments);

Phase II – Construction of 8 residential buildings and of infrastructure for the kindergartens, schools and outdoor multi-level parking. This will have a total sellable area of 307,226 sq.m (6,474 apartments). Each phase includes commercial premises on the ground floor that are planned to be sold to end users.

Phase I (“Korona”) construction and supporting infrastructure construction works are already underway. Building 2 of Phase 1 was delivered in the third quarter of 2017. Construction of Building 6 (phase II) started in the second quarter, while the construction of Building 3 (phase I) – in the third quarter. Currently, the Company actively markets Building 2 (completed apartments), Building 6 and Building 3 (pre-sales).

The balance sheet value of the project as of 31 December 2017 amounted to US$108.8 million.

PAVELETSKAYA II (AFI RESIDENCE PAVELETSKAYA)

AFI Residence Paveletskaya is a modern residential complex in proximity to Moscow city centre on Paveletskaya Embankment. The project is located in Danilovsky Subdistrict (the South Administrative district of Moscow), between the Garden ring and the Third Transportation Ring and is easily accessible by private or public transport. The property is currently under construction.

The project consists of three phases:

Phase I – includes several residential buildings with total General Buildable Area (GBA) of 52,928 sq.m and total General Sellable Area (GSA) of 31,306 sq.m. This phase is planned to include 175 apartments, 220 special units and 6,095 sq.m of flexible commercial space.

Phase II – is planned to have GBA of 51,839 sq.m and total GSA of 27,593 sq.m. This phase is planned to include apartments and 1,403 sq.m of flexible commercial space.

Phase III – is planned to have GBA of 30,495 sq.m and total GSA of 20,452 sq.m. This phase is planned to include apartments and 9,842 sq.m of flexible commercial space.

In December 2015, AFI Development successfully launched the main construction phase of the project. The pre-sale of apartments and “special units”[4] began alongside the launch of construction.

During 2017, construction work and the marketing of AFI Residence Paveletskaya progressed as planned. The Company is preparing to start the delivery of apartments to customers in the beginning of Q2 2018.

The balance sheet value of the project as of 31 December 2017 was US$115 million.

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

BOLSHAYA POCHTOVAYA (AFI RESIDENCE POCHTOVAYA)

Bolshaya Pochtovaya is a mixed-use project (predominantly residential) located in an attractive neighbourhood in the central administrative district of Moscow. The area benefits from developed infrastructure including transport, shops and cultural/leisure amenities as well as a nearby river which significantly enhances the views from the project. It boasts a GBA of 136,581 sq.m on a land area of 5.65 hectares. The construction will be realised in four phases:

Phase I – includes several residential buildings with total General Buildable Area (GBA) of 40,788 sq.m and total General Sellable Area (GSA) of 25,969 sq.m. This phase is planned to include apartments, 8,578 sq.m of flexible commercial space and a kindergarten.

Phase II – is planned to have GBA of 37,373 sq.m and total GSA of 21,483 sq.m. This phase is planned to include apartments and 3,382 sq.m of flexible commercial space.

Phase III – is planned to have GBA of 35,629 sq.m and total GSA of 22,719 sq.m. This phase is planned to include apartments and 2,953 sq.m of flexible commercial space.

Phase IV – is planned to have GBA of 22,792 sq.m and total GSA of 14,744 sq.m. This phase is planned to include apartments and 1,002 sq.m of retail space.

The main construction phase and pre-sale of apartments was launched in Q1 2017 at Bolshaya Pochtovaya with the marketing of the project proceeding according to schedule.

The balance sheet value of the project as of 31 December 2017 amounted to US$84.3 million.

BOTANIC GARDEN

Botanic Garden is a residential project, located in the North-Eastern Administrative District of Moscow, approximately 8 km from the Third Transportation Ring, near the major transportation route of the district Prospect Mira, within walking distance of Botanicheskuiy Sad and Sviblovo metro stations. The future residential complex has a land plot of 3.2 Ha and a gross building (GBA) of 206,356 sq.m: 111,105 sq.m of residential area, 8,842 sq.m of commercial premises and 794 underground and above ground parking lots.

The project is being constructed in two phases:

Phase I – includes several residential buildings with total General Buildable Area (GBA) of 138,221 sq.m and total General Sellable Area (GSA) of 73,877 sq.m. This phase is planned to include apartments and 8,402 sq.m of flexible commercial space.

Phase II – is planned to have GBA of 68,135 sq.m and total GSA of 46,070 sq.m. This phase is planned to include apartments and 440 sq.m of flexible commercial space.

The construction and marketing the of Botanic Garden continued to advance in-line with expectations in 2017.

The balance sheet value of the project as of 31 December 2017 was US$ 50.4 million.

TVERSKAYA PLAZA IC

Tverskaya Plaza Ic is a Class A office development complex located in the cultural and business quarter of the Tverskoy sub-district. The complex is located within a 4-minute walk of Belorusskaya metro station, which serves as the main transport hub linking the city centre with one of Moscow's main airports – Sheremetievo International Airport. The project has a GBA of 50,2200 sq.m (including underground parking of approximately 467 parking spaces) and an estimated GLA of 37,035 sq.m

Following the registration of a 10-year land lease agreement, the Company successfully finalised the development concept, received the necessary construction permit and completed all pre-construction works.

Following some improvement in the Moscow office market, and given the excellent location of the project, AFI Development is preparing the project for construction launch and intends to start building in Q3 2018, provided that the required debt financing is secured.

Based on an independent valuation of the Company's portfolio by Jones Lang LaSalle as of 31 December 2017, the fair value of Tverskaya Plaza Ic is US$66.3 million.

In Q2 2017, the Company obtained development rights for the project, which has been approved for development by the Moscow constructions authorities as a "recreational centre" with a gross buildable area of 22 thousand sq.m.

Plaza II is a retail-entertainment project envisaging construction of a 7-storey building with one underground level with a total GBA of 22,000 sq.m, providing 14,000 sq.m of Gross Leasable Area.

Based on an independent valuation of the Company portfolio by Jones Lang LaSalle, as of 31 December 2017, the fair value of the Company share in Plaza IV was US$21.7 million.

TVERSKAYA PLAZA IV

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

In March 2017 the Company acquired the remaining 5% in the project from its partner, consolidating ownership of the project.

Based on an independent valuation of the Company portfolio by Jones Lang LaSalle, as of 31 December 2017, the fair value of the Company share in Plaza IV was US$67 million.

KOSSINSKAYA

Kossinskaya is mixed-use building totalling 108,528 sq.m with nine aboveground floors and a single underground level. The property was constructed in 2005.

Based on an independent valuation of the Company portfolio by JLL as of 31 December 2017, the fair value of Kossinskaya is US$28.7 million.

LAND BANK

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

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

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

Key Events Subsequent to 31 December 2017

Following the year-end the following key events occurred:

- In January 2017, AFI Development Plc announced that it had reached an agreement to restructure its loan agreements with VTB Bank PJSC ("VTB") in relation to the AFIMALL City project and the Ozerkovskaya III project. It has been agreed that the Company subsidiary Bellgate Constructions Limited ("Bellgate", the owner of AFIMALL City) signs a new loan facility agreement ("the New Loan"), which would be used to refinance the existing Bellgate loan from VTB and to repay its loan from AFI Development. Bellgate will receive the New Loan in five tranches, in Euros and in Russian Roubles. The blended interest rate on the New Loan is circa 5.6% (assuming current EUR/RUR exchange rate and current Russian Central Bank key lending rate). The interest and the principal of the New Loan are to be paid quarterly, while the term of the loan is 5 years. After drawdown of all the tranches, Bellgate will have loan obligations in Russian Roubles of a maximum amount of RUR9.6 billion and in Euros in the equivalent of US$360 million. AFI Development used the funds received by Bellgate to repay the remainder of Ozerkovskaya III loan. This was made on 26 January 2018. Taking into account partial repayment of this loan from proceeds received from disposal of two buildings at Ozerkovskaya III in December 2017, the Ozerkovskaya III loan at VTB has now been fully repaid.
- In January 2018 the Company's subsidiary MKPK PJSC (the owner of the AFI Residence Paveletskaya Project) received a loan from VTB Bank PJSC in the amount of RUR711 million to refinance the previously incurred costs for the construction of the project. The loan bears floating interest rate of the Russian Central Bank key lending rate + 1.5%. The principal on the loan is payable monthly, while the interest is payable quarterly. The loan matures in July 2019.

Disposals and Acquisitions

In February 2017 the Company completed the acquisition of 50% stake in the Plaza Spa Kislovodsk project from its partner, increasing its stake in the project to 100%. The transaction involved a payment of US$5.6 million in cash for project companies' shares and repayment of debt in the amount of US$16.9 million. The acquisition was financed by a loan from VTB Bank PJSC.

In March 2017, the Company acquired remaining 5% stake in the Tverskaya Plaza IV project from its partner, for US$1.5 million, increasing its share in the project to 100%.

In May 2017, Company completed a series of transactions to become 100% owner of the Berezhkovskaya project, an operating office complex in Moscow, following an agreement with its partners in the project. According to the transactions, the partner received a title to office premises totalling 3,468.5 sq.m in the project, while Company received the partner's 26% share in the project company, Bizar LLC. The new total area of the premises at the Berezhkovskaya project is 7,910 sq.m.

In November 2017, the Company agreed to dispose of buildings 2 and 4 at the Aquamarine III (Ozerkovskaya III) Business Centre in Moscow to one of the leading Russian banks for RUR7.89 billion (circa US$135 million). The transaction was successfully completed in February 2018.

Presentation of Financial Information

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

Financial policies and practices

Revenue Recognition

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

- ***Rental income*****.** Rental income from investment property is recognised as revenue on a straight-line basis over the term of the lease. Lease incentives granted are recognised as an integral part of the total rental income, over the term of the lease.
- ***Income from hotel operations.*** Income from hotel operations comprises of accommodation, treatments and other services offered at the hotels operated by the Group, as well as sales of food and beverages, and are recognised on acceptance of the service by the client.
- ***Sales of trading properties***. We recognise revenue from the sales of trading properties in our statement of comprehensive income when the risks and rewards of ownership of the property are transferred to the buyer.
- ***Construction Management fee.*** Revenue from construction management is recognised in profit or loss in proportion to the stage of completion of the transaction at the reporting date. The stage of completion is assessed by reference to surveys of work performed.

Operating expenses

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

Administrative expenses

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

Profit on disposal of investment in subsidiaries

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

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

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

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

Gross Profit

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

Revaluation of investment property

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

Operating profit before net finance costs

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

Finance income

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

Finance expenses

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

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

Income tax expense

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

Capitalisation of Costs for Properties under Development

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

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

Exchange Rates

Our consolidated financial statements are presented in US Dollars, which is our functional currency. The functional currency of our Russian subsidiaries and three Cyprus companies is the Russian Rouble. The balance sheets of our Russian subsidiaries are translated into US Dollars in accordance with IAS 21, whereby assets and liabilities are translated into US Dollars at the rate of exchange prevailing at the balance sheet date and income and expense items are translated into US Dollars at the average exchange rate for the period. If the volatility of the exchange rates is high for a given year or period, the Company uses the average rate for shorter periods i.e. quarters or months for income and expense items. All resulting foreign currency exchange rate differences are recognised directly in our shareholders' equity under the line item "translation reserve."

When a foreign operation is disposed of in its entirety or partially such that control or joint control is lost, the cumulative amount in the translation reserve related to that foreign operation is reclassified to profit or loss as part of the gain or loss on disposal. The monetary assets and liabilities of our Russian subsidiaries that are denominated in currencies other than Russian Roubles are initially recorded by our subsidiaries at the exchange rate between the Russian Rouble and such foreign currency prevailing at such date. Such monetary assets and liabilities are then retranslated into Russian Roubles at the exchange rate prevailing at each subsequent balance sheet date. We recognise the resulting exchange rate differences between the dates at which such assets or liabilities were originally recorded and at subsequent balance sheet dates as foreign exchange losses and gains in our statement of comprehensive income. In particular, during the period under review, we have recognised foreign exchange rate gains and losses in connection with US Dollar denominated payables and receivables of our Russian subsidiaries.

Recovery of VAT

We pay VAT to the Russian authorities with respect to construction costs and expenses incurred in connection with our projects, which, according to Russian tax law, can be recovered upon completion of construction. Under Russian VAT legislation, VAT can also be claimed during the period of construction provided that all required documentation is presented to the VAT authorities.

Deferred Taxation

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

Under Russian tax law, capitalisation of certain costs in relation to the design, construction and financing of projects that are capitalised for the purposes of consolidated financial statements under IFRS is not allowed. As a result, our tax bases in the related assets may be lower than our accounting bases for IFRS purposes, which would result in deferred tax liabilities. Deferred tax assets are recognised for unused tax losses, unused tax credits and deductible temporary differences to the extent that it is probable that future taxable profits will be available against which they can be used.

Measurement of fair values

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

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

We have an established control framework with respect to the measurement of fair values. This includes a valuation team that has overall responsibility for overseeing all significant fair value measurements, including Level 3 fair values and reports directly to the CFO. The valuation team regularly reviews significant unobservable inputs and valuation adjustments. If third party information, such as broker quotes or pricing services, is used to measure fair values, then the valuation team assesses the evidence obtained from the third parties to support the conclusion that such valuations meet the requirements of IFRS, including the level in the fair value hierarchy in which such valuations should be classified.

Results of Operations

Description of Statement of comprehensive income Line Items

Summary of statement of comprehensive income for 2017 and 2016

US$ million	For the year ended 31 December 2017	For the year ended 31 December 2016	Change 2017 / 2016	
Revenue				
Construction consulting/management services	0.2	0.2	(0.0)	-22.9%
Rental income	117.0	83.6	33.4	40.0%
Sale of residential	61.8	54.5	7.4	13.5%
	179.1	**138.3**	**40.8**	**29.5%**
Other income	3.8	3.5	0.3	7.7%
Expenses				
Operating expenses	(57.1)	(38.8)	(18.2)	46.9%
Administrative expenses	(6.0)	(6.6)	0.6	-8.9%
(including Bad debt provisions and write-offs)	(0.1)	1.3	(1.5)	-111.3%
Cost of sales of residential	(58.4)	(49.5)	(8.9)	18.0%
Other expenses	(2.4)	(1.3)	(1.1)	79.3%
	(120.0)	**(92.7)**	**(27.3)**	**29.5%**
Share of the after tax (loss)/profit of joint ventures	2.0	3.7	(1.8)	-47.7%
Gross profit	**61.0**	**49.4**	**11.6**	**23.6%**
Profit on disposal of investments in subsidiaries	(3.9)	1.8	(5.7)	-318.4%
Profit on purchase of 50% of JV	7.5	-	7.5	100.0%
Valuation gain/(loss) on properties	2.0	(123.0)	125.1	-101.6%
Impairment loss on inventory of real estate	-	-	-	0.0%
Results from operating activities	**66.6**	**(71.9)**	**138.5**	**-192.6%**
Finance income	0.8	2.1	(1.4)	-65.1%
Finance expense	(50.4)	(44.6)	(5.8)	13.0%
FX Gain/(Loss)	12.4	63.7	(51.3)	-80.6%
Net finance income/(costs)	**(37.3)**	**21.2**	**(58.5)**	**-275.9%**
Profit before income tax	**29.3**	**(50.7)**	**80.0**	**-157.8%**
Income tax expense	(34.0)	2.8	(36.7)	**-1333.8%**
Loss from continuing operations	**(4.7)**	**(47.9)**	**43.3**	**1028%**

Revenue – General Overview

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

Rental income

We derive rental income from our investment properties and hotels that we acquired or developed in the past. In 2017 financial year, we have purchased 50% stake in the Plaza Spa Kislovodsk project from its partner, increasing its stake in the project to 100% and therefore started to show revenue and expenses by line. Previously only net effect of financial operation had been shown in one separate line (Share of the after tax profit/ (loss) of Joint Ventures).

US$ million	For the year ended 31 December 2017	For the year ended 31 December 2016	Change 2017/2016	
			US$ million	%
Investment property				
AFIMALL City	81.8	66.2	15.6	23.5%
Premises at Tverskaya Zastava Square	2.0	1.7	0.2	14.6%
Berezhkovskya office building	1.9	1.8	0.1	4.9%
Ozerkovskaya (Aquamarine) III	1.0	0.5	0.5	116.1%
H2O office building	0.9	0.9	0.1	6.1%
Premises at Tverskaya Plaza IV	0.1	0.0	0.0	47.8%
Other land bank assets	0.0	0.1	(0.1)	-54.4%
Premises at Bolshaya Pochtovaya	0.0	1.0	(1.0)	-99.9%
Hotels				
Plaza Spa Hotel (Kislovodsk)	17.1	-	17.1	100.0%
Plaza Spa Hotel (Zheleznovodsk)	6.5	6.3	0.2	3.5%
Aquamarine hotel	5.6	5.0	0.6	13.0%
Total	**117.0**	**83.6**	**34.0**	**40.0%**

Sale of residential

US$ million	For the year ended 31 December 2017	For the year ended 31 December 2016	Change 2017/2016	
			US$ million	%
Revenue				
Odinburg	61.4	54.0	7.4	13.6%
Ozerkovskaya II	0.5	0.5	(0.0)	-1.3%
Total	**61.8**	**54.5**	**7.4**	**13.5%**

Sale of residential. Our income from sale of residential increased by US$7.4 million, from US$54.5 million in 2016 to US$61.8 million in 2017, due to sale of residential units in the Odinburg project.

Operating expenses. Our operating expenses increased by 46.9% year-on-year to US$57.1 million in 2017 (2016: US$38.8 million). Almost half of operating expense' rise is explained by share buyback in the Plaza Spa Kislovodsk project. Other point causing increase in operating costs relates to start of sales for the projects AFI Residence Paveletskaya, Bolshaya Pochtovaya and Botanic Garden. We hired sales managers and expanded our advertising compaing.

Administrative expenses. Our administrative expenses decreased by 8.9 % year-on-year to US$6.0 million in 2017 (2016: US$6.6 million). The decrease is attributable to the fact that in 2016 there was onetime consulting related to discharge of loans issued to the Company by VTB bank, as well as other cost saving initiatives across the Company. Additionally, improved bad debt collection in 2017 led to zero bad debt provision in 2017.

Net valuation gain/ (losses) on properties. Net result of investment property valuation changed from a loss of US$123.0 million in 2016 to a gain of US$2.0 million in 2017. For additional information, please refer to "Portfolio Valuation" section below.

Finance income. Our finance income decreased by 65.1% year-on-year to US$0.8 million in 2017 (2016: US$2.1 million). The decrease was a result of consolidation of 100% stake in the Plaza Spa Kislovodsk project in Q1 2017, following which the interest paid by the Joint Venture of this project became eliminated as inter-company interest.

Finance expense. Our finance expense increased by 13.0% year-on-year to US$50.4 million in 2017 (2016: US$44.6 million), as a result of hedging US$ loans obligation from VTB bank against exchange risk and overall rouble strengthening versus the dollar. Additionally, the finance expenses increased due to new loans taken for the Plaza Spa Kislovodsk and Plaza Spa Zheleznovodsk projects.

FX Gain/ (Loss). We recorded a foreign exchange gain of US$12.4 million in 2017, against a gain of US$63.7 million in 2016. This was a result of Russian Rouble appreciation versus the US Dollar during 2017.

Income tax expense. Our current tax expense increased by US$ 13.4 million to US$ 12.9 million, while deferred tax expense increased by US$ 23.3 million to US$ 21.1 million. This was mainly due changes in the Russian tax law effective 1 January 2017, according to which an entity can set-off the accumulated losses only against 50% of profit (previously against 100%). Additionally, sale of non-residential premises to an end-user at Ozerkovskaya III Business Centre in Q4 2017 incurred a Russian capital gain tax (qualified as corporate profit tax in Russia) in the amount of US$3.8 million (offset by the previously accumulated deferred tax). Moreover, an analysis of tax expenses was performed, part of the past expenses were written-off and as a result, the Group accrued additional deferred tax liabilities.

***Profit/Loss for the year*.** Due to the factors described above, we recorded a US$ 4.7 million net loss for 2017 compared to net loss of US$47.9 million for 2016.

Liquidity and Capital Resources

Cash flows

Summary of cash flows for 2017 and 2016

US$ thousand	For the year ended 31 December 2017	For the year ended 31 December 2016
Net cash from operating activities	**104,735**	**35,185**
Net cash from/(used in) investing activities	**105,864**	**9,126**
Net cash from/(used in) financing activities	**(125,271)**	**(58,035)**
Effect of exchange rate fluctuations	(479)	(2,202.0)
Net increase/(decrease) in cash and cash equivalents	84,849	(15,926)
Cash and cash equivalents at 1 January	10,619	26,545
Cash and cash equivalents at 31 December*	**95,468**	**10,619**

*

Note: the cash and cash equivalents do not include US$10.5 million (2016: US$6.1 million) fair value of marketable securities.

Net cash from operating activities

Net cash from operating activities increased to US$104.7 million in 2017, from US$35.2 million in 2016. The increase is attributable to the sales start of the projects, and we are receiving advances from customers.

Net cash from investing activities

Net cash outflow from investing activities amounted to US$105.9 million as a result of a sale of two buildings at Aquamarine III Business Centre.

Net cash used in financing activities

Net cash used in financing activities increased to a negative US$125.3 million in 2017 from a negative US$58.0 million in 2016 due to Company repayment of part of principal amount and interests during 2017.

Capital Resources

Capital Requirements

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

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

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

AFI Development ended 2017 with of approximately US$106.0 million in cash, cash equivalents and marketable securities on our balance sheet and a debt[5] to equity level of 75%.

[5] Debt includes all loans and borrowings. For further details please see note 26 to the Financial Statements.

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

As of December 31, 2017 our debt portfolio was as follows**:**

Project	Lending bank	Max debt limit	Total balance as of Dec-31, 2017	Available (US$ mn)	Nominal Interest rate	Currency	Maturity
		(US$ mn)	(US$ mn)				(dd.mm.yy)
AFIMALL City / Bellgate Constractions Ltd	VTB Bank JSC	RUR21 billion	167.5	0	9.5%	RUR	27/12/2022
			276.9		3mLibor+5.02%	USD	27/12/2022
Ozerkovskaya III / Crown Investments LLC	VTB Bank JSC	220	83.4	0	3mLibor+7%	USD	26/01/2018
Plaza Spa Hotel (Kislovodsk) / Sanatorium Plaza LLC	VTB Bank JSC	22.5	21.4	0	3mLibor+4.5%	USD	22/02/2022
		11.6	11.5		5.50%	USD	20/09/2022
Plaza Spa Hotel (Zheleznovodsk) / Sanatorium Plaza SPA LLC	VTB Bank JSC	18.4	18.2	0	5.5%	USD	20/09/2022

The total balance of secured debt financing reached US$578.95 million as at 31 of December 2017, including US$578.6 million of Principal Debt and US$0.32 million of accrued interest with average interest rate 6.9% per annum as at 31.12.2017 (7.05% per annum as at 31.12.2016) (*for more details see note 26 to our consolidated financial statements).*

As at 31 December 2017, our loans and borrowings were payable as follows:

US$ thousand	As at 31 December 2017	As at 31 December 2016
Less than one year	86,774	749
Between one and five years	492,484	627,074
Total	**579,258**	**627,822**

Portfolio Valuation

From the current reporting period onwards, Jones Lang LaSalle LLC ("JLL") have been appointed as the Company independent appraisers. As at 31 December 2017, based on the JLL independent appraisers' report, the value of AFI Development's portfolio of investment properties stood at US$818.1 million, while the value of the portfolio of investment property under development stood at US$163.2 million.

Consequently, the total value of the Company's assets, based predominantly on independent valuation as of 31 December 2017, remained unchanged year-on-year at US$1.4 billion.

	Property	Valuation 31/12/2017, US Dollars	Valuation 31/12/2016, US Dollars	Change in valuation, %	Balance sheet value 31/12/2017, US Dollars	Balance sheet value 31/12/2016, US Dollars
Investment property						
1	AFIMALL City	696,000,000	666,500,000	*4%*	696,000,000	666,500,000
2	Ozerkovskaya III	63,200,000	198,500,000	*-68%*	63,200,000	198,500,000
3	Tverskaya Plaza II	21,700,000	9,200,000	*136%*	21,700,000	9,200,000
4	Berezhkovskaya	11,900,000	12,136,000	*-2%*	11,900,000	16,400,000
5	Paveletskaya I	11,712,379	11,900,808	*-2%*	11,810,000	12,000,000
6	H2O	9,808,249	9,223,126	*6%*	9,890,000	9,300,000
7	Tverskaya Plaza Ib	3,560,000	3,450,000	*3%*	3,560,000	3,450,000
	Total	**817,880,628**	**910,909,934**	***-10%***	**818,060,000**	**915,350,000**
Investment property under development						
8	Tverskaya Plaza IV	67,000,000	61,275,000	*9%*	67,000,000	64,500,000
9	Tverskaya Plaza Ic	66,300,000	66,000,000	*0%*	66,300,000	66,000,000
10	Kossinskaya	28,700,000	28,300,000	*1%*	28,700,000	28,300,000
11	Starokaluzhskoye shosse	1,240,000	-	*100%*	1,240,000	-
12	Bolshaya Pochtovaya	-	73,885,110	*-100%*	-	74,100,000
	Total	**163,240,000**	**229,460,110**	***-29%***	**163,240,000**	**232,900,000**
Trading property & Trading property under development						
13	AFI Residence Paveletskaya	n/a	n/a	-	114,983,691	76,666,586
14	Odinburg	n/a	n/a	-	108,815,920	150,181,009
15	Bolshaya Pochtovaya	n/a	n/a	-	84,336,992	-
16	Botanic Garden	n/a	n/a	-	50,364,056	21,542,643
17	Ozerkovskaya II	n/a	n/a	-	2,027,075	1,791,074
	Total	**-**	**-**	**-**	**360,527,734**	**250,181,312**
Hotels						
18	Plaza Spa Hotel Kislovodsk	n/a	n/a	-	44,942,392	13,823,785
19	Aquamarine Hotel	n/a	n/a	-	15,750,733	15,289,552
20	Plaza Spa Hotel Zheleznovodsk	n/a	n/a	-	11,774,505	11,095,402
21	Park Plaza hotel Kislovodsk	n/a	n/a	-	4,240,732	3,947,127
	Total	**-**	**-**	**-**	**76,708,362**	**44,155,866**
	Grand Total	**981,120,628**	**1,140,370,044**	***-14%***	**1,418,536,096**	**1,442,587,178**

Principal Business Risks and Uncertainties Affecting the Company

Risk management framework

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

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

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

Credit risk

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

Trade and other receivables

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

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

Investments

During 2017, the Company limited its exposure to credit risk by investing only in liquid securities and with counterparties that have a high credit rating. Management actively monitors credit ratings and given that the Group has only invested in securities with high credit ratings, management does not expect any existing counterparty to fail to meet its obligations.

In February 2018 the Board of Directors approved a new cash management and investment policy allowing the Company to invest 20% of its available cash into medium and high risk instruments, including externally managed investment products.

Guarantees

The Company's policy is to provide financial guarantees only to wholly-owned subsidiaries in exceptional cases. In negotiations with lending banks, the Company aims to avoid recourse to AFI Development on loans taken by subsidiaries.

As at 31 December 2017, there were three outstanding guarantees: one for the amount of US$1 million in favour of VTB Bank PJSC under a loan facility agreement of Bellgate Construction Limited (AFIMALL City), the second for the amount of US$83.1 million in favour of VTB Bank PJSC, under a loan facility agreement of Krown Investments LLC (Ozerkovskaya III) and the third for the amount of US$ 51.1million also in favour of VTB Bank PJSC, under a loan facility agreements of Sanatorium Plaza LLC and Sanatorium Plaza SPA LLC.

In January 2018, AFI Development provided an additional guarantee in favour of VTB Bank PJSC for the loan amounting to US$12.2 million, taken by its subsidiary OJSC MKPK to refinance the incurred construction costs. In Q1 2018 guarantees of AFI Development under a loan facility agreement of Bellgate Construction Limited (AFIMALL City) and under a loan facility agreement of Krown Investments LLC (Ozerkovskaya III) were terminated due to repayment of debt under loan facility agreements.

Liquidity risk

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

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

Market risk

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

Interest rate risk

We are subject to market risk deriving from changes in interest rates, which may affect the cost of our current floating rate indebtedness and future financing. As of 31 December 2017, 34 % of our financial liabilities were fixed rate. For more detail see note 31 to our consolidated financial statements.

Currency risk

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

Operational risk

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

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

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

Critical Accounting Policies

Critical accounting policies are those policies that require the application of our management's most challenging, subjective or complex judgments, often as a result of the need to make estimates about the effect of matters that are inherently uncertain and may change in subsequent periods. Critical accounting policies involve judgments and uncertainties that are sufficiently sensitive to result in materially different results under different assumptions and conditions. We believe that our most critical accounting policies are those described below.

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

Estimates regarding fair value

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

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

Impairment of financial assets

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

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

Impairment of non-financial assets

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

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

Deferred income taxes

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

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

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

Share-based payment transactions

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

Related Party transactions

There were no related party transactions (as defined in the UK Listing Rules) in the financial year ended 31 December 2017 or in the period since 31 December 2017.

AFI DEVELOPMENT PLC

REPORT AND FINANCIAL STATEMENTS

For the year ended 31 December 2017

AFI DEVELOPMENT PLC

FINANCIAL STATEMENTS

For the year ended 31 December 2017

C O N T E N T S

AFI DEVELOPMENT PLC

BOARD OF DIRECTORS AND PROFESSIONAL ADVISERS

Board of Directors	Lev Leviev - Chairman
	Panayiotis Demetriou
	David Tahan
Secretary	Fuamari Secretarial Limited
Independent Auditors	KPMG Limited
Bankers	Joint Stock Company VTB Bank
	Joint Stock Commercial Savings Bank of the Russian Federation (sberbank)
	Otkritie FC Bank
Registered Office	Spyrou Araouzou 165, Lordos Waterfront Building, 3035 Limassol, Cyprus

MANAGEMENT REPORT

The Board of Directors of AFI Development Plc (the "Company") presents to the members its annual report together with the audited consolidated financial statements of the Company for the year ended 31 December 2017.

PRINCIPAL ACTIVITY AND NATURE OF OPERATIONS OF THE COMPANY

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

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

AFI Development is one of the leading real estate development companies operating in Russia. Established in 2001, AFI Development is a publicly traded subsidiary of Flotonic Limited.

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, quality and customer service.

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

As at 31 December 2017, the Company's portfolio consisted of 7 investment properties, 4 investment properties under development, 4 trading properties under construction, and 4 hotel projects.

FINANCIAL RESULTS

The Group's results are set out in the consolidated income statement on page 13. The profit of the Group for the year before taxation amounted to US$29,327 thousand (2016: loss US$50,697 thousand). The loss after taxation attributable to the Group's owners amounted to US$4,918 thousand (2016: US$47,872 thousand).

DIVIDENDS

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

MAIN RISKS, UNCERTAINTIES AND USE OF FINANCIAL INSTRUMENTS

The Group is exposed to market price risk, interest rate risk, credit risk, liquidity risk. The most significant risks faced by the Group and the steps taken to manage these risks and the Group's financial risk management objectives and policies are described in note 31 of the consolidated financial statements.

FUTURE DEVELOPMENTS

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

GOING CONCERN

As described in note 2i the consolidated financial statements have been prepared on a going concern basis, which assumes that the Group is in a position to generate enough cash to cover its working capital requirements and debt service obligations in order to continue its operations in the foreseeable future.

SHARE CAPITAL

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

- 523,847,027 “A” shares of US$0.001 and,
- 523,847,027 “B” shares of US$0.001

All “A” shares are on deposit with BNY (Nominees) Limited and each “A” share is represented by one GDR listed on the London Stock Exchange (“LSE”). All “B” shares were admitted to a premium listing of the Official list of the UK Listing Authority and to trading on the main market of LSE.

IMPLEMENTATION AND COMPLIANCE TO THE CODE OF CORPORATE GOVERNANCE

Although the Company is incorporated in Cyprus, its shares are not listed on the Cyprus Stock Exchange, and therefore it is not required to comply with the corporate governance regime of Cyprus. Pursuant to the UK Listing Rules however, the Company is required to comply with the UK Corporate Governance Code or to explain its reasons for non-compliance. The Company's policy is to achieve best practice in its standards of business integrity in relation to all activities. This includes a commitment to follow the highest standards of corporate governance throughout the AFI Development group. The UK Corporate Governance Code published in April 2016 (the “Code”) applies to the Company for the financial year 2017 and onwards.

The Directors are pleased to confirm that the Company has complied with the provisions of the Code for the period under review, with the exception that the Executive Chairman of the Board, Mr Leviev, was not independent on appointment (as required by section A.3.1 of the Code) by virtue of the fact that he is an Executive Chairman and is, indirectly, a major shareholder of the Company. Mr Leviev holds a controlling stake in Flotonic Limited, the major shareholder of the Company. The Directors consider Mr Leviev to be a key member of the Company's leadership and are of the opinion that his oversight, management role and business reputation are important to the Company's success. The Directors are therefore of the view that Mr Leviev should continue as Executive Chairman as it would be beneficial for the Company.

MANAGEMENT REPORT

PARTICIPATION OF DIRECTORS IN THE COMPANY'S SHARE CAPITAL

None of the Directors holds shares of the Company directly. Mr Lev Leviev, the president of the Board, holds 64.88% indirectly though Flotonic limited as described in detail in note 32 "Group Composition".

BRANCHES

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

BOARD OF DIRECTORS

The members of the Board of Directors as at 31 December 2017 and at the date of this report are shown on page 1. The Directors' date of appointment or resignation, if applicable, is indicated on page 1. The term of those that have not resigned will expire on the date of the next annual general meeting of the shareholders but all of them are eligible for re-election. There were no significant changes in the assignment of responsibilities and remuneration of the Board of Directors during the current year.

OPERATING ENVIRONMENT OF THE COMPANY

Any significant events that relate to the operating environment of the Company are described in note 31 to the consolidated financial statements.

EVENTS AFTER THE REPORTING PERIOD

Events which took place after the reporting date and which have a bearing on the understanding of the financial statements are described in note 38 of the consolidated financial statements.

RELATED PARTY TRANSACTIONS

Disclosed in note 37 of the consolidated financial statements.

INDEPENDENT AUDITORS

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

By order of the Board

Fuamari Secretarial Limited
Secretary

Nicosia, 16 April 2018

AFI DEVELOPMENT PLC

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

We, the members of the Board of Directors and the Company officials responsible for the drafting of the consolidated financial statements of AFI Development Plc (the 'Company') for the year ended 31 December 2017, the names of which are listed below, confirm that, to the best of our knowledge:

a) The consolidated financial statements:

   (i) have been prepared in accordance with the International Financial Reporting Standards (IFRS) as adopted by the European Union and the requirements of the Cyprus Companies Law,

   (ii) give a true and fair view of the assets, liabilities, financial position and profit or loss of the Company and the undertakings included in the consolidated financial statements taken as a whole,

b) the adoption of a going concern basis for the preparation of the financial statements continues to be appropriate based on the foregoing and having reviewed the forecast financial position of the Group; and

c) the Management Report provides a fair review of the developments and performance of the business and the position of the Company and the undertakings included in the consolidated financial statements taken as a whole, together with a description of the principal risks and uncertainties that they face.

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

The Board of Directors:

Executive directors

Lev Leviev – Chairman ……………………………………………………

Non-executive independent Directors

Panayiotis Demetriou ……………………………………………………

David Tahan ……………………………………………………

Company officers:

Chief executive officer

Mark Groysman ……………………………………………………

Chief financial officer

Natalia Pirogova ……………………………………………………

16 April 2018

Independent Auditors' Report

To the Members of AFI Development Plc

Report on the audit of the consolidated financial statements and the separate financial statements

Opinion

We have audited the accompanying financial statements of AFI Development Plc ("the Company") and its subsidiaries (the "Group"), and the separate financial statements of AFI Development Plc (the "Company"), which are presented on pages 12 to 103 and comprise the consolidated statement of financial position and the statement of financial position of the Company as at 31 December 2017, and the consolidated statements of income statement, comprehensive income, changes in equity and cash flows and the statements of income statement, comprehensive income, changes in equity and cash flows of the Company for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements and the separate financial statements give a true and fair view of the financial position of the Group and the Company as at 31 December 2017, and of their financial performance and their cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union ("IFRS-EU") and the requirements of the Cyprus Companies Law, Cap. 113, as amended from time to time (the "Companies Law, Cap. 113").

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing ("ISAs"). Our responsibilities under those standards are further described in the "Auditors' Responsibilities for the audit of the financial statements" section of our report. We are independent of the Group and Company in accordance with the Code of Ethics for Professional Accountants of the International Ethics Standards Board for Accountants ("IESBA Code"), and the ethical requirements in Cyprus that are relevant to our audit of the consolidated financial statements and the separate financial statements, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements and the separate financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements and the separate financial statements, as a whole, and in forming our opinion thereon and we do not provide a separate opinion on these matters.

Valuation of properties	
See Notes 15 and 16 to the consolidated financial statements	
The key audit matter	How the matter was addressed in our audit
The Group's properties include investment property portfolio of US$818,060 thousand and investment property under development portfolio of US$163,240 thousand together representing 69% of the Group's total assets as at 31 December 2017. The valuation of the Group's properties is inherently subjective due to, among other factors, the individual nature of each property, its location and the expected future rental revenue for that particular property. For developments, factors include projected costs to complete and timing until practical completion. The existence of significant estimation uncertainty, could result in a material misstatement, warrants specific audit focus in this area.	Our audit procedures included evaluating the competence, capability, and objectivity of the Group's external property valuers, while considering fee arrangements between the valuers and other engagements which might exist. We carried out procedures, on a sample basis, to satisfy ourselves of the accuracy of the property information supplied to valuers by management. For properties under development we assessed the consistency of the outstanding construction costs supplied to the valuers to the Group's project budget. We assessed, on a sample basis, using also our own experts the appropriateness of the valuation methodologies and assumptions used based on our experience and knowledge of the market and by comparing them to market data. We held discussions on key findings with the external property valuers and challenged various key inputs such as discount, vacancy and exit capitalisation rates used on a sample of properties within the property portfolio.

Other Information
The Board of Directors is responsible for the other information. The other information comprises the management report, the corporate governance statement included in the management report, the preliminary statement of results, the executive chairman's statement, the management discussion and analysis of financial condition and results of operations (but does not include the consolidated financial statements and our auditor's report thereon), which we obtained prior to the date of this auditor's report and the annual report, which is expected to be made available to us after that date.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon, except as required by the Companies Law, Cap.113.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed on other information that we obtained prior to the date of this auditor's report, we conclude that there is a material misstatement of this other information, we are required to report that fact.

With regards to preliminary statement of results, the executive chairman's statement, the management discussion and analysis of financial condition and results of operations we have nothing to report.

With regards to the management report and the corporate governance statement, our report is presented in the "Report on other legal requirements" section.

When we read the annual report, if we conclude that there is a material misstatement therein, we are required to communicate the matter to those charged with governance.

Responsibilities of the Board of Directors for the consolidated financial statements and the separate financial statements

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

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

The Board of Directors is responsible for overseeing the Group's financial reporting process.

Auditors' Responsibilities for the audit of the consolidated financial statements and the separate financial statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements and the separate financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements and separate financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements and the separate financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's and the Group's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Board of Directors.

- Conclude on the appropriateness of the Board of Director's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's and the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Group and the Company to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves true and fair view.

- Obtain sufficient appropriate evidence regarding the financial information of the entities or the business activities of the within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinion.

We communicate with the Board of Directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the Board of Directors with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the Board of Directors, we determine those matters that were of most significance in the audit of the consolidated financial statements and the separate financial statements of the current period and are therefore the key audit matters.

Report on other regulatory and legal requirements

Other regulatory requirements

Pursuant to the requirements of Article 10(2) of EU Regulation 537/2014 we provide the following information, which is required in addition to the requirements of ISAs.

Date of our appointment and period of engagement

We were first appointed auditors of the Group by the General Meeting of the Company's members on 16 January 2002. Our appointment has been renewed annually by shareholder resolution. Our total uninterrupted period of engagement is 17 years covering the periods ending 31 December 2001 to 31 December 2017.

Consistency of the additional report to the Audit Committee

Our audit opinion is consistent with the additional report presented to the Audit Committee dated 13 April 2018.

Provision of non-audit services ("NAS")

We have not provided any prohibited NAS referred to in Article 5 of EU Regulation 537/2014 as applied by Section 72 of the Auditors Law of 2017, L.53(I)2017, as amended from time to time ("Law L.53(I)/2017").

Pursuant to the London Stock Exchange Listing Rules we are required to review:

- The Directors' statement in relation to going concern and longer-term viability; and
- The part of the Corporate Governance Statement relating to the Company's compliance with the eleven provisions of the 2014 UK Corporate Governance Code specified for our review.

We have nothing to report in respect of the above.

Other legal requirements

Pursuant to the additional requirements of law L.53(I)2017, and based on the work undertaken in the course of our audit, we report the following:

- In our opinion, the consolidated management report, the preparation of which is the responsibility of the Board of Directors, has been prepared in accordance with the requirements of the Companies Law, Cap. 113, and the information given is consistent with the consolidated financial statements.
- In the light of the knowledge and understanding of the business and the Group's environment obtained in the course of the audit, we have not identified material misstatements in the management report.
- In our opinion, the information included in the corporate governance statement in accordance with the requirements of subparagraphs (iv) and (v) of paragraph 2(a) of Article 151 of the Companies Law, Cap. 113 has been prepared in accordance with the requirements of the Companies Law, Cap, 113, and is consistent with the consolidated financial statements.
- In our opinion, the corporate governance statement includes all information referred to in subparagraphs (i), (ii), (iii), (vi) and (vii) of paragraph 2(a) of Article 151 of the Companies Law, Cap. 113.

Other Matter

This report, including the opinion, has been prepared for and only for the Company's members as a body in accordance with Section 69 of Law L.53(I)/2017 and for no other purpose. We do not, in giving this opinion, accept or assume responsibility for any other purpose or to any other person to whose knowledge this report may come to.

The engagement partner on the audit resulting in this independent auditors' report is Maria H. Zavrou.

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

For and on behalf of

KPMG Limited
Certified Public Accountants and Registered Auditors
14 Esperidon Street
1087 Nicosia, Cyprus

16 April 2018

AFI DEVELOPMENT PLC

CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2017

C O N T E N T S

AFI DEVELOPMENT PLC

CONSOLIDATED INCOME STATEMENT

For the year ended 31 December 2017

	Note	2017 US$ '000	2016 US$ '000
Revenue	7	179,051	138,296
Other income	8	3,819	3,545
Operating expenses	9	(57,054)	(38,836)
Carrying value of trading properties sold	20	(58,404)	(49,475)
Administrative expenses	10	(6,005)	(6,589)
Other expenses	11	(2,386)	(1,330)
Total expenses		(123,849)	(96,230)
Share of the after tax profit of joint ventures		1,957	3,742
Gross Profit		60,978	49,353
Gain on 100% acquisition of previously held interest in a joint venture	33	7,532	-
(Loss)/profit on disposal of investment property	15	(3,934)	1,801
Increase/(decrease) in fair value of properties	15,16	11,570	(123,045)
Impairment loss on properties		(9,548)	-
Net valuation gain/(loss) on properties		2,022	(123,045)
Results from operating activities		66,598	(71,891)
Finance income		13,119	65,802
Finance costs		(50,390)	(44,608)
Net finance (costs)/income	12	(37,271)	21,194
Profit/(loss) before tax		29,327	(50,697)
Tax (expense)/benefit	13	(33,991)	2,755
Loss for the year		(4,664)	(47,942)
Loss attributable to:			
Owners of the Company		(4,918)	(47,872)
Non-controlling interests		254	(70)
		(4,664)	(47,942)
Earnings per share			
Basic and diluted earnings per share (cent)	14	(0.47)	(4.57)

The notes on pages 19 to 78 are an integral part of these consolidated financial statements.

AFI DEVELOPMENT PLC

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2017

	2017 US$ '000	2016 US$ '000
Loss for the year	(4,664)	(47,942)
Other comprehensive income/(expense)		
Items that are or may be reclassified subsequently to profit or loss		
Realised translation difference on 100% acquisition of previously held interest in a joint venture transferred to income statement	(4,271)	-
Foreign currency translation differences for foreign operations	14,295	27,782
Other comprehensive income for the year	10,024	27,782
Total comprehensive income/(expense) for the year	5,360	(20,160)
Total comprehensive income/(expense) attributable to:		
Owners of the Company	5,126	(20,252)
Non-controlling interests	234	92
	5,360	(20,160)

The notes on pages 19 to 78 are an integral part of these consolidated financial statements.

AFI DEVELOPMENT PLC

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2017

	Attributable to the owners of the Company						Non-controlling interests	Total equity
	Share capital US$ '000	Share premium US$ '000	Capital reserve US$ '000	Translation reserve US$ '000	Accumula-ted losses US$ '000	Total US$ '000	US$ '000	US$ '000
Balance at 1 January 2016	1,048	1,763,409	(9,201)	(338,951)	(620,786)	795,519	(3,919)	791,600
Total comprehensive income/(expense) for the period								
Loss for the period	-	-	-	-	(47,872)	(47,872)	(70)	(47,942)
Other comprehensive income	-	-	-	27,620	-	27,620	162	27,782
Total comprehensive income/(expense) for the period	-	-	-	27,620	(47,872)	(20,252)	92	(20,160)
Transactions with owners of the Company Contributions and distributions								
Share option expense	-	-	-	-	857	857	-	857
Balance at 31 December 2016	1,048	1,763,409	(9,201)	(311,331)	(667,801)	776,124	(3,827)	772,297
Balance at 1 January 2017	1,048	1,763,409	(9,201)	(311,331)	(667,801)	776,124	(3,827)	772,297
Total comprehensive income for the period								
Loss for the period	-	-	-	-	(4,918)	(4,918)	254	(4,664)
Other comprehensive income	-	-	-	10,044	-	10,044	(20)	10,024
Total comprehensive income for the period	-	-	-	10,044	(4,918)	5,126	234	5,360
Transactions with owners of the Company Changes in ownership interests								
Acquisition of non-controlling interests (note 34)	-	-	(10,132)	-	-	(10,132)	3,422	(6,710)
Balance at 31 December 2017	1,048	1,763,409	(19,333)	(301,287)	(672,719)	771,118	(171)	770,947

The notes on pages 19 to 78 are an integral part of these consolidated financial statements.

AFI DEVELOPMENT PLC

CONSOLIDATED STATEMENT OF FINANCIAL POSITION AS AT 31 DECEMBER 2017

	Note	2017 US$ '000	2016 US$ '000
Assets			
Investment property	15	818,060	915,350
Investment property under development	16	163,240	232,900
Property, plant and equipment	17	77,633	31,215
Long-term loans receivable	18	1,669	15,763
Intangible assets		204	-
VAT recoverable	19	48	9
Non-current assets		1,060,854	1,195,237
Trading properties	20	10,792	6,854
Trading properties under construction	21	349,735	243,327
Other investments	22	10,515	6,088
Inventories		1,318	665
Short-term loans receivable	18	1,090	7
Trade and other receivables	23	70,402	42,427
Current tax assets		4,114	2,542
Cash and cash equivalents	24	95,468	10,619
Current assets		543,434	312,529
Total assets		1,604,288	1,507,766
Equity			
Share capital	25	1,048	1,048
Share premium	25	1,763,409	1,763,409
Translation reserve	25	(301,287)	(311,331)
Capital reserve	25	(19,333)	(9,201)
Accumulated losses		(672,719)	(667,801)
Equity attributable to owners of the Company		771,118	776,124
Non-controlling interests	34	(171)	(3,827)
Total equity		770,947	772,297
Liabilities			
Long-term loans and borrowings	26	492,484	627,074
Deferred tax liabilities	27	42,652	14,934
Deferred income	30	12,641	10,455
Non-current liabilities		547,777	652,463
Short-term loans and borrowings	26	86,775	748
Trade and other payables	28	65,106	30,957
Advances from customers	29	123,766	51,301
Current tax liabilities		9,917	-
Current liabilities		285,564	83,006
Total liabilities		833,341	735,469
Total equity and liabilities		1,604,288	1,507,766

The consolidated financial statements were approved by the Board of Directors on 16 April 2018.

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Lev Leviev — David Tahan

Chairman — Director

The notes on pages 19 to 78 are an integral part of these consolidated financial statements.

AFI DEVELOPMENT PLC

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2017

	Note	2017 US$'000	2016 US$'000
Cash flows from operating activities			
Loss for the year		(4,664)	(47,942)
Adjustments for:			
Depreciation	17	846	696
Net finance costs/(income)	12	36,549	(21,574)
Share option expense		-	857
(Increase)/decrease in fair value of properties	15,16	(11,570)	123,045
Impairment loss on properties	21	9,548	-
Share of profit in joint ventures	33	(1,957)	(3,742)
Gain on 100% acquisition of previously held interest in a joint venture		(7,532)	-
Loss on disposal of investment property		3,934	(1,801)
Profit on sale of property, plant and equipment		-	(17)
Tax expense/(benefit)	13	33,991	(2,755)
		59,145	46,767
Change in trade and other receivables		(2,407)	837
Change in inventories		(217)	(84)
Change in trading properties and trading properties under construction	20,21	(36,734)	(10,546)
Change in advances and amounts payable to builders of trading properties under construction		(1,613)	12,657
Changes in advances from customers		68,843	(12,262)
Change in trade and other payables		23,164	613
Change in VAT recoverable on trading		(3,975)	(2,596)
Change in deferred income		1,610	172
Cash generated from operating activities		107,816	35,558
Taxes paid		(3,081)	(373)
Net cash from operating activities		104,735	35,185
Cash flows from investing activities			
Acquisition of subsidiary net of cash acquired	33	(786)	-
Proceeds from sale of other investments		11,825	22,301
Proceeds from disposal of investment property		114,588	1,099
Proceeds from sale of property, plant and equipment		137	102
Interest received		631	4,625
Change in advances and amounts payable to builders		3,495	(2,080)
Payments for construction of investment property under development	16	(4,865)	(4,554)
Payments for the acquisition/renovation of investment property	15	(998)	(370)
Change in VAT recoverable on construction		(1,565)	(124)
Acquisition of intangible assets		(200)	-
Acquisition of property, plant and equipment	17	(484)	(262)
Dividends received from joint ventures		-	380
Acquisition of other investments		(16,408)	(12,642)
Payments for loan receivable		(3,851)	(508)
Proceeds from repayment of loans receivable		4,345	1,159
Net cash from investing activities		105,864	9,126

The notes on pages 19 to 78 are an integral part of these consolidated financial statements.

AFI DEVELOPMENT PLC

CONSOLIDATED STATEMENT OF CASH FLOWS (CONTINUED)

For the year ended 31 December 2017

	Note	2017 US$'000	2016 US$'000
Cash flows from financing activities			
Acquisition of non-controlling interests		(1,369)	-
Proceeds from loans and borrowings		43,648	-
Repayment of loans and borrowings		(117,442)	(13,090)
Interest paid		(50,108)	(44,945)
Net cash used in financing activities		(125,271)	(58,035)
Effect of exchange rate fluctuations		(479)	(2,202)
Net increase/(decrease) in cash and cash equivalents		84,849	(15,926)
Cash and cash equivalents at 1 January		10,619	26,545
Cash and cash equivalents at 31 December	24	95,468	10,619

The notes on pages 19 to 78 are an integral part of these consolidated financial statements.

1. INCORPORATION AND PRINCIPAL ACTIVITY

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

These consolidated financial statements 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 as presented in note 32 "Group Composition".

2. BASIS OF ACCOUNTING

i. Going concern basis of accounting

The Group had experienced, during the several past years, difficult trading conditions driven by macro-economic and geopolitical developments affecting the Russian economy as a whole and a deterioration in demand for real estate assets across the country. Whilst the general economy has shown some signs of stabilisation during the year 2016 and 2017 with higher oil prices, strengthening of the Rouble and inflation on a downward trend, the performance of the real estate sector remains weak.

The Group has recognised a net loss after tax of US$4.7 million for the twelve month period ended 31 December 2017, however, due to the disposal of two building of Ozerkovskaya III, its cash and cash equivalents and marketable securities improved to US$106.0 million. Its current liabilities decreased to US$86.8 million due to the reclassification of the AFIMALL City loans to non-current liabilities, as it was refinanced and respective agreement was signed in December 2017 and partial repayment of Ozerkovskaya III Loan in December 2017 (note 26).

The management estimates that the Group will continue to generate sufficient operating cash flows from yielding properties such as AFIMall, the hotels and BC Ozerkovskaya III so as to meet loan interest and principal payments of the refinanced loan and new loans. The disposal of two buildings of Ozerkovskaya III generated sale proceeds for partial debt repayment of Ozerkovskaya III Loan and refinancing of the outstanding amount by AFIMALL City loan for a 5-year term (note 26). The management succeeded in reducing debt and refinancing loans at lower interest rates and allowing repayment of the principal and securing further operational existence for the foreseeable future. Based on cash flow projection for a year period the management reached a conclusion that the Group is in a position to secure further financing for its projects under construction by sales proceeds to generate enough cash to cover its working capital requirements in order to continue its operations in the foreseeable future.

2. BASIS OF ACCOUNTING (continued)

i Going concern basis of accounting (continued)

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

ii. Statement of compliance

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

The consolidated financial statements were authorised for issue by the Board of Directors on 16 April 2018.

iii. Functional and presentation currency

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

3. USE OF JUDGEMENTS AND ESTIMATES

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

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

Judgements

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

- Note 35 – lease classification

Assumptions and estimation uncertainties

Information about assumptions and estimation uncertainties that have a significant risk of resulting in a material adjustment in the year ending 31 December 2017 is included in the following notes:

- Note 21 – valuation of trading properties under construction
- Note 13 – provision for tax liabilities
- Note 23 – recoverability of receivables
- Note 27 – utilisation of tax losses

Measurement of fair values

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

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

3. USE OF JUDGEMENTS AND ESTIMATES (continued)

Assumptions and estimation uncertainties (continued)

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

Significant valuation issues are reported to the Group's audit committee.

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

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

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

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

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

- Note 15 – investment property
- Note 16 – investment property under development
- Note 22 – other investments
- Note 31 – financial instruments

4. STANDARDS ISSUED BUT NOT YET EFFECTIVE

As from 1 January 2017, the Group adopted all changes to International Financial Reporting Standards (IFRSs) as adopted by the EU which are relevant to its operations. This adoption did not have a material effect on the parent's separate financial statements except for the adoption of IFRS 15

The following Standards, Amendments to Standards and Interpretations have been issued by International Accounting Standards Board ("IASB") but are not yet effective for annual periods beginning on 1 January 2017. Those which may be relevant to the Group are set out below. The Group does not plan to adopt these Standards early.

Standards and Interpretations adopted by the EU

- IFRS 9 "Financial Instruments" (effective for annual periods beginning on or after 1 January 2018).

  In July 2014, the IAS issued the final version of IFRS 9, which replaces the existing guidance in IAS 39 "Financial Instruments: Recognition and Measurement". IFRS 9 includes revised guidance on the classification and measurement of financial instruments, a new expected credit loss (ECL) model for calculating impairment on financial assets, and new general hedge accounting requirements. IFRS 9 largely retains the existing requirements in IAS 39 for the classification of financial liabilities. It also carries forward the guidance on recognition and derecognition of financial instruments from IAS 39.

  Based on assessments undertaken to date, the adoption of the standard is not expected to have a material impact on the Group's financial statements.

  Classification – Financial assets

  IFRS 9 contains a new classification and measurement approach for financial assets that reflects the business model in which assets are managed and their cash flow characteristics. IFRS 9 contains three principal classification categories for financial assets: measured at amortised cost, FVOCI and FVTPL. The standard eliminates the existing IAS 39 categories of held to maturity, loans and receivables and available for sale. Under IFRS 9, derivatives embedded in contracts where the host is a financial asset in the scope of the standard are never bifurcated. Instead, the hybrid financial instrument as a whole is assessed for classification.

  Based on assessments undertaken to date, the adoption of the standard is not expected to have a material impact on the Group's financial statements.

  Impairment - Financial assets and contract assets
  IFRS 9 replaces the 'incurred loss' model in IAS 39 with a forward-looking ECL model. This will require considerable judgement about how changes in economic factors affect ECLs, which will be determined on a probability-weighted basis. The new impairment model will apply to financial assets measured at amortised cost or FVOCI, except for investments in equity instruments, and to contract assets.
  Under IFRS 9, loss allowances will be measured on either of the following bases:
  – 12-month ECLs: these are ECLs that result from possible default events within the 12 months after the reporting date; and
  – lifetime ECLs: these are ECLs that result from all possible default events over the expected life of a financial instrument.

4. STANDARDS ISSUED BUT NOT YET EFFECTIVE (continued)

Standards and Interpretations adopted by the EU (continued)

- IFRS 9 "Financial Instruments" (effective for annual periods beginning on or after 1 January 2018) continued

  Impairment - Financial assets and contract assets
  Lifetime ECL measurement applies if the credit risk of a financial asset at the reporting date has increased significantly since initial recognition and 12-month ECL measurement applies if it has not. An entity may determine that a financial asset's credit risk has not increased significantly if the asset has low credit risk at the reporting date. However, lifetime ECL measurement always applies for trade receivables and contract assets without a significant financing component; the entity has chosen to apply this policy also for trade receivables and contract assets with a significant financing component. There is a rebuttable presumption that default does not occur later than when a financial asset is 90 days past due unless an entity has reasonable and supportable information to corroborate a more lagging default criterion.
  Based on assessments undertaken to date, the adoption of the standard is not expected to have a material impact on the Group's financial statements.

- IFRS 15 "Revenue from Contracts with Customers" (effective for annual periods beginning on or after 1 January 2018), see below for the impact.

- IFRS 15 (Clarifications) "Revenue from Contracts with Customers" (effective for annual periods beginning on or after 1 January 2018), see below for the impact.

- IFRS 16 "Leases" (effective for annual periods beginning on or after 1 January 2019).
  IFRS 16 replaces existing leases guidance including IAS 17 Leases, IFRIC 4 Determining whether an Arrangement contains a Lease, SIC-15 Operating Leases—Incentives and SIC-27 Evaluating the Substance of Transactions Involving the Legal Form of a Lease. The standard introduces a single, on-balance sheet lease accounting model for lessees. IFRS 16 applies a control model to the identification of leases, distinguishing between leases and service contracts on the basis of whether there is an identified asset controlled by the customer. The previous distinction between operating and finance leases is removed for lessees. Instead, a lessee recognises a right-of-use asset representing its right to use the underlying asset and a lease liability representing its obligation to make lease payments. There are recognition exemptions for short-term leases and leases of low value items. Lessor accounting remains similar to the current standard – i.e. lessors continue to classify leases as finance or operating leases.
  The Group is currently evaluating the expected impact of adopting the standard on its financial statements. As such, the expected impact of the standard is not yet known or reasonably estimable.

- IAS 40 (Amendments) "Transfers of Investment Property" (effective for annual periods beginning on or after 1 January 2018).
  The amendments clarify the requirements on transfers to, or from, investment property. A transfer is made when, and only when, there is an actual change in use i.e. an asset meets or ceases to meet the definition of investment property and there is evidence of the change in use. A change in management intention alone does not support a transfer. In addition, the amendments clarify that the revised examples of evidence of a change in use in the amended version of IAS 40 are not exhaustive.
  Based on assessments undertaken to date, the adoption of the amendments is not expected to have a material impact on the Group's financial statements.

4. STANDARDS ISSUED BUT NOT YET EFFECTIVE (continued)

Standards and Interpretations adopted by the EU (continued)

- IFRS 9 (Amendments) "Prepayment Features with Negative Compensation" (effective for annual periods beginning on or after 1 January 2019)
  In October 2017, the IASB issued "Prepayment Features with Negative Compensation (Amendments to IFRS 9)". The amendments address the issue that under pre-amended IFRS 9, financial assets with such features would probably not meet the SPPI criterion and as such would be measured at fair value through profit or loss. The IASB believes that this would not be appropriate because measuring them at amortised cost provides useful information about the amount, timing and uncertainty of their future cash flows. Financial assets with these prepayment features can therefore be measured at amortised cost or fair value through other comprehensive income provided that they meet the other relevant requirements of IFRS 9. The final amendments also contain a clarification in the accounting for a modification or exchange of a financial liability measured at amortised cost that does not result in the derecognition of the financial liability. Based on the clarification, an entity recognises any adjustment to the amortised cost of the financial liability arising from a modification or exchange in profit or loss at the date of the modification or exchange.
  The Group is currently evaluating the expected impact of adopting the amendments on its financial statements. As such, the expected impact of the amendments is not yet known or reasonably estimable.

- IFRIC 22 "Foreign Currency Transactions and Advance Consideration" (effective for annual periods beginning on or after 1 January 2018).
  The interpretation clarifies that the transaction date, for the purpose of determining the exchange rate, is the date of initial recognition of the prepayment or deferred income arising from the advance consideration. For transactions involving multiple payments or receipts, each payment or receipt gives rise to a separate transaction date.
  Based on assessments undertaken to date, the adoption of the interpretation is not expected to have a material impact on the Group's financial statements.

Standards and Interpretations not adopted by the EU

- IFRIC 23 "Uncertainty over Income Tax Treatments" (effective for annual periods beginning on or after 1 January 2019).
  IFRIC 23 clarifies the accounting for income tax treatments that have yet to be accepted by tax authorities, whilst also aiming to enhance transparency. The key test is whether it is probable that the tax authority will accept the chosen tax treatment, on the assumption that tax authorities will have full knowledge of all relevant information in assessing a proposed tax treatment. The uncertainty is reflected using the measure that provides the better prediction of the resolution of the uncertainty being either the most likely amount or the expected value. The interpretation also requires companies to reassess the judgements and estimates applied if facts and circumstances change. IFRIC 23 does not introduce any new disclosures but reinforces the need to comply with existing disclosure requirements in relation to judgements made, assumptions and estimates used, and the potential impact of uncertainties that are not reflected.
  The Group is currently evaluating the expected impact of adopting the interpretation on its financial statements. As such, the expected impact of the interpretation is not yet known or reasonably estimable.

4. STANDARDS ISSUED BUT NOT YET EFFECTIVE (continued)

Standards and Interpretations adopted by the EU (continued)

- Annual Improvements to IFRSs 2015-2017 Cycle (effective for annual periods beginning on or after 1 January 2019).
  In December 2017, the IASB published Annual Improvements to IFRSs 2015–2017 Cycle, containing the following amendments to IFRSs:
  IFRS 3 "Business Combinations" and IFRS 11 "Joint Arrangements". The amendments to IFRS 3 clarify that when an entity obtains control of a business that is a joint operation, then the transaction is a business combination achieved in stages and the acquiring party remeasures the previously held interest in that business at fair value. The amendments to IFRS 11 clarify that when an entity maintains (or obtains) joint control of a business that is a joint operation, the entity does not remeasure previously held interests in that business.
  IAS 12 "Income Taxes": the amendments clarify that all income tax consequences of dividends (i.e. distribution of profits) are recognised consistently with the transactions that generated the distributable profits – i.e. in profit or loss, OCI or equity.
  IAS 23 "Borrowing Costs": the amendments clarify that if any specific borrowing remains outstanding after the related asset is ready for its intended use or sale, that borrowing becomes part of the funds that an entity borrows generally when calculating the capitalisation rate on general borrowings.

  The Group is currently evaluating the expected impact of adopting the improvements on its financial statements. As such, the expected impact of the improvements is not yet known or reasonably estimable.

- "Amendments to References to the Conceptual Framework in IFRS Standards" (effective for annual periods beginning on or after 1 January 2020)
  In March 2018 the IASB issued a comprehensive set of concepts for financial reporting, the revised "Conceptual Framework for Financial Reporting" (Conceptual Framework), replacing the previous version issued in 2010. The main changes to the framework's principles have implications for how and when assets and liabilities are recognised and derecognized in the financial statements, while some of the concepts in the revised Framework are entirely new (such as the "practical ability" approach to liabilities". To assist companies with the transition, the IASB issued a separate accompanying document "Amendments to References to the Conceptual Framework in IFRS Standards". This document updates some references to previous versions of the Conceptual Framework in IFRS Standards, their accompanying documents and IFRS Practice Statements.

  The Group is currently evaluating the expected impact of adopting the amendments on its financial statements. As such, the expected impact of the amendments is not yet known or reasonably estimable.

4. STANDARDS ISSUED BUT NOT YET EFFECTIVE (continued)

The following standard is expected to have a material impact on the Company's financial statements in the period of initial application.

Estimated impact of the adoption of IFRS 15
The Group is required to adopt IFRS 15 Revenue from Contracts with Customers from 1 January 2018. The Group has assessed the estimated impact that the initial application of IFRS 15 (see below) will have on its consolidated financial statements. The estimated impact of the adoption of this standard on the Group's equity as at 1 January 2018 is based on assessment undertaken to date and is summarised below. The actual impact of adopting the standard at 1 January 2018 may change because:
- the Group has not finalised the testing and assessment of controls over its IT systems; and
- the new accounting policy is subject to change until the Group presents its first financial statements that include the date of initial application.

Estimated impact of adoption of IFRS 15

In thousands of dollars	*As reported at 31 December 2017*	*Estimated adjustments due to adoption of IFRS 15*	*Estimated adjusted opening balance at 1 January 2018*
Reserves	(301,287)	97	(301,190)
Retained earnings	(672,719)	7,405	(665,315)
NCI	(171)	27	(144)

The total estimated adjustment (net of tax) to the opening balance of the Group's equity at 1 January 2018 is US$7,405 thousand. The principal components of estimated adjustment are as follows:
An increase of US$7,405 thousand and US$27 thousand in retained earnings and NCI respectively, due to earlier recognition of revenue and recognition of significant financial component from the contracts for sale of residential properties (DDUs). An increase in reserves of US$97 thousand is due to foreign currency translation effect.

IFRS 15 Revenue from Contracts with Customers
IFRS 15 establishes a comprehensive framework for determining whether, how much and when revenue is recognised. It replaces existing revenue recognition guidance, including IAS 18 Revenue, IAS 11 Construction Contracts and IFRIC 13 Customer Loyalty Programmes. It provides a principles-based approach for revenue recognition, and introduces the concept of recognizing revenue for performance obligations as they are satisfied. The recognition of such revenue is in accordance with five steps to: 1) identifying the contract with the customer; 2) identifying each of the performance obligations included in the contract; 3) determining the transaction price; 4) allocating the transaction price to the performance obligations in the contract; and 5) recognising revenue as each performance obligation is satisfied.

Clarifications to IFRS 15 provide additional application guidance but do not change the underlying principles of the standard. The clarifications relate principally to identifying performance obligations (step 2), accounting for licenses of intellectual property (step 5) and agent vs principal considerations. The clarifications also introduce additional practical expedients on transition in relation to modified and completed contracts.

4. STANDARDS ISSUED BUT NOT YET EFFECTIVE (continued)

Estimated impact of the adoption of IFRS 15 (continued)

IFRS 15 Revenue from Contracts with Customers (continued)

(i) *Sale of trading properties*

For the sales of trading properties revenue is currently recognised when the risks and rewards of ownership are transferred to the customer.

Under IFRS 15, revenue will be recognised when a customer obtains control of the goods. The revenue from the contracts with customers for sale of trading properties (DDUs) will be recognised over period of time as the contraction progresses. The Group's assessment indicates that this will result in revenue and associated costs to fulfil the contracts being recognised over time, i.e. before the ownership of flats is actually transferred to the customer.

(ii) *Other sources of income*

Based on its assessment, the Group does not expect the application of IFRS 15 to have a significant impact on its consolidated financial statements in respect of rental income, hotel income and construction/management fees.

(iii) *Transition*

The Group plans to adopt IFRS 15 using the cumulative method, with the effect of initially applying this standard recognised at the date of initial application (i.e. January 2018). As a result, the Group will not apply the requirements of IFRS 15 to the comparative period presented.

5. SIGNIFICANT ACCOUNTING POLICIES

The Group has consistently applied the following accounting policies to all periods presented in these consolidated financial statements.

Basis of consolidation

Subsidiaries

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

Non-controlling interests (NCI)

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

Loss of control

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

Interests in equity-accounted investees

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

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

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

Transactions eliminated on consolidation

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

Foreign currency

Foreign currency transactions

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

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

5. SIGNIFICANT ACCOUNTING POLICIES (continued)

Foreign currency (continued)

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

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

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

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

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

As of:	Exchange rate Russian Roubles for US$1	% Change
31 December 2017	57.6002	(5.04)
31 December 2016	60.6569	(16.77)
Average rate during:		
Year ended 31 December 2017	58.3529	(12.9)
Year ended 31 December 2016	67.0349	10.0

Financial Instruments

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

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

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

5. SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial Instruments (continued)

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

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

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

Non-derivative financial assets-measurement

Financial assets at fair value through profit or loss

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

Cash and cash equivalents

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

Loans and receivables

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

Non derivative financial liabilities-measurement

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

Share capital

Ordinary shares

Incremental costs directly attributable to the issue of ordinary shares are recognised as a deduction from equity. Income tax relating to transaction costs of an equity transaction is accounted for in accordance with IAS 12.

Investment Property

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

5. SIGNIFICANT ACCOUNTING POLICIES (continued)

Investment Property (continued)

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

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

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

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

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

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

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

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

5. SIGNIFICANT ACCOUNTING POLICIES (continued)

Property, plant and equipment (continued)

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

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

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

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

Subsequent expenditure

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

Depreciation

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

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

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

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

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

Goodwill

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

5. SIGNIFICANT ACCOUNTING POLICIES (continued)

Goodwill (continued)

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

Trading Properties

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

Trading properties under construction

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

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

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

Inventory of real estate

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

Deferred income

Rental deposits received in advance are classified under non-current liabilities as deferred income and comprise of rental income received from tenants at the beginning of the lease contracts as guarantee against future unpaid rent or damages.

5. SIGNIFICANT ACCOUNTING POLICIES (continued)

Impairment

Non-derivative financial assets

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

Objective evidence that financial assets are impaired includes:

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

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

Financial assets measured at amortised cost

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

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

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

Equity-accounted investees

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

5. SIGNIFICANT ACCOUNTING POLICIES (continued)

Impairment (continued)

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

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

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

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

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

Assets held for sale

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

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

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

Employee benefits

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

5. SIGNIFICANT ACCOUNTING POLICIES (continued)

Employee benefits (continued)

Share-based payment transactions

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

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

Provisions

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

Revenue

Sale of trading properties

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

Construction Management fee

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

Investment Property Rental income

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

Hotel operation income

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

Gross Profit

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

5. SIGNIFICANT ACCOUNTING POLICIES (continued)

Finance income and finance costs

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

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

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

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

Income tax

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

Current tax

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

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

Deferred tax

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

5. SIGNIFICANT ACCOUNTING POLICIES (continued)

Income tax (continued)

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

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

Deferred tax is measured at the tax rates that are expected to be applied to temporary differences when they reverse, using tax rates enacted or substantively enacted at the reporting date.
The measurement of deferred tax reflects the tax consequences that would follow from the manner in which the Group expects, at the reporting date, to recover or settle the carrying amount of its assets and liabilities. For this purpose the carrying amount of investment property measured at fair value is presumed to be recovered through sale and the Group has not rebutted this presumption.

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

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

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

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

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

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

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

5. SIGNIFICANT ACCOUNTING POLICIES (continued)

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

6. OPERATING SEGMENTS

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

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

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

6. OPERATING SEGMENTS (continued)

Reportable segments

	Development projects Residential projects		**Asset management**		**Hotel Operation**		**Land bank**		**Other**		**Total**	
	2017 US$'000	2016 US$'000	2017 US$'000	2016 US$'000	2017 US$'000	2016 US$'000	2017 US$'000	2016 US$'000	2017 US$'000	2016 US$'000	2017 US$'000	2016 US$'000
External revenues	61,971	55,622	85,665	69,386	29,298	11,298	2,055	1,774	62	216	179,051	138,296
Inter-segment revenue	24,241	981	5,707	9,414	4	4	26	21	10,195	8,268	40,173	18,688
Segment revenue	86,212	56,602	91,372	78,800	29,302	11,302	2,081	1,795	10,257	8,483	219,224	156,984
Segment (loss) profit before tax	(14,259)	(3,570)	37,454	(10,526)	9,360	3,069	7,643	(25,013)	(9,171)	(8,556)	31,027	(44,596)
Interest income	136	2	93	8	145	1	-	-	-	-	374	11
Interest expense	(188)	-	(47,969)	(44,012)	(1,511)	-	-	-	-	-	(49,668)	(44,012)
Depreciation	(49)	(39)	(53)	(94)	(685)	(497)	(3)	(2)	(56)	(64)	(846)	(696)
Share of profit/(loss) of joint-ventures	-	-	-	-	1957	3,742	-	-	-	-	1,957	3,742
Loss on disposal of properties	-	-	(3,934)	-	-	-	-	-	-	-	(3,934)	-
Other material non-cash items:												
Impairment loss on properties	(9,548)	-	-	-	-	-	-	-	-	-	(9,548)	-
Increase/(decrease) in fair value of properties	(2,163)	(3,970)	7,041	(91,254)	-	-	6,692	(27,821)	-	-	11,570	(123,045)
Segment assets	418,891	356,250	866,433	917,890	81,487	27,452	196,326	177,076	1,270	904	1,564,407	1,479,572
Capital expenditure	97,823	58,117	998	370	-	-	4,278	401	-	417	103,099	59,305
Segment liabilities	145,918	65,462	622,352	668,273	61,360	-	1,646	-	1,409	1,093	832,685	734,828

6. OPERATING SEGMENTS (continued)

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

	2017 US$'000	2016 US$'000
Revenues		
Total revenue for reportable segments	219,224	156,984
Elimination of inter-segment revenue	(40,173)	(18,688)
Consolidated revenue	179,051	138,296
Profit before tax		
Total profit/(loss) before tax for reportable segments	31,027	(44,596)
Unallocated amounts:		
Other profit or loss	(3,657)	(9,843)
Share of the after tax profit of joint ventures	1,957	3,742
Consolidated profit/(loss) before tax	29,327	(50,697)
Assets		
Total assets for reportable segments	1,564,407	1,481,282
Other unallocated amounts	39,881	26,484
Consolidated total assets	1,604,288	1,507,766
Liabilities		
Total liabilities for reportable segments	832,685	735,137
Other unallocated amounts	656	332
Consolidated total liabilities	833,341	735,469

	Reportable segment totals US$'000	**Adjustments** US$'000	**Consolidated totals** US$'000
Other material items 2017			
Interest income	374	324	698
Interest expense	(49,668)	-	(49,668)
Capital expenditure	103,099	-	103,099
Depreciation	(846)	-	(846)
Impairment loss on properties	(9,548)	-	(9,548)
Increase in fair value of properties	11,570	-	11,570

6. OPERATING SEGMENTS (continued)

	Reportable segment totals	**Adjustments**	**Consolidated totals**
	US$'000	US$'000	US$'000
Other material items 2016			
Interest income	11	2,134	2,145
Interest expense	(44,012)	(24)	(44,036)
Capital expenditure	59,305	-	59,305
Depreciation	(696)	-	(696)
Decrease in fair value of properties	(123,045)	-	(123,045)

Geographical segments

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

Major customer

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

7. REVENUE

	2017	2016
	US$ '000	US$ '000
Investment property rental income	87,852	72,299
Sales of trading properties (note 20)	61,844	54,484
Hotel operation income	29,189	11,298
Construction consulting/management fees	166	215
	179,051	138,296

8. OTHER INCOME

Other income consists of:	2017 US$ '000	2016 US$ '000
Penalties charged to tenants	317	147
Reimbursement of depositary fees	-	480
Reimbursement of property tax	1,918	1,770
Profit on sale of property, plant and equipment	-	17
Sundries	1,584	1,131
	3,819	3,545

9. OPERATING EXPENSES

	2017 US$ '000	2016 US$ '000
Maintenance, utility and security expenses	19,475	12,147
Agency and brokerage fees	2,354	623
Advertising expenses	6,843	5,496
Salaries and wages	15,545	10,276
Consultancy fees	651	504
Depreciation	740	578
Insurance	527	635
Rent	1,897	1,429
Property and other taxes	8,908	6,338
Other operating expenses	114	810
	57,054	38,836

The average number of employees employed by the Group during the year 2017 and 2016 were 1,159.

10. ADMINISTRATIVE EXPENSES

	2017 US$ '000	2016 US$ '000
Consultancy fees	444	1,841
Legal fees	1,362	814
Auditors' remuneration	811	519
Valuation expenses	60	94
Directors' remuneration	1,334	1,361
Salaries and wages	52	25
Depreciation	106	118
Insurance	143	208
Provision for Doubtful Debts-(reversal)	147	(1,304)
Share option expense	-	857
Donations	78	674
Other administrative expenses	1,468	1,382
	6,005	6,589

During 2017 the Company's statutory audit firm fees for audit services amounted to US$202 thousand (2016: US$171 thousand), for other assurance services amounted to US$599 thousand (2016: US$339 thousand) and for non-audit services amounted to US$10 thousand (2016: US$9 thousand).

11. OTHER EXPENSES

	2017 US$ '000	2016 US$ '000
Prior years' VAT non recoverable (note 19)	105	121
Sundries	2,281	1,209
	2,386	1,330

12. FINANCE INCOME AND FINANCE COSTS

	2017 US$ '000	2016 US$ '000
Interest income	698	2,145
Net change in fair value of financial assets	50	-
Translation reserve reclassified upon disposal of subsidiaries	-	-
Loans payable written off	-	-
Foreign exchange gain	12,371	63,657
Finance income	13,119	65,802
Interest expense on loans and borrowings	(49,668)	(44,036)
Net change in fair value of financial assets	-	(174)
Other finance costs	(722)	(380)
Loans receivable written off	-	(18)
Finance costs	(50,390)	(44,608)
Net finance (costs)/income	(37,271)	21,194

The net foreign exchange gain recognised during 2017 is a result of the weakening of the US Dollar to the Russian Rouble by 5%, during 2017. The recognised gain is mainly attributable to the US Dollar denominated loans held by Russian subsidiaries or branches where the functional currency is the Russian Rouble.

Subject to the provisions of IAS23 "Borrowing costs" in 2017 the Group did not capitalise any amount (2016 Nil) of financing costs to the projects that are in construction phase.

13. TAX EXPENSE

	2017 US$ '000	2016 US$ '000
Current tax expense		
Current year	(12,799)	282
Adjustment for prior years	(64)	(865)
	(12,863)	(583)
Deferred tax expense		
Origination and reversal of temporary differences	(21,128)	(2,172)
Total tax expense	(33,991)	(2,755)

13. TAX EXPENSE (continued)

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

	%	2017 US$ '000	%	2016 US$ '000
Loss for the year after tax		(4,664)		(47,942)
Total tax expense/(benefit)		33,991		(2,755)
Profit/(loss) before tax		29,327		(50,697)
Tax using the Company's domestic tax rate	12.5	3,671	(12.5)	(6,332)
Effect of tax rates in foreign jurisdictions	7.9	2,315	(5.4)	(2,754)
Tax exempt income	(111.1)	(32,595)	(56.4)	(28,578)
Non-deductible expenses	195.3	57,270	48.07	24,371
Change in estimates related to prior years	7.0	2,057	(1.7)	(865)
Current year losses for which no deferred tax asset recognised	4.3	1,273	22.5	11,403
	115.9	33,991	(5.4)	(2,755)

14. EARNINGS PER SHARE

Basic earnings per share	2017 US$ '000	2016 US$ '000
Loss attributable to ordinary shareholders	(4,918)	(47,872)
Weighted average number of ordinary shares	Shares in thousands	Shares in thousands
Weighted average number of shares	1,047,694	1,047,694
Earnings per share (cent)	(0.47)	(4.57)

15. INVESTMENT PROPERTY

Reconciliation of carrying amount

	2017 US$ '000	2016 US$ '000
Balance 1 January	915,350	933,700
Renovations/additional cost	998	370
Disposals	(140,026)	(500)
Fair value adjustment	18,218	(92,801)
Effect of movement in foreign exchange rates	23,520	74,581
Balance 31 December	818,060	915,350

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

The investment property was revalued by independent appraisers on 31 December 2017. The cumulative adjustments, for all projects, are shown in "Fair value adjustment" in the table above.

The increase/(decrease) due to the effect of the foreign exchange rates is a result of the weakening of the US Dollar to the Russian Rouble by 5%, during 2017 (2016: 17%).

The disposals of investment property represent the below two transactions:

- Two out of the three buildings of Ozerkovskaya III also known as Aquamarine III Business Centre owned by Krown Investments LLC for a total consideration of US$135 million to one of the leading Russian banks. According to the transaction, Krown Investments LLC sold Building 2 and Building 4 of the office premises, underground parking and a share of commonly owned service areas of the Business Centre. The transaction consists of two Russian law governed agreements: a sales-purchase agreement of 39,635.8 sq. m of gross buildable area (including 328 underground parking units) and a sale-purchase agreement of a circa 57% share in the title to the premises of 3,728.6 sq. m of gross buildable area. The consideration received amounted to Russian rouble 7.89 billion, equivalent to US$135 million net of the applicable Russian VAT, brokerage fees and cost of agreed repairs resulting in a loss of approximately US$4 million before taxes.
- An agreement based on which the Group acquired the additional 26% interest in Bizar LLC increasing its ownership to 100% in exchange for one of the four buildings owned by Bizar LLC of a total value of US$5,341 thousand, refer to note 34 for further details on the acquisition of NCI.

15. INVESTMENT PROPERTY (continued)

Measurement of fair value

Fair value hierarchy

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

The fair value measurement for investment property of US$818,060 thousand (2016: US$915,350 thousand) has been categorised as a level 3 fair value based on the inputs to the valuation technique used.

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

Valuation technique and significant unobservable inputs
The following tables show the valuation technique used in measuring the fair value of investment property, as well as the significant unobservable inputs used.

Valuation technique	Significant unobservable inputs	Inter-relationship between key unobservable inputs and fair value measurement
Discounted cash flows: The valuation model considers the present value of net cash flows to be generated from each property, taking into account rental rates and expected rental growth rate, occupancy rate and void periods together reflected in vacancy rates, construction cost, opening and completion dates, lease incentive costs such rent free periods, taxes and other costs not paid by tenants. The expected net cash flows are discounted using the risk-adjusted discount rates plus the final year stream is discounted with an all-risk yield. Among other factors, discount rate estimation considers type of property offered (retail, commercial, office) quality of building and its location, tenant credit quality and lease terms.	• Average Rental rates per sq.m.: Office class A \$510, class B \$215-\$303, Retail \$610-\$926 • Expected market rental growth: Office 3-4% average; Retail 1-4% average • Vacancy rate: Office class A 2%, class B 10-12.5%; Retail 4.5%-6.5% • Risk-adjusted discount rates: 12%-21% • All-Risk Yield 9.0%-15.25%	The estimated fair value would increase/(decrease) if: • Average rental rates were higher/(lower) • Expected market rental growth was higher/(lower) • Void periods were shorter/(longer) • The vacancy rates were lower/(higher) • The risk-adjusted discount rates were lower (higher) • All-risk yields were lower/(higher)

15. INVESTMENT PROPERTY (continued)

Valuation technique and significant unobservable inputs (continued)

Investment property	*Type of property*	*Rental rates $ per annum per sq.m.*	*Expected market rental growth*	*Vacancy Rate, %*	*Risk adjusted discount rates*	*All-risk yield*
Aquamarine III	Office, Class A	510	4%	2%	12%	9%
AFI Mall	Retail	756	1%	6.5%	15%	9.75%
Plaza IB	Office, Class B	Office 303 Retail 926	3%	12,5%	18%	13.5%
Plaza II	Retail	610	4%	4.5%	21%	9.75%
Paveletskaya I	Office, Class B	215	3%	12%	18%	15.0%
H2O	Office, Class B	215	3%	12%	17.75%	15.25%
Riverside station	Office, Class B	303	3%	10%	17.5%	13.5%

Investment properties at fair value are categorised in the following:

	2017 US$ '000	2016 US$ '000
Retail properties	696,000	666,500
Office space properties	122,060	248,850
	818,060	915,350

Fair value sensitivity Analysis

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

Capitalization rate		8.75%	9.75%	10.75%	
Market value (US$'000)		743,700	696,000	657,200	
Rental income	-10.00%	-5.00%	0.00%	5.00%	10.00%
Market value (US$'000)	647,600	671,800	696,000	720,200	744,500
Occupancy rate		4.50%	6.50%	8.50%	
Market value (US$'000)		711,400	696,000	680,700	
Discount rate	14.50%	14.75%	15.00%	15.25%	15.50%
Market value (US$'000)	708,000	702,000	696,000	690,100	684,300

15. INVESTMENT PROPERTY (continued)

Fair value sensitivity Analysis continued

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

In thousands of dollars

ERVs	-10%	-5%	0	5%	10%
Yields					
-0.5	116,260	122,230	127,900	133,840	139,610
-0.25	113,520	119,380	124,920	130,460	136,310
0	111,010	116,530	**122,060**	127,500	133,020
0.25	108,470	113,900	119,310	124,720	130,140
0.5	106,150	111,350	116,660	121,960	127,270

16. INVESTMENT PROPERTY UNDER DEVELOPMENT

Reconciliation of carrying amount	2017 US$ '000	2016 US$ '000
Balance 1 January	232,900	238,925
Construction costs	4,865	4,554
Transfer to trading properties under construction (note 21)	(74,100)	-
Fair value adjustment	(6,648)	(30,244)
Effect of movements in foreign exchange rates	6,223	19,665
Balance 31 December	163,240	232,900

On 31 March 2017 the Group transferred “Bolshaya Pochtovaya” project to trading properties under construction. The transfer was performed following the change in use evidenced by the commencement of development of trading properties with a view to sell. The amount of US$74,100 thousand represents the fair value of the project at the date of the transfer. The fair value was based on the valuation provided by the independent appraisers on 31 December 2016 which according to management assessment was not significantly different from the fair value at the date of change in use.

The investment property under development was revalued by independent appraisers on 31 December 2017. The cumulative adjustments, for all projects, are shown in line “Fair value adjustment” in the table above.

The increase due to the effect of the foreign exchange rates is a result of the weakening of the US Dollar to the Russian Rouble by 5%, during 2017 (2016: 17%).

Fair value hierarchy

The fair value measurement for investment property under development of US$163,240 thousand (2016: US$232,900 thousand) has been categorised as a level 3 fair value based on the inputs to the valuation technique used.

16. INVESTMENT PROPERTY UNDER DEVELOPMENT (continued)

Fair value hierarchy (continued)

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

Valuation technique and significant unobservable inputs
The following tables show the valuation technique used in measuring the fair value of investment property under development, as well as the significant unobservable inputs used.

Valuation technique	Significant unobservable inputs	Inter-relationship between key unobservable inputs and fair value measurement
Discounted cash flows: The valuation model considers the present value of net cash flows to be generated from each property, taking into account rental rates and expected rental growth rate, occupancy rate and void periods together reflected in vacancy rates, construction cost, opening and completion dates, lease incentive costs such rent free periods, taxes and other costs not paid by tenants. The expected net cash flows are discounted using the risk-adjusted discount rates plus the final year stream is discounted with an all-risk yield. Among other factors, discount rate estimation considers type of property offered (retail, commercial, office) quality of building and its location, tenant credit quality and lease terms.	• Average Rental rates per sq.m.: Office prime class-$600, class B $160, Retail $140-$800 • Expected market rental growth: Office 3-4% average; Retail 3-4% average • Vacancy rate: Office prime class A 5%, class B 10%; Retail 0-10% • Risk-adjusted discount rates (16%-23.5%) • All-Risk Yield 9.25%-13%	The estimated fair value would increase/(decrease) if: • Average rental rates were higher/(lower) • Expected market rental growth was higher/(lower) • Void periods were shorter/(longer) • The vacancy rates were lower/(higher) • The risk-adjusted discount rates were lower (higher) • All-risk yields were lower/(higher)

16. INVESTMENT PROPERTY UNDER DEVELOPMENT (continued)

Valuation technique and significant unobservable inputs (continued)

Investment property under development	Type of property	Rental rates $ per annum per sq.m	Expected market rental growth	Vacancy Rate, %	Risk adjusted discount rates	All-risk yield
Starokaluzhskoye shosse	Retail	140-228	4%	0%	16%	11.5%
Plaza IC	Office, Class A	Office- 600 Retail - 800	4%	5%	22.5%	9.25%
Plaza IV	Office, Class A	Office- 600 Retail - 800	4%	5%	23.5%	9.25%
Kosinskaya	Office, Class B	Office- 160 Retail - 229	3%	10%	18.0%	13%

Fair value sensitivity Analysis

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

In thousands of dollars

ERVs	-10%	-5%	0	5%	10%
Yields					
-0.5	155,307	170,704	186,002	201,499	216,797
-0.25	144,485	159,378	174,271	189,063	204,056
0	134,363	148,852	**163,241**	177,629	192,018
0.25	124,643	138,727	152,712	166,597	180,581
0.5	115,623	129,204	142,785	156,266	169,846

In addition to the above table, if the development costs were higher by 10%, then the fair value of investment property under development projects would be lower by US$16,000 thousand and vice-versa.

17. PROPERTY, PLANT AND EQUIPMENT

	Buildings under constructior US$ '000	Land & Buildings US$ '000	Office Equipment US$ '000	Motor Vehicles US$ '000	Total US$ '000
Cost					
Balance at 1 January 2017	3,947	29,725	2,426	963	37,061
Additions	-	302	176	6	484
Additions due to acquisition of previously held interest in a joint venture	-	45,418	16	146	45,580
Disposals	-	(167)	(21)	-	(188)
Effect of movement in foreign exchange rates	294	1,168	130	48	1,640
Balance at 31 December 2017	4,241	76,446	2,727	1,163	84,577
Accumulated depreciation					
Balance at 1 January 2017	-	2,863	2,202	781	5,846
Charge for the year	-	662	99	85	846
Disposals	-	(30)	(21)	-	(51)
Effect of movement in foreign exchange rates	-	141	120	42	303
Balance at 31 December 2017	-	3,636	2,400	908	6,944
Carrying amount					
At 31 December 2017	4,241	72,810	327	255	77,633

	Buildings under constructior US$ '000	Land & Buildings US$ '000	Office Equipment US$ '000	Motor Vehicles US$ '000	Total US$ '000
Cost					
Balance at 1 January 2016	3,319	24,552	1,987	840	30,698
Additions	-	48	77	137	262
Disposals	-	(101)	(13)	(179)	(293)
Effect of movement in foreign exchange rates	628	5,226	375	165	6,394
Balance at 31 December 2016	3,947	29,725	2,426	963	37,061
Accumulated depreciation					
Balance at 1 January 2016	-	1,972	1,740	706	4,418
Charge for the year	-	524	124	48	696
Disposals	-	(86)	(13)	(109)	(208)
Effect of movement in foreign exchange rates	-	453	351	136	940
Balance at 31 December 2016	-	2,863	2,202	781	5,846
Carrying amount					
At 31 December 2016	3,947	26,862	224	182	31,215

18. LOANS RECEIVABLE

	2017 US$ '000	2016 US$ '000
Long-term loans		
Loans to joint ventures (note 38)	-	15,745
Loans to non-related companies	1,669	18
	1,669	15,763
Short-term loans		
Loans to non-related companies	1,090	7

Terms and loan repayment schedule

Terms and conditions of outstanding loans were as follows:

	Currency	Nominal interest rate	Year of maturity	2017 US$ '000	2016 US$ '000
Unsecured loans to joint ventures	USD	11.5%	2020	-	11,300
	RUR	14%	2020	-	4,445
Unsecured loans to non-related companies	RUR	6%	2021	1,632	-
	RUR	5-7%	2018	663	-
	USD	3.08%	2018	427	-
	RUR	-	2017	-	7
	RUR	2.5%	2020	28	10
	RUR	0.1-5.5%	2019	9	8
				2,759	15,770

19. VAT RECOVERABLE

Represents VAT paid on construction costs and expenses which according to the Russian VAT law can be recovered upon completion of the construction. Part of this VAT is expected to be recovered after more than 12 months from the balance sheet date. Due to the uncertainties in the Russian tax and VAT law, the management has assessed the recoverability of this VAT and has provided for any amounts that their recoverability was deemed doubtful or questionable (see note 11). Under Russian VAT legislation, VAT can also be claimed during the period of construction provided that all required documentation is presented to the VAT authorities. The Group was successful in recovering VAT during the year, and it is estimated that part of the VAT recoverable as at the year-end will be recovered within the next 12 months, which is classified as trade and other receivables, note 23.

20. TRADING PROPERTIES

	2017 US$ '000	2016 US$ '000
Balance 1 January	6,854	2,062
Transfer from trading properties under construction (note 21)	63,202	53,480
Reclassification to property, plant and equipment	-	-
Disposals	(59,747)	(49,475)
Effect of movements in exchange rates	483	787
Balance 31 December	10,792	6,854

Trading properties comprise unsold apartments and parking spaces. The transfer from trading properties under construction represents the completion of the construction of a number of flats, offices and parking places of "Odinburg" project. During the year the sale of 665 flats, 8 offices and 76 parking places were recognised, upon transferring of the rights to the buyers according to the signed acts of transfer, in the income statement.

21. TRADING PROPERTIES UNDER CONSTRUCTION

	2017 US$ '000	2016 US$ '000
Balance 1 January	243,327	204,392
Transfer from inventory of real estate	-	21,543
Transfer from investment property under development (note 16)	74,100	-
Transfer to trading properties (note 20)	(63,202)	(53,480)
Construction costs	96,481	54,428
Impairment	(9,548)	-
Effect of movements in exchange rates	8,577	16,444
Balance 31 December	349,735	243,327

Trading properties under construction comprise "Odinburg", "AFI Residence Paveletskaya","Botanic Garden" and "Bolshaya Pochtovaya" projects which involve primarily the construction of residential properties for further details on the transfer of the"Bolshaya Pochtovaya" refer to note 16.

The properties were tested for impairment at year end based on internal valuation. An impairment loss of US$9,548 thousand was recognised in the profit or loss so as to present the properties at their lower of cost or net realisable value.

22. OTHER INVESTMENTS

	2017 US$ '000	2016 US$ '000
Equity securities – available for sale	20	20
Investment in listed debt securities – held for trading	5,255	6,068
Investment in fund – designated as at FVTPL	5,240	-
	10,515	6,088

Investment in fund (Private Mutual Fund) designated as at FVTPL aims to deliver around 10% p.a. absolute returns to investors via investments into financial markets.

Listed debt securities classified as held for trading have stated interest rates of 4.5%. (2016: 3.22%) and mature within a year.

23. TRADE AND OTHER RECEIVABLES

	2017 US$ '000	2016 US$ '000
Advances to builders	29,313	27,019
Amounts receivable from related parties (note 37)	109	267
Trade receivables net	3,458	3,427
Other receivables	21,713	3,955
VAT recoverable (note 19)	9,889	4,067
Tax receivable	5,920	3,692
	70,402	42,427

Trade receivables net
Trade receivables are presented net of an accumulated provision for doubtful debts of US$82 thousand (2016: US$8,285 thousand).

Other receivables
Other receivables include an amount of US$16 million representing the 11.85% balance of the total consideration from the disposal of the two buildings of Aquamarine III Business Centre, for further details on the disposal refer to note 15.

24. CASH AND CASH EQUIVALENTS

Cash and cash equivalents consist of:	2017 US$ '000	2016 US$ '000
Cash at banks	95,102	10,356
Cash in hand	366	263
Cash and cash equivalents as per statement of cash flows	95,468	10,619

25. SHARE CAPITAL AND RESERVES

	2017	2016
1. Share capital	US$ '000	US$ '000
Authorised		
2,000,000,000 shares of US$0.001 each	2,000	2,000
Issued and fully paid		
523,847,027 A ordinary shares of US$0.001 each	524	524
523,847,027 B ordinary shares of US$0.001 each	524	524
	1,048	1,048

There were no changes to the authorised or the issued share capital of the Company during the year ended 31 December 2017.

2. Share premium

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

3. Employee Share option plan

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

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

Following the lapse of the ten years period all options have vested during the year 2016 and expired during the year 2017.

4. Translation reserve

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

25. SHARE CAPITAL AND RESERVES (continued)

5. Capital reserve

Represents the effect of the acquisition, in 2015, of the 10% non-controlling interests in Bioka Investments Ltd and its subsidiary Nordservice LLC previously held at 90% and the effect of the acquisitions during the period of the 5% non-controlling interests in Beslaville Management Limited and its subsidiary Zheldoruslugi LLC previously held at 95% and of the 26% non-controlling interest in Bizar LLC previously held at 74%, refer to note 34 for further details.

26. LOANS AND BORROWINGS

	2017 US$ '000	2016 US$ '000
Non-current liabilities		
Secured bank loans	492,484	627,074
Current liabilities		
Secured bank loans	86,468	459
Unsecured loans from other non-related companies	307	289
	86,775	748

a. The outstanding loans on 31 December 2017 comprise of the following:

A secured loan from VTB Bank JSC ("VTB") signed on 22 June 2012 by one of the Group's subsidiary, Bellgate Construction Ltd ("Bellgate") with a maturity date in April 2018, which was refinanced through a new loan, signed on 28 December 2017 by the Group's subsidiary Bellgate. This loan facility agreement refinanced the existing Bellgate loan from VTB and will also be used to repay the remainder of Ozerkovskaya III loan. Bellgate will receive the New Loan in five tranches, in Euros and in Russian Rubles. The blended interest rate on the New Loan is circa 5.6% (assuming current EUR/RUR exchange rate and current Russian Central Bank key lending rate). The interest and the principal of the New Loan are to be paid quarterly, while the term of the loan is 5 years. After drawdown of all the tranches, Bellgate will have loan obligations in Russian Rubles of a maximum amount of RUR9.6 billion and in Euros in the equivalent of US$360 million. During January and February, the subsidiary drew-down all above mentioned amounts.

(i) A secured loan from VTB Bank JSC ("VTB") signed on 25 January 2013 by one of the Group's subsidiary, Krown Investments LLC ("Krown"). In December 2017, the Group, following the disposal of the two buildings owned by the subsidiary, repaid principal part of the secured loan in amount of US$108 million with the remaining balance, as explained in (i) above, was fully repaid on 26 January 2018. For more details see note 38 subsequent events.

26. LOANS AND BORROWINGS (continued)

(ii) A secured loan from VTB Bank JSC ("VTB") signed on 18 July 2017 by one of the Group's subsidiary, MKPK PJSC (the owner of the AFI Residence Paveletskaya Project). In January 2018 MKPK PJSC drawdown the whole amount of the agreed loan facility, being RUR711 million, so as to refinance the previously incurred costs for the construction of the project. The loan bears floating interest rate of the Russian Central Bank key lending rate + 1.5%. The principal on the loan is payable monthly, while the interest is payable quarterly. The loan matures in July 2019.

(iii) A secured loan from Sberbank was signed on 20 March 2017 by one of the Group's subsidiary, AFI RUS Management. This loan facility agreement offered a credit line totaling RUR620 million, which is to be drawn down in two tranches so as to finance the construction of Phase 2 of "Odinburg" project. During the period a drawdown of the first tranche of US$8,105 thousand (RUR470 million) was effected. The loan was provided in RUR and carried an annual interest rate of 11.5% with a right to increase by 1-2%. As of 30 September 2017 the credit line was fully repaid and the loan agreement was terminated in October 2017.

(iv) On 28 February 2017 the Group received a loan from VTB Bank PJSC ("VTB") to finance the acquisition of the additional 50% stake in the "Plaza Spa Kislovodsk" project. The loan, in the amount of US$22.5 million, is provided in US dollars for 5 years (the term can be extended for an additional 5 years subject to agreement between the parties), it bears an annual interest rate of 3 months Libor + 4.5%, has quarterly principal payments (ranging from US$363 thousand in Q2 2017 to US$786 thousand in Q4 2021), and a balloon payment of US$11,254 thousand at maturity. The interest is to be paid quarterly.

(v) On 23 September 2017 the Group received two loans from VTB to repay existing intra group loans. Both loan facilities, in the amount of US$11.6 million and US$18.4 million were provided in US dollars and are repayable in 5 years (the terms can be extended for an additional 5 year period subject to agreements between the parties). The loans bear an annual interest rate of 5.5%, have quarterly principal payments and a balloon payment at maturity. The interest is to be paid quarterly.

The above loans contain the below covenants:

- LTV (Loan-to-Value) annually;
- NAV (Net assets value) quarterly;
- DSCR (quarterly);
- Forecast DSCR (quarterly);
- EBITDA / (Interest ltm / Loan Debt quarterly);
- Sales plan quarterly (applicable only for loan received from subsidiary MKPK PJSC);
- Total amount of CAPEX should not be higher than indicator of EBITDA for current quarter.

26. LOANS AND BORROWINGS (continued)

b. Terms and debt repayment schedule

Terms and conditions of outstanding loans were as follows:

	Currency	Nominal interest rate	Year of maturity	2017 US$ '000	2016 US$ '000
Secured loan from VTB Bank to Bellgate	RUR	9.5%	2018-2022	167,545	159,102
Secured loan from VTB Bank to Bellgate	USD	3m USD LIBOR+ 5.02%	2018-2022	276,887	276,886
Secured loan from VTB Bank to Krown	USD	3m USD LIBOR+ 7%	2017-2018	83,404	191,545
Secured loan from VTB Bank to Sanatorium Plaza	USD	3m USD LIBOR+ 4.5%	2018-2022	21,404	-
Secured loan from VTB Bank to Sanatorium Plaza	USD	5.5%	2018-2022	11,515	-
Secured loan from VTB Bank to Sanatorium Plaza SPA	USD	5.5%	2018-2022	18,196	-
Other	RUR	3-12%	on demand	308	289
				579,259	627,822

The secured bank loans are secured over investment property, investment property under development and hotels with a carrying amount of US$696,000 thousand (2016: US$865,000 thousand), US$NIL (2016: US$28,300 thousand) US$56,706 thousand (2016: US$15,290 thousand) respectively.

26. LOANS AND BORROWINGS (continued)

The loans and borrowings are payable as follows:	2017 US$ '000	2016 US$ '000
Less than one year	86,775	748
Between one and five years	492,484	627,074
More than five years	-	-
	579,259	627,822

27. DEFERRED TAX ASSETS AND LIABILITIES

Deferred tax (assets) and liabilities are attributable to the following:

	2017 US$ '000	2016 US$ '000
Investment property	69,885	73,531
Investment property under development	9,890	3,165
Property, plant and equipment	10,376	952
Trading properties	(1,476)	(391)
Trading properties under construction	25,478	16,056
Trade and other receivables	(3,702)	(5,777)
Trade and other payables	1,193	1,737
Other items	(29)	(40)
Tax losses carried forward	(68,963)	(74,299)
Deferred tax liability	42,652	14,934

28. TRADE AND OTHER PAYABLES

	2017 US$ '000	2016 US$ '000
Trade payables	13,756	8,490
Payables to related parties (note 37)	183	427
Amount payable to builders	15,340	13,795
VAT and other taxes payable	28,982	5,681
Other payables	6,845	2,564
	65,106	30,957

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

VAT and other taxes payable

Include an amount of US$24,618 thousand of tax payable arising from the disposal of the two buildings of Aquamarine III Business Centre, for further details on the disposal refer to note 15.

29. ADVANCES FROM CUSTOMERS

Represent advances received from customers for the sale of residential properties at “Odinburg”, “AFI Residence Paveletskaya”, “Botanic Garden” and “Bolshaya Pochtovaya” projects. During the year the Group has sold 676 flats, 311 parking places and 99 offices and received additional down payments from customers.

30. DEFERRED INCOME

Represents rental income received from tenants at the beginning of the lease contracts as guarantee against future unpaid rent or damages.

31. FINANCIAL INSTRUMENTS – FAIR VALUES AND RISK MANAGEMENT

Accounting classifications and fair values

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

	Carrying amount						Fair value			
	Loans Receivable	Trade and other receivables	Other investments	Cash and cash equivalents	Other financial liabilities	Total	Level 1	Level 2	Level 3	Total
31 December 2017	US$'000	US$'000	US$'000	US$'000	US$'000	US$'000	US$'000	US$'000	US$'000	US$'000
Financial assets measured at fair value										
Investment in fund	-	-	5,240	-	-	5,240	-	-	5,240	5,240
Investment in listed debt securities	-	-	5,255	-	-	5,255	5,255	-	-	5,255
	-	-	10,495	-	-	10,495				
Financial assets not measured at fair value										
Loans receivable	2,759	-	-	-	-	2,759				
Trade and other receivables	-	25,280	-	-	-	25,280				
Cash and cash equivalents	-	-	-	95,468	-	95,468				
	2,759	25,280	-	95,468	-	123,507				
Financial liabilities not measured at fair value										
Interest bearing loans and borrowings	-	-	-	-	(579,259)	(579,259)	-	(579,415)	-	(579,415)
Trade and other payables	-	-	-	-	(25,230)	(25,230)				
	-	-	-	-	(604,489)	(604,489)				

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

Accounting classifications and fair values (continued)

	Carrying amount						Fair value			
	Loans Receivable	Trade and other receivables	Other investments	Cash and cash equivalents	Other financial liabilities	Total	Level 1	Level 2	Level 3	Total
31 December 2016	US$'000	US$'000	US$'000	US$'000	US$'000	US$'000	US$'000	US$'000	US$'000	US$'000
Financial assets measured at fair value										
Investment in listed debt securities	-	-	6,068	-	-	6,068	6,068	-	-	6,068
Financial assets not measured at fair value										
Loans receivable	15,770	-	-	-	-	15,770				
Trade and other receivables	-	7,649	-	-	-	7,649				
Cash and cash equivalents	-	-	-	10,619	-	10,619				
	15,770	7,649	-	10,619	-	34,038				
Financial liabilities not measured at fair value										
Interest bearing loans and borrowings	-	-	-	-	(627,822)	(627,822)	-	(614,771)	-	(614,771)
Trade and other payables	-	-	-	-	(17,728)	(17,728)				
	-	-	-	-	(653,098)	(653,098)				

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

Financial risk management

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

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

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

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

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

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

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

Trade and other receivables
Financial assets which are potentially subject to credit risk consist principally of trade and other receivables as well as credit exposures with respect to rental customers and buyers of residential properties including outstanding receivables. The carrying amount of trade and other receivable represents the maximum amount exposed to credit risk. There is no concentration of credit risk to any single customer in any of the Group's segments. Geographically there is no concentration of credit risk. The Group has policies in place to ensure that sales of flats and parking lots as well as renting of vacant spaces are made to customers and tenants with an appropriate credit history and monitors on a continuous basis the ageing profile of its receivables.

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

Financial risk management (continued)

Credit risk (continued)

Trade and other receivables (continued)

Impairment

At 31 December 2017, the ageing of trade and other receivable that were not impaired was as follows:

	2017 US$ '000	2016 US$ '000
Neither past due nor impaired	315	-
Past due 1-30 days	20,460	2,193
Past due 31-90 days	1,078	729
Past due 91-120 days	2,022	4,727
Past due 121 days	1,405	-
	25,280	7,649

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

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

	Individual impairments US$ '000	Collective impairments US$ '000
Balance at 1 January 2016	12	11,390
Reversal of impairment loss recognised	12	(1,669)
Exchange difference effect	-	(1,460)
Balance at 31 December 2016	24	8,261
Impairment loss/(reversal) recognised	38	(8,699)
Exchange difference effect	20	438
Balance at 31 December 2017	82	-

Debt securities

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

Cash and cash equivalents

The Group held cash at bank of US$95,102 thousand at 31 December 2017 (2016: US$10,356. The cash and cash equivalents are held with bank and financial institution counterparties with a high credit rating. The utilisation of credit limits is regularly monitored.

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

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

Financial risk management (continued)

Credit risk (continued)

Guarantees
The Company's policy is to provide financial guarantees only to wholly-owned subsidiaries.

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

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

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

The Group maintains the following lines of credit as at 31 December 2017:
- A secured bank loan facility from VTB Bank JSC for RUR 21billion, with the majority of the funds designated for refinancing existing loans and the rest for the financing of the acquisition and construction AFIMALL City parking. The line was fully used up to the end of February 2014. This loan was refinanced through a new loan agreement signed on 28 December 2017, with all the tranches being drawn during January-February 2018.
- A secured bank loan facility from VTB Bank JSC initially for US$205 million, current balance US$83.4 million, acquired for refinancing the construction costs for Ozerkovskaya III project. It was fully repaid in January 2018.
- A secured loan facility from VTB Bank JSC for RUR711 million to refinance previously incurred costs for the construction of AFI Residence Paveletskaya project. The loan was fully drawn in January 2018.
- A secured bank loan facility from VTB Bank JSC to finance the acquisition of the additional 50% stake in the "Plaza Spa Kislovodsk" project in the amount of US$ 22.5 million.
- Secured bank loan facilities from VTB Bank JSC in the amount of US$11.6 million and US$18.4 million to repay existing intra group loans.

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

Financial risk management (continued)

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

31 December 2017	Carrying Amount US$'000	Contractual Cash flow US$'000	6 months or less US$'000	6-12 months US$'000	1-2 years US$'000	2-5 years US$'000
Secured bank loans	578,952	(718,279)	(26,717)	(25,194)	(46,721)	(619,647)
Unsecured loans	307	(307)	(307)	-	-	-
Trade and other payables	25,230	(25,230)	(25,230)	-	-	-

31 December 2016	Carrying Amount US$'000	Contractual Cash flow US$'000	6 months or less US$'000	6-12 months US$'000	1-2 years US$'000	2-5 years US$'000
Secured bank loans	627,533	(683,605)	(23,378)	(23,640)	(636,587)	-
Unsecured loans	289	(289)	(289)	-	-	-
Trade and other payables	17,728	(17,728)	(17,728)	-	-	-

As disclosed in note 26 the Group has secured bank loans that contain loan covenants. A future breach of a covenant may require the Group to repay the loan earlier than indicated in the above table.

Market risk
Market price risk is the risk that the value of financial instruments will fluctuate as a result of changes in market prices such as foreign exchange rates, interest rates and equity prices. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return.

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

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

Financial risk management (continued)

Market risk (continued)

Currency risk (continued)

Exposure to currency risk

The summary quantitative date about the Group's exposure to currency risk as reported to the management of the Group is as follows:

	RUR US$ '000	US$ US$ '000	EUR US$ '000
31 December 2017			
Cash and cash equivalents	62	32,140	426
Trade receivables	161	2,613	128
Loans and borrowings	(7,082)	(393,209)	-
Trade payables	(115)	(6,478)	(270)
31 December 2016			
Cash and cash equivalents	48	3,230	156
Loans receivable	-	11,504	-
Trade receivables	2,935	608	33
Loans and borrowings	(6,726)	(468,431)	-
Trade payables	(210)	(10,496)	(176)

Sensitivity analysis

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

A 10% strengthening of the Russian Rubble, US dollar or Euro against all other currencies at 31 December would have affected the measurement of financial instruments denominated in a foreign currency and affected equity and profit or loss by the amounts shown below.

This analysis assumes that all other variables, in particular interest rates, remain constant and ignores any impact of forecast sales, purchases of material and construction services. The analysis is performed on the same basis for 2016.

	Profit for the year US$ '000	Equity US$ '000
31 December 2017		
Russian Roubles	634	-
US dollar	(40,548)	-
Euro	11	-

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

Financial risk management (continued)

Market risk (continued)

Currency risk (continued)

Sensitivity analysis (continued)

	Profit for the year US$ '000	Equity US$ '000
31 December 2016		
Russian Roubles	626	-
US dollar	(51,509)	-
Euro	(12)	-

A 10% weakening of the Russian Rubble, US dollar or Euro against all other currencies at 31 December 2016 would have the equal but opposite effect on the above currencies to the amounts shown above, on the basis that all other variables remain constant.

Interest rate risk
Interest rate risk is the risk that the value of financial instruments will fluctuate due to changes in market interest rates. Borrowings issued at variable rates expose the Group to cash flow interest rate risk. Borrowings issued at fixed rates expose the Group to fair value interest rate risk. Group's management monitors the interest rate fluctuations on a continuous basis and acts accordingly.

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

	Carrying amount 2017 US$ '000	2016 US$ '000
Fixed rate instruments		
Financial assets	95,821	29,994
Financial liabilities	(197,564)	(159,391)
	(101,743)	(129,397)
Variable rate instruments		
Financial assets	-	-
Financial liabilities	(381,695)	(468,431)
	(381,695)	(468,431)

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

Financial risk management (continued)

Market risk (continued)

Interest rate risk (continued)

Cash flow sensitivity analysis for variable rate instruments

An increase of 100 basis points in interest rates at the reporting date would have increased/ (decreased) equity and profit for the year by the amounts shown below. This analysis assumes that all other variables, in particular foreign currency rates, remain constant. The analysis is performed on the same basis for 2016.

	Equity US$ '000	Profit for the year US$ '000
31 December 2017		
Variable rate instruments	-	(3,817)
31 December 2016		
Variable rate instruments	-	(4,684)

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

Operational risk

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

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

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

- requirements for appropriate segregation of duties, including the independent authorisation of transactions
- requirements for the reconciliation and monitoring of transactions
- compliance with regulatory and other legal requirements
- documentation of controls and procedures
- requirements for the periodic assessment of operational risks faced, and the adequacy of controls and procedures to address the risks identified
- requirements for the reporting of operational losses and proposed remedial action

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

Financial risk management (continued)

Operational risk (continued)

- development of contingency plans
- training and professional development
- ethical and business standards
- risk mitigation, including insurance where this is effective

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

Capital management

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

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

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

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

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

Russian Business Environment

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

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

Financial risk management (continued)

Russian Business Environment (continued)

The conflict in Ukraine and related events has increased the perceived risks of doing business in the Russian Federation. The imposition of economic sanctions on Russian individuals and legal entities by the European Union, the United States of America, Japan, Canada, Australia and others, as well as retaliatory sanctions imposed by the Russian government, has resulted in increased economic uncertainty including more volatile equity markets, a depreciation of the Russian Rouble, a reduction in both local and foreign direct investment inflows and a significant tightening in the availability of credit. In particular, some Russian entities may be experiencing difficulties in accessing international equity and debt markets and may become increasingly dependent on Russian state banks to finance their operations. The longer term effects of recently implemented sanctions, as well as the threat of additional future sanctions, are difficult to determine.

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

Taxation contingencies in the Russian Federation

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

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

Transfer pricing legislation enacted in the Russian Federation starting from 1 January 2012 provides for major modifications making local transfer pricing rules closer to OECD guidelines, but creating additional uncertainty in practical application of tax legislation in certain circumstances.

These transfer pricing rules provide for an obligation for the taxpayers to prepare transfer pricing documentation with respect to controlled transactions and prescribe the basis and mechanisms for accruing additional taxes and interest in case prices in the controlled transactions differ from the market level.

The transfer pricing rules apply to cross-border transactions between related parties, as well as to certain cross-border transactions between independent parties, as determined under the Russian Tax Code (no threshold is set for the purposes of prices control in such transactions). In addition, the rules apply to in-country transactions between related parties if the accumulated annual volume of the transactions between the same parties exceeds a particular threshold (RUB 1 billion in 2014 and thereon).

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

Financial risk management (continued)

Russian Business Environment (continued)

Taxation contingencies in the Russian Federation (continued)
The compliance of prices with the arm's length level could be as well subject to scrutiny on the basis of unjustified tax benefit concept.

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

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

32. GROUP COMPOSITION

	Name:	Country:
Ultimate controlling party:	Lev Leviev	Israel
Holding company:	Flotonic Limited (see note below)	Cyprus

Significant Subsidiaries	**Ownership interest 2017**	**Ownership interest 2016**	**Country of incorporation**
1. OOO AFI RUS	100	100	Russian Federation
2. OOO Avtostoyanka Tverskaya Zastava	100	100	Russian Federation
3. OOO Krown Investments	100	100	Russian Federation
4. OAO Moskovskiy Kartonazhno-poligraphicheskiy Kombinat (MKPK)	99.18	99.17	Russian Federation
5. Bellgate Constructions Limited	100	100	Cyprus
6. OOO Regionalnoe AgroProizvodstvennoe Objedinenie (RAPO)	100	100	Russian Federation
7. Scotson Limited	100	100	Cyprus
8. OOO Titon	100	100	Russian Federation
9. ZAO MTOK	99.71	99.71	Russian Federation
10. Triumvirate I S.a r.l	100	100	Russian Federation
11. OOO Nordservice	100	100	Russian Federation
12. OOO Plaza SPA	100	100	Russian Federation
13. OOO Semprex	100	100	Russian Federation
14. OOO Zheldoruslugi	100	95	Russian Federation
15. OOO Bizar	100	74	Russian Federation
16. AFI D Finance SA	100	100	British Virgin Islands

Flotonic Limited, a fully owned private company of Mr Leviev, holds 336,948,796 Global Depository Receipts (issued over "A" ordinary shares) and 342,799,658 Depository Interests (issued over "B" ordinary shares), representing in aggregate 64.88% of the Company's issued share capital.

Additionally, Mr Leviev has personally granted a call option to Africa Israel Investments Ltd ("AI"), previous holding company, in respect of 51,933,807 GDRs and 52,835,598 B ordinary shares (approximately 10% of the Company's issued share capital) at a price of US$0.216 per 1 GDR and US$0.295 per 1 "B" ordinary share. The call option has been assigned by AI to trustees on behalf of AI bondholders and the trustees may exercise the Call Option within three years from the date of completion of the Purchase Transaction upon instructions of the AI bondholders.

33. ACQUISITION OF JOINT VENTURES

On 28 February 2017, the Group acquired the additional 50% of the "Plaza Spa Kislovodsk" project by acquiring the shares and voting rights of Nouana Limited, Craespon Management Limited, Emvial Limited and Sanatoriy Plaza LLC. As a result, the Group's equity interest in the above mentioned entities increased from 50% to 100%, obtaining their control. Principal activity of Nouana Limited, Craespon Management Limited and Emvial Limited is that of holding of investments while Sanatoriy Plaza LLC is the owner of "Plaza Spa Kislovodsk" project. The Project is an operating spa resort hotel in the Caucasian mineral waters region, in the town of Kislovodsk. It has 275 guest rooms and a gross buildable area of 25,000 sq.m.

This acquisition enables the Group to consolidate 100% of the Project, manage it at its sole discretion and consolidate 100% of its revenues. Revenue attributed to the acquired 50% stake, based on the 2016 annual results, was US$9 million. The gross profit attributed to the acquired 50% stake in the Project, based on the 2016 annual results, was US$4.4 million.

a. Consideration transferred

The Group paid an amount of US$5,632 thousand for the acquisition itself of the 50% equity stakes in the previously held joint ventures. In order to finance the acquisition the Group has received a loan of US$22,500 thousand, from VTB Bank PJSC. The remainder of the loan was used to repay the outstanding debt of Sanatoriy Plaza LLC to the joint venture partner in the project, in the amount of US$16,868 thousand, prior to the acquisition of the equity stakes.

	US$ '000
Cash	5,632
Cash and cash equivalents acquired (note b)	(4,846)
Net consideration	786

b. Identifiable assets acquired and liabilities assumed

The following table summarises the recognised amounts of assets and liabilities assumed at the date of acquisition

	US$ '000
Property, plant and equipment	45,580
VAT recoverable	33
Inventory	392
Trade and other receivables	307
Cash and cash equivalents	4,846
Loans and borrowings	(16,868)
Deferred tax liabilities	(8,807)
Trade and other payables	(1,675)
Total identifiable net assets acquired	23,808

33. ACQUISITION OF JOINT VENTURES (continued)

c. Goodwill

Goodwill arising from the acquisition has been recognised as follows:

	US$ '000
Consideration transferred (note a)	5,632
Fair value of existing interest in joint ventures	20,903
Fair value of identifiable net assets (note b)	(23,808)
Goodwill	2,727
Impairment	(2,727)
	-

At acquisition the gain on the Group's previously held 50% interest in the joint venture was US$10,259 thousand, which comprised US$7,803 thousand fair value gain on net assets less the US$1,815 thousand carrying amount of the equity accounted investee at the date of acquisition plus US$4,271 thousand of translation reserve reclassified to profit or loss. The gain is presented net of impairment of goodwill of US$2,727 which was the result of the 100% acquisition. The Board of Directors has decided to impair the resulting goodwill to zero considering the amount paid above the fair value of the net assets acquired, represents a premium paid to acquire control of the entity which was over and above its market value.

34. NON-CONTROLLING INTERESTS

During the period, the Group acquired an additional 5% interest in Beslaville Management Limited and its Russian subsidiary Zheldoruslugi LLC, increasing its ownership from 95% to 100% and 26% interest in Bizar LLC increasing its ownership from 74% to 100%. The carrying amount of Beslaville Management Limited's together with its subsidiary and Bizar's net assets in the Group's financial statements on the date of acquisition was negative (US$60,660) thousand and (US$1,496) thousand respectively.

The following table summarises the effect of changes in the Company's ownership interest in Beslaville Management Limited, Zheldoruslugi LLC and Bizar LLC.

	US$ '000
Carrying amount of NCI acquired (($60,660) thousand * 5% & ($1,496) thousand * 26%)	(3,422)
Consideration paid to NCI	(6,710)
A decrease in equity attributable to owners of the Company	(10,132)

The decrease in equity attributable to owners of the Company comprised of a negative capital reserve of US$10,132 thousand.

35. OPERATING LEASES

Leases as lessee

Non-cancellable operating lease rentals are payable as follows:

	2017 US$ '000	2016 US$ '000
Less than a year	6,165	6,017
Between one and five years	13,688	17,613
More than five years	45,716	27,042
	65,569	50,672
Amount recognised as an expense during the year	1,897	1,429

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

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

Leases as lessor

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

	2017 US$ '000	2016 US$ '000
Less than a year	75,827	68,426
Between one and five years	181,910	134,456
More than five years	48,500	29,301
	306,237	232,183
Amount recognised as income during the year	87,852	72,299

36. CAPITAL COMMITMENTS

Up to 31 December 2017 the Group has entered into a number of contracts for the construction of investment or trading properties:

Project name	**Commitment**	
	2017	2016
	US$ '000	US$ '000
Odinburg	51,724	2,158
Kosinskaya	337	839
TVZ Plaza IC	116	1,122
Serebryakova	104,625	21,856
Pavaletskaya II	10,180	28,196
TVZ Plaza IV	624	24
TVZ Plaza II	343	761
Bolshaya Pochtovaya	52,908	115
Starokaluzhskoye shosse	27	5
	220,884	55,076

37. RELATED PARTIES

Outstanding balances with related parties	2017	2016
	US$ '000	US$ '000
Assets		
Amounts receivable from joint ventures	-	11
Amounts receivable from other related companies	109	256
Long term loans receivable from joint ventures	-	15,745

	2017	2016
	US$ '000	US$ '000
Liabilities		
Amounts payable to joint ventures	-	102
Amounts payable to other related companies	183	325
Deferred income from related company	101	145

Transactions with the key management personnel	2017	2016
	US$ '000	US$ '000
Key management personnel compensation comprised:		
Short-term employee benefits	2,662	2,631
Share option scheme expense	-	857

37. RELATED PARTIES (continued)

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

Other related party transactions	2017 US$ '000	2016 US$ '000
Revenue		
Joint venture – consulting services	31	173
Joint venture – interest income	211	1,339
Related company – other income	1	-
Related company – rental income	408	699
Expenses		
Related company – administrative expenses	-	157
Joint venture – operating expenses	10	54

Other related party transactions	2017 US$ '000	2016 US$ '000
Construction services capitalised		
Related company – construction services	-	-

38. SUBSEQUENT EVENTS

Subsequent to 31 December 2017 there were no events that took place which have a bearing on the understanding of these financial statements except of the following:

- In January 2018, the Company's subsidiary MKPK PJSC (the owner of the AFI Residence Paveletskaya Project) received a loan from VTB Bank PJSC in the amount of RUR711 billion to refinance the previously incurred costs for the construction of the project. The loan bears floating interest rate of the Russian Central Bank key lending rate + 1.5%. The principal on the loan is payable monthly, while the interest is payable quarterly. The loan matures in July 2019.
- On 26 January 2018 Group's subsidiary, Krown Investments LLC repaid remaining part of the secured loan in amount of US$83 million through refinancing as explained in note 26 (i).

AFI DEVELOPMENT PLC

SEPARATE FINANCIAL STATEMENTS OF THE PARENT COMPANY

For the year ended 31 December 2017

C O N T E N T S

AFI DEVELOPMENT PLC

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

We, the members of the Board of Directors and the Company officials responsible for the drafting of the separate financial statements of AFI Development Plc (the 'Company') for the year ended 31 December 2017, the names of which are listed below, confirm that, to the best of our knowledge:

d) The separate financial statements:

   (iii) have been prepared in accordance with the International Financial Reporting Standards (IFRS) as adopted by the European Union and the requirements of the Cyprus Companies Law,

   (iv) give a true and fair view of the assets, liabilities, financial position and profit or loss of the Company and the undertakings included in the consolidated financial statements taken as a whole,

e) the adoption of a going concern basis for the preparation of the separate financial statements continues to be appropriate based on the foregoing and having reviewed the forecast financial position of the Company; and

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

The Board of Directors

Executive directors

Lev Leviev – Chairman …..

Non-executive independent directors

Panayiotis Demetriou ....

David Tahan ....

Company officers

Chief executive officer

Mark Groysman ....

Chief financial officer

Natalia Pirogova ....

16 April 2018

AFI DEVELOPMENT PLC

SEPARATE INCOME STATEMENT AND STATEMENT OF COMPREHENSIVE INCOME OF THE PARENT COMPANY

For the year ended 31 December 2017

	Note	2017 US$ '000	2016 US$ '000
Revenue	4	17,347	478,382
Other income		-	482
Other expenses		(31)	(82)
Administrative expenses	5	(4,505)	(6,912)
Impairment of investment in subsidiaries	7	(899,156)	(560,663)
		(903,692)	(567,657)
Results from operating activities		(886,345)	(88,793)
Finance income		-	254
Finance costs		(5,957)	(8,777)
Net finance costs	6	(5,957)	(8,523)
Loss for the year		(892,302)	(97,316)
Other comprehensive income		-	-
Total comprehensive expense for the year		(892,302)	(97,316)

The notes on pages 85 to 104 are an integral part of these separate financial statements of the parent company.

AFI DEVELOPMENT PLC

SEPARATE STATEMENT OF CHANGES IN EQUITY OF THE PARENT COMPANY

For the year ended 31 December 2017

	Share capital US$ '000	Share premium US$ '000	Accumulated losses US$ '000	Total US$ '000
Balance at 1 January 2016	1,048	1,763,409	(419,452)	1,345,005
Total comprehensive income for the year	-	-	(97,316)	(97,316)
Transactions with owners of the Company				
Contributions and distributions				
Share option expense	-	-	857	857
Balance at 31 December 2016	1,048	1,763,409	(515,911)	1,248,546
Balance at 1 January 2017	1,048	1,763,409	(515,911)	1,248,546
Total comprehensive expense for the year	-	-	(892,302)	(892,302)
Balance at 31 December 2017	1,048	1,763,409	(1,408,213)	356,244

The notes on pages 85 to 104 are an integral part of these separate financial statements of the parent company.

AFI DEVELOPMENT PLC

SEPARATE STATEMENT OF FINANCIAL POSITION OF THE PARENT COMPANY

As at 31 December 2017

	Note	2017 US$ '000	2016 US$ '000
Assets			
Investment in subsidiaries	7	371,778	1,242,182
Trade and other receivables	8	8,433	210,947
Refundable tax		2,215	2,215
Cash and cash equivalents	9	897	2,057
Total current assets		11,545	215,219
Total assets		383,323	1,457,401
Equity			
Share capital		1,048	1,048
Share premium		1,763,409	1,763,409
Accumulated losses		(1,408,213)	(515,911)
Total equity	10	356,244	1,248,546
Liabilities			
Loans and borrowings	11	22,182	109,337
Total non-current liabilities		22,182	109,337
Trade and other payables	12	4,897	99,518
Total current liabilities		4,897	99,518
Total liabilities		27,079	208,855
Total equity and liabilities		383,323	1,457,401

The financial statements were approved by the Board of Directors on 16 April 2018.

....	....
Lev Leviev	David Tahan
Chairman	Director

The notes on pages 85 to 104 are an integral part of these separate financial statements of the parent company.

AFI DEVELOPMENT PLC

SEPARATE STATEMENT OF CASH FLOWS OF THE PARENT COMPANY

For the year ended 31 December 2017

	Note	2017 US$ '000	2016 US$ '000
Cash flows from operating activities			
Loss for the year		(892,302)	(97,316)
Adjustments for:			
Net foreign exchange loss/(gain)	6	16	(46)
Impairment of investment in subsidiaries	7	899,156	560,663
Dividend income	4	(17,347)	(478,382)
Interest income	6	-	(208)
Interest expense	6	5,924	8,756
Share option expense	5	-	857
		(4,553)	(5,676)
Change in trade and other receivables		564	(448)
Change in trade and other payables		518	554
Net cash used in operating activities		(3,471)	(5,570)
Cash flows from investing activities			
Additional contribution of capital to existing subsidiaries	7	(33,906)	(3,001)
Additional shareholding in subsidiary	7	(1,500)	-
Proceeds from repayment of loans receivable		-	3,300
Proceeds from disposal of investments in subsidiaries	4	24,001	-
Interest received	6	-	235
Net cash from investing activities		(11,405)	534
Cash flows from financing activities			
Repayment of loans and borrowings	11	-	(6,050)
Proceeds from loans and borrowings	11	13,735	6,225
Net cash from financing activities		13,735	175
Effect of exchange rate fluctuations on cash held		(19)	13
Net decrease in cash and cash equivalents		(1,160)	(4,848)
Cash and cash equivalents at 1 January		2,057	6,905
Cash and cash equivalents at 31 December	9	897	2,057
The cash and cash equivalents consists of:			
Cash at banks		897	2,057

The notes on pages 85 to 104 are an integral part of these separate financial statements of the parent company.

1. INCORPORATION AND PRINCIPAL ACTIVITIES

AFI Development PLC (the "Company") was incorporated in Cyprus on 13 February 2001 as a limited liability company under the name Donkamill Holdings Limited. In April 2007 the Company was transformed into public company and changed its name to AFI Development PLC. The address of the Company's registered office is 165 Spyrou Araouzou Street, Lordos Waterfront Building, 5th floor, Flat/office 505, 3035 Limassol, Cyprus. As of 7 September 2016 the Company is a 64.88% subsidiary of Flotonic Limited, a private holding company registered in Cyprus, 100% owned by Mr Lev Leviev. 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.

The principal activity of the Company is the holding of investments in subsidiaries.

2. BASIS OF ACCOUNTING

(i) Going concern
The financial statements have been prepared on a going concern basis, as detailed in note 2(i) of the consolidated financial statements.

(ii) Statement of compliance
The financial statements have been prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union (EU) and the requirements of the Cyprus Companies Law, Cap.113.

Users of these parent's separate financial statements should read them together with the Group's consolidated financial statements as at and for the year ended 31 December 2017 in order to obtain a proper understanding of the financial position, the financial performance and the cash flows of the Company and the Group.

(iii) Basis of measurement
The financial statements have been prepared under the historical cost convention, except in the case of investments, which are stated at cost less provision for impairment in value and receivables which are stated after the provision for impairment.

(iv) Adoption of new and revised International Financial Reporting Standards and Interpretations
As from 1 January 2017, the Company adopted all changes to International Financial Reporting Standards (IFRSs) as adopted by the EU which are relevant to its operations. This adoption did not have a material effect on the parent's separate financial statements except for the adoption of IFRS 9 "financial instruments".

2. BASIS OF ACCOUNTING (continued)

(iv) Adoption of new and revised International Financial Reporting Standards and Interpretations (continued)

The following Standards, Amendments to Standards and Interpretations have been issued by International Accounting Standards Board ("IASB") but are not yet effective for annual periods beginning on 1 January 2017. Those which may be relevant to the Company are set out below. The Company does not plan to adopt these Standards early.

Standards and Interpretations adopted by the EU

- IFRS 9 "Financial Instruments" (effective for annual periods beginning on or after 1 January 2018), see below for the impact.

- IFRS 15 "Revenue from Contracts with Customers" (effective for annual periods beginning on or after 1 January 2018).
  IFRS 15 establishes a comprehensive framework for determining whether, how much and when revenue is recognised. It replaces existing revenue recognition guidance, including IAS 18 Revenue, IAS 11 Construction Contracts and IFRIC 13 Customer Loyalty Programs. It provides a principles-based approach for revenue recognition, and introduces the concept of recognizing revenue for performance obligations as they are satisfied. The recognition of such revenue is in accordance with five steps to: 1) identifying the contract with the customer; 2) identifying each of the performance obligations included in the contract; 3) determining the transaction price; 4) allocating the transaction price to the performance obligations in the contract; and 5) recognising revenue as each performance obligation is satisfied.
  Based on assessments undertaken to date, the adoption of the standard is not expected to have a material impact on the Company's financial statements.

- IFRS 15 (Clarifications) "Revenue from Contracts with Customers" (effective for annual periods beginning on or after 1 January 2018).
  Clarifications to IFRS 15 provide additional application guidance but do not change the underlying principles of the standard. The clarifications relate principally to identifying performance obligations (step 2), accounting for licenses of intellectual property (step 5) and agent vs principal considerations. The clarifications also introduce additional practical expedients on transition in relation to modified and completed contracts.
  Based on assessments undertaken to date, the adoption of the clarifications is not expected to have a material impact on the Company's financial statements.

2. BASIS OF ACCOUNTING (continued)

(iv) Adoption of new and revised International Financial Reporting Standards and Interpretations (continued)

Standards and Interpretations adopted by the EU (continued)

- IFRS 9 (Amendments) “Prepayment Features with Negative Compensation” (effective for annual periods beginning on or after 1 January 2019)
  In October 2017, the IASB issued “Prepayment Features with Negative Compensation (Amendments to IFRS 9)”. The amendments address the issue that under pre-amended IFRS 9, financial assets with such features would probably not meet the SPPI criterion and as such would be measured at fair value through profit or loss. The IASB believes that this would not be appropriate because measuring them at amortised cost provides useful information about the amount, timing and uncertainty of their future cash flows. Financial assets with these prepayment features can therefore be measured at amortised cost or fair value through other comprehensive income provided that they meet the other relevant requirements of IFRS 9. The final amendments also contain a clarification in the accounting for a modification or exchange of a financial liability measured at amortised cost that does not result in thederecognition of the financial liability. Based on the clarification, an entity recognises any adjustment to the amortised cost of the financial liability arising from a modification or exchange in profit or loss at the date of the modification or exchange.
  The Company is currently evaluating the expected impact of adopting the amendments on its financial statements. As such, the expected impact of the amendments is not yet known or reasonably estimable.

Standards and Interpretations not adopted by the EU

- IFRIC 23 “Uncertainty over Income Tax Treatments” (effective for annual periods beginning on or after 1 January 2019).
  IFRIC 23 clarifies the accounting for income tax treatments that have yet to be accepted by tax authorities, whilst also aiming to enhance transparency. The key test is whether it is probable that the tax authority will accept the chosen tax treatment, on the assumption that tax authorities will have full knowledge of all relevant information in assessing a proposed tax treatment. The uncertainty is reflected using the measure that provides the better prediction of the resolution of the uncertainty being either the most likely amount or the expected value. The interpretation also requires companies to reassess the judgements and estimates applied if facts and circumstances change. IFRIC 23 does not introduce any new disclosures but reinforces the need to comply with existing disclosure requirements in relation to judgements made, assumptions and estimates used, and the potential impact of uncertainties that are not reflected.
  The Company is currently evaluating the expected impact of adopting the interpretation on its financial statements. As such, the expected impact of the interpretation is not yet known or reasonably estimable.

2. BASIS OF ACCOUNTING (continued)

(iv) Adoption of new and revised International Financial Reporting Standards and Interpretations (continued)

Standards and Interpretations not adopted by the EU (continued)

- "Amendments to References to the Conceptual Framework in IFRS Standards" (effective for annual periods beginning on or after 1 January 2020)
  In March 2018 the IASB issued a comprehensive set of concepts for financial reporting, the revised "Conceptual Framework for Financial Reporting" (Conceptual Framework), replacing the previous version issued in 2010. The main changes to the framework's principles have implications for how and when assets and liabilities are recognised and derecognized in the financial statements, while some of the concepts in the revised Framework are entirely new (such as the "practical ability" approach to liabilities". To assist companies with the transition, the IASB issued a separate accompanying document "Amendments to References to the Conceptual Framework in IFRS Standards". This document updates some references to previous versions of the Conceptual Framework in IFRS Standards, their accompanying documents and IFRS Practice Statements.
  The Company is currently evaluating the expected impact of adopting the amendments on its financial statements. As such, the expected impact of the amendments is not yet known or reasonably estimable.

The following standard is expected to have a material impact on the Company's financial statements in the period of initial application.

A. Estimated impact of the adoption of IFRS 9
The Company is required to adopt IFRS 9 Financial Instruments from 1 January 2018. The Company has assessed the estimated impact that the initial application of IFRS 9 will have on its separate financial statements. The estimated impact of the adoption of this standard on the Company's equity as at 1 January 2018 is based on assessments undertaken to date and is summarised below. The actual impact of adopting the standard at 1 January 2018 may change because:
- the Company has not finalised the testing and assessment of controls over its new IT systems; and
- the new accounting policies are subject to change until the Company presents its first financial statements that include the date of initial application.

In thousands of dollars	*As reported at 31 December 2017 (US$'000)*	*Estimated adjustments due to adoption of IFRS 9(US$'000)*	*Estimated adjusted opening balance at 1 January 2018(US$'000)*
Accumulated losses	(1,408,213)	(7,840)	(1,416,053)

2. BASIS OF ACCOUNTING (continued)

(iv) Adoption of new and revised International Financial Reporting Standards and Interpretations (continued)

B. IFRS 9 Financial instruments

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

(i) Classification – Financial assets
IFRS 9 contains a new classification and measurement approach for financial assets that reflects the business model in which assets are managed and their cash flow characteristics. IFRS 9 contains three principal classification categories for financial assets: measured at amortised cost, FVOCI and FVTPL. The standard eliminates the existing IAS 39 categories of held to maturity, loans and receivables and available for sale.

Based on its assessment, the Company believes that the new classification requirements will not have a material impact on its accounting for cash and cash equivalents and trade and other receivables.

(ii) Impairment – Financial assets
IFRS 9 replaces the 'incurred loss' model in IAS 39 with a forward-looking 'expected credit loss' (ECL) model. This will require considerable judgement about how changes in economic factors affect ECLs, which will be determined on a probability-weighted basis. The new impairment model will apply to financial assets measured at amortised cost or FVOCI, except for investments in equity instruments, and to contract assets.

Under IFRS 9, loss allowances will be measured on either of the following bases:
– 12-month ECLs: these are ECLs that result from possible default events within the 12 months after the reporting date; and
– lifetime ECLs: these are ECLs that result from all possible default events over the expected life of a financial instrument.

The Company believes that impairment losses are likely to increase and become more volatile for assets in the scope of the IFRS 9 impairment model. Based on the impairment methodology described below, the Company has estimated that application of IFRS 9's impairment requirements at 1 January 2018 results in additional impairment losses as follows.

In thousands of dollars	*Estimated additional impairment recognised at 1 January 2018(US$'000)*
Trade and other receivables	8,030
Cash and cash equivalents	1
Gross additional impairment losses	**8,031**

2. BASIS OF ACCOUNTING (continued)

(iv) Adoption of new and revised International Financial Reporting Standards and Interpretations (continued)

B. IFRS 9 Financial instruments (continued)

(ii) Impairment – Financial assets (continued)

Trade and other receivables
The estimated ECLs for trade and other receivables were calculated based on actual credit loss experience over the prior years.

Cash and cash equivalents
The cash and cash equivalents are held with bank and financial institution counterparties as at 31 December 2017. The estimated impairment on cash and cash equivalents was calculated based on the 12-month expected loss basis and reflects the short maturities of the exposures. The Company considers that its cash and cash equivalents have low credit risk based on the external credit ratings of the counterparties.

(iii)Classification – Financial liabilities
IFRS 9 largely retains the existing requirements in IAS 39 for the classification of financial liabilities. However, under IAS 39 all fair value changes of liabilities designated as at FVTPL are recognised in profit or loss, whereas under IFRS 9 these fair value changes are generally presented as follows:
– The amount of change in the fair value that is attributable to changes in the credit risk of the liability is presented in OCI; and
– The remaining amount of change in the fair value is presented in profit or loss.
The Company has not designated any financial liabilities at FVTPL and it has no current intention to do so.

(iv)Transition
Changes in accounting policies resulting from the adoption of IFRS 9 will generally be applied retrospectively, except as described below.

The Company will take advantage of the exemption allowing it not to restate comparative information for prior periods with respect to classification and measurement (including impairment) changes. Differences in the carrying amounts of financial assets and financial liabilities resulting from the adoption of IFRS 9 will generally be recognised in retained earnings and reserves as at 1 January 2018.

The following assessments have to be made on the basis of the facts and circumstances that exist at the date of initial application.

- The determination of the business model within which a financial asset is held.

2. BASIS OF ACCOUNTING (continued)

(v) Use of estimates and judgements
The preparation of financial statements in conformity with IFRSs requires management to make 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 deviate from such estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimates are revised and in any future periods affected.

In particular, information about critical judgements in applying accounting policies that have the most significant effect on the amounts recognised in the financial statements are described below:

- Income taxes

Significant judgement is required in determining the provision for income taxes. There are transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. The Company recognises liabilities for anticipated tax audit issues based on estimates of whether additional taxes will be due. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the income tax provisions in the period in which such determination is made.

- Impairment of investments in subsidiaries

The Company periodically evaluates the recoverability of investments in subsidiaries whenever indicators of impairment are present. Indicators of impairment include such items as declines in revenues, earnings or cash flows or material adverse changes in the economic or political stability of a particular country, which may indicate that the carrying amount of an asset is not recoverable. If facts and circumstances indicate that investment in subsidiaries may be impaired, the estimated future undiscounted cash flows associated with these subsidiaries would be compared to their carrying amounts to determine if a write-down to fair value is necessary.

(vi) Functional and presentation currency
These 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 thousand, except when otherwise indicated.

3. SIGNIFICANT ACCOUNTING POLICIES

The accounting policies set out below have been applied consistently to all periods presented in these financial statements and in stating the financial position of the Company.

Subsidiary companies
Investments in subsidiary companies are stated at cost less provision for impairment in value, which is recognised as an expense in the period in which the impairment is identified.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Finance income and finance costs

Finance income comprises interest income on bank deposits. Interest income is recognised as it accrues in profit or loss, using the effective interest method.

Finance costs comprise interest expense on borrowings. Borrowing costs are recognised in profit or loss using the effective interest method.

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

Foreign currency translation

(i) *Functional and presentation currency*

Items included in the Company's financial statements are measured using the currency of the primary economic environment in which the entity operates ('the functional currency'). The financial statements are presented in United States Dollars, rounded to the nearest thousand, which is the Company's functional and presentation currency.

(ii) *Transactions and balances*

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in profit or loss.

Revenue

Dividend income

Dividend income is recognised in profit or loss when the right to receive payment is established i.e. dividends are declared and approved by the investee companies.

Tax

Tax liabilities and assets for the current and prior periods are measured at the amount expected to be paid to or recovered from the taxation authorities, using the tax rates and laws that have been enacted, or substantively enacted, by the reporting date. Current tax includes any adjustments to tax payable in respect of previous periods.

Dividends

Dividend distribution to the Company's shareholders is recognised in the Company's financial statements in the year in which they are approved by the Company's shareholders.

Financial instruments

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

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial instruments (continued)

(i) Cash and cash equivalents
For the purpose of the statement of cash flows, cash and cash equivalents comprise cash at bank.

(ii) Borrowings
Borrowings are recorded initially at the proceeds received, net of transaction costs incurred. Borrowings are subsequently stated at amortised cost. Any differences between the proceeds (net of transaction costs) and the redemption value is recognised in profit or loss over the period of the borrowings using the effective interest method.

Derecognition of financial assets and liabilities

Financial assets
A financial asset (or, where applicable a part of a financial asset or part of a group of similar financial assets) is derecognised when:

- the rights to receive cash flows from the asset have expired;
- the Company retains the right to receive cash flows from the asset, but has assumed an obligation to pay them in full without material delay to a third party under a 'pass through' arrangement; or
- the Company has transferred its rights to receive cash flows from the asset and either (a) has transferred substantially all the risks and rewards of the asset, or (b) has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

Financial liabilities
A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires.

When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognised in profit or loss.

Impairment of assets
Assets that have an indefinite useful life are not subject to amortisation and are tested annually for impairment. Assets that are subject to depreciation or amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units).

Offsetting financial instruments
Financial assets and financial liabilities are offset and the net amount reported in the statement of financial position if, and only if, there is a currently enforceable legal right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the asset and settle the liability simultaneously. This is not generally the case with master netting agreements, and the related assets and liabilities are presented gross in the statement of financial position.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Non-current assets held for sale
Non-current assets are classified as held for sale if their carrying amount will be recovered through a sale transaction rather than through continuing use. This condition is regarded as met only when the sale is highly probable and the asset is available for immediate sale in its present condition. Management must be committed to the sale, which should be expected to qualify for recognition as a completed sale within one year from the date of classification. Non-current assets classified as held for sale are presented separately in the statement of financial position and are to be measured at the lower of the asset's previous carrying amount and fair value less costs to sell.

Share capital
Ordinary shares are classified as equity. The difference between the fair value of the consideration received by the Company and the nominal value of the share capital being issued is taken to the share premium account.

Non-current liabilities
Non-current liabilities represent amounts that are due more than twelve months from the reporting date.

Comparatives
Where necessary, comparative figures have been adjusted to conform to changes in presentation in the current year.

4. REVENUE

	2017 US$ '000	2016 US$ '000
Dividend income	17,347	478,382

During the current year, the Company transferred its investment in subsidiary Severus Trading Limited to another subsidiary, Kentoralia Limited for a total consideration of US$24,000 thousand. Being a common control transaction the difference between the cost of investment and the disposal price was recognised as a deemed dividend received.

During the year 2016, the Company transferred its investment in subsidiary Bellgate Constructions Limited to another subsidiary, Vardia Limited for a total consideration of US$500,000 thousand. Being a common control transaction the difference between the cost of investment and the disposal price was recognised as a deemed dividend received.

5. ADMINISTRATIVE EXPENSES

	2017 US$ '000	2016 US$ '000
Consultancy and brokerage fees	193	1,723
Donations	-	640
Legal fees	1,118	623
Share option expense	-	857
Directors' remuneration	1,334	1,361
Auditors' remuneration	559	320
Valuation expenses	52	91
Insurance	106	168
Other administrative expenses	1,143	1,129
	4,505	6,912

6. NET FINANCE COSTS

	2017 US$ '000	2016 US$ '000
Interest income	-	208
Net foreign exchange gain	-	46
Finance income	-	254
Interest expense on loans and borrowings	(5,924)	(8,756)
Other finance costs	(17)	(21)
Net foreign exchange loss	(16)	-
Finance costs	(5,957)	(8,777)
Net finance costs	(5,957)	(8,523)

7. INVESTMENT IN SUBSIDIARIES

	2017 US$ '000	2016 US$ '000
Balance at 1 January	1,242,182	1,313,453
Additional investment in existing subsidiaries	35,406	511,010
Disposal of investment in subsidiaries	(6,654)	(21,618)
Impairment	(899,156)	(560,663)
Balance at 31 December	371,778	1,242,182

During the current year, the Company acquire, the remaining 5% shareholding in its subsidiary Beslaville Management Ltd for a total consideration of US$1,500 thousand.

In addition, during the current year, the Company made capital contributions for a total amount of US$23.134 thousand to its Russian subsidiaries Krown Investment LLC and Tverskaya Zastava LLC and increase its investment in Cypriot subsidiary Doralo Ltd with the issuance of 9,100 ordinary shares for a nominal value of €1 and share premium of €999 per share.

During the current year, the Company transferred its 100% holding in its subsidiary Severus Trading Ltd to its subsidiary Kentoralia Ltd for a total consideration of US$24,000 thousand. Being a common control transaction the difference of US$17,347 thousand between the cost of investment and the disposal price was recognised as a deemed dividend received in profit or loss.

During the year 2016, based on an internal restructuring plan, the Company transferred its 100% holding in its subsidiary Bellgate Constructions Limited to subsidiary Vardia Limited for a total consideration of US$500,000 thousand. Being a common control transaction the difference of US$478,382 thousand between the cost of investment and the disposal price was recognised as a deemed dividend received in profit or loss. Following this internal restructuring plan, the Company contributed on 30 December 2016 the amount of US$500,000 thousand to its subsidiary AFI D Finance S.A, which was previously received as deemed dividend.

At 31 December 2017 the Company recognised an impairment loss of US$899,156 thousand (31/12/2016: US$560,663 thousand) due to a decrease in the fair value of the properties held by its subsidiaries as at that date, the deemed dividend received and an estimate of impairment of the loan receivables of AFI D Finance S.A. in which the Company impaired its investment. Refer to the Russian Business Environment section in this note for further details of the unfavourable conditions which contributed to the drop in fair value of the subsidiaries' projects.

7. INVESTMENT IN SUBSIDIARIES (continued)

The details of the subsidiaries are as follows:

Investment	Country of incorporation	Principal activities	2017 US$ '000	2016 US$ '000
Investment in holding companies	Cyprus	Holding of investments/Financing	211,225	218,979
Investment in real estate companies	Russian Federation	Real estate development	159,995	215,569
Investment in financing companies	BVI	Financing	558	807,634
			371,778	1,242,182

The exposure to the Russian Business Environment in relation to the investment in real estate investment and development entities in Russia is presented in note 14 of these financial statements.

8. TRADE AND OTHER RECEIVABLES

	2017 US$ '000	2016 US$ '000
Receivables from related parties (Note 13)	8,344	210,378
Other receivables	89	569
	8,433	210,947

During the current year, the receivable balance from related party AFI D Finance S.A. for US$201,953 thousand was fully settled by way of offset with the whole trade payable amount of US$95,139 thousand, refer to note 12, and part of the loan payable to AFI D Finance S.A for US$106,814 thousand, refer to note 11.

The exposure of the Company to credit risk and impairment losses in relation to trade and other receivables is reported in note 14 of the financial statements.

9. CASH AND CASH EQUIVALENTS

	2017 US$ '000	2016 US$ '000
Cash and cash equivalents consists of:		
Cash at banks	897	2,057

10. SHARE CAPITAL AND RESERVES

	2017	2016
Share capital	US$ '000	US$ '000
Authorised		
2,000,000,000 shares of US$0.001 each	2,000	2,000
Issued and fully paid		
523,847,027 A ordinary shares of US$0.001 each	524	524
523,847,027 B ordinary shares of US$0.001 each	524	524
	1,048	1,048

Flotonic Limited, a fully owned private company of Mr Leviev, holds 336,948,796 Global Depository Receipts (issued over “A” ordinary shares) and 342,799,658 Depository Interests (issued over “B” ordinary shares), representing in aggregate 64.88% of the Company's issued share capital.

Additionally, Mr Leviev has personally granted a call option to Africa Israel Investments Ltd (“AI”), previous holding company, in respect of 51,933,807 GDRs and 52,835,598 B ordinary shares (approximately 10% of the Company's issued share capital) at a price of US$0.216 per 1 GDR and US$0.295 per 1 “B” ordinary share. The call option has been assigned by AI to trustees on behalf of AI bondholders and the trustees may exercise the Call Option within three years from the date of completion of the Purchase Transaction upon instructions of the AI bondholders.

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

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

10. SHARE CAPITAL AND RESERVES (continued)

Employee Share option plan (continued)

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

Following the lapse of the ten years period all options have vested during the year 2016 and expired during the year 2017.

11. LOANS AND BORROWINGS

	2017 US$ '000	2016 US$ '000
Long term liabilities		
Loans from AFID Finance SA (Note 13)	22,182	109,337
Maturity of non-current borrowings:		
Within one year	-	-
Between one and five years	22,182	109,337
	22,182	109,337

During the current year, the Company's subsidiary, AFI D Finance S.A., granted an additional tranche of US$13,735 thousand and the Company settled part of the existing loan payable amounting to US$106,814 thousand by way of offset with its receivable balance from AFI D Finance S.A., refer to note 8.

The loan outstanding on 31 December 2017 represents the unsecured loan from AFI D Finance S.A. The loan bears interest of 6% per annum and is repayable on 31 December 2021.

The exposure of the Company to interest rate risk in relation to financial instruments is reported in note 14 of the financial statements.

12. TRADE AND OTHER PAYABLES

	2017 US$ '000	2016 US$ '000
Payables to related parties (Note 13)	4,428	99,316
Other payables	469	202
	4,897	99,518

Payables to related parties included an obligation of US$95,139 thousand to AFI D Finance S.A. arising from an assignment agreement according to which AFID Finance S.A. assigned to the Company a loan receivable from Bellgate Constructions Limited which was later set off with a loan payable to Krown Investments LLC. During the year, the full amount of US$95,139 thousand was set off with the trade receivable balance from AFI D Finance S.A, refer to note 8.

13. RELATED PARTIES

The transactions with related parties are as follows:

(i) Transactions with the Key Management Personnel

	2017 US$ '000	2016 US$ '000
Key management personnel compensation comprised:		
Short-term employee benefits	1,200	1,200
Share option scheme expense	-	857

(ii) Other related party transactions

	2017 US$ '000	2016 US$ '000
Interest expense charged from subsidiaries	(5,924)	(8,756)
Consulting fees charged by related company	-	(157)
Management fees charged from subsidiaries	(773)	(769)
Other administrative expenses charged by related company	(32)	(11)

The balances with related parties are as follows:

(iii) Receivables from related parties (Note 8)

	2017 US$ '000	2016 US$ '000
Receivables from subsidiaries	8,344	210,378

13. RELATED PARTIES (continued)

The balances with related parties are as follows:

(iv) Payables to related parties (Note 12)

	2017 US$ '000	2016 US$ '000
Payables to subsidiaries	4,096	98,984
Payables to related company	332	332
	4,428	99,316

(v) Loan from related party (Note 11)

	2017 US$ '000	2016 US$ '000
Name		
AFI D Finance S.A.	22,182	109,337

14. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

Financial risk factors

The Company is exposed to the following risks from its use of financial instruments:

- Credit risk
- Liquidity risk
- Market risk

The Board of Directors has overall responsibility for the establishment and oversight of the Company's risk management framework.

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

Credit risk

Credit risk arises when a failure by counter parties to discharge their obligations could reduce the amount of future cash inflows from financial assets on hand at the reporting date. The Company has no significant concentration of credit risk. Cash balances are held with high credit quality financial institutions and the Company has policies to limit the amount of credit exposure to any financial institution.

14. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (continued)

Financial risk factors (continued)

Credit risk (continued)

Trade and other receivables
The Company establishes an allowance for impairment that represents its estimate of incurred losses in respect of trade and other receivables. The main components of this allowance are a specific loss component that relates to individually significant exposures and a collective loss component established for groups of similar assets in respect of losses that have been incurred but not yet identified.

Cash and cash equivalents
Credit risk arises from cash and cash equivalents. Cash transactions are limited to high-credit-quality financial institutions. The utilisation of credit limits is regularly monitored.

Guarantees

The Company's policy is to provide financial guarantees only to wholly-owned subsidiaries. In negotiations with lending banks, the Company aims to avoid recourse to AFI Development on loans taken by subsidiaries.

As at 31 December 2017, there were three outstanding guarantees: one for the amount of US$1 million in favour of VTB Bank PJSC under a loan facility agreement of Bellgate Construction Limited (AFIMALL City), the second for the amount of US$ 83,1 million in favour of VTB Bank PJSC, under a loan facility agreement of Krown Investments LLC (Ozerkovskaya III) and the third for the amount up to the book value of the loans which equals US$ 51,1 million also in favour of VTB Bank PJSC, under a loan facility agreements of Sanatorium Plaza LLC and Sanatorium PlazaSPA LLC.

In January 2018, AFI Development provided an additional guarantee in favour of VTB Bank PJSC for the loan amounting to US$12.2 million, taken by its subsidiary OJSC MKPK to refinance the incurred construction costs. In Q1 2018 guarantees of AFI Development under a loan facility agreement of Bellgate Construction Limited (AFIMALL City) and under a loan facility agreement of Krown Investments LLC (Ozerkovskaya III) were terminated due to repayment of debt under loan facility agreements.

Liquidity risk
Liquidity risk is the risk that arises when the maturity of assets and liabilities does not match. An unmatched position potentially enhances profitability, but can also increase the risk of losses. The Company has procedures with the object of minimising such losses such as maintaining sufficient cash and other highly liquid current assets and by having available an adequate amount of committed credit facilities.

Market risk
Market risk is the risk that changes in market prices, such as foreign exchange rates, interest rates and equity prices will affect the Company's income or the value of its holdings of financial instruments.

Interest rate risk
Interest rate risk is the risk that the value of financial instruments will fluctuate due to changes in market interest rates. Borrowings issued at variable rates expose the Company to cash flow interest rate risk. Borrowings issued at fixed rates expose the Company to fair value interest rate risk. The Company's management monitors the interest rate fluctuations on a continuous basis and acts accordingly.

14. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (continued)

Financial risk factors (continued)

Market risk (continued)

Currency risk

Currency risk is the risk that the value of financial instruments will fluctuate due to changes in foreign exchange rates. Currency risk arises when future commercial transactions and recognised assets and liabilities are denominated in a currency that is not the Company's measurement currency. The Company is exposed to foreign exchange risk arising from various currency exposures primarily with respect to the Euro and the Russian Rouble. The Company's management monitors the exchange rate fluctuations on a continuous basis and acts accordingly.

Capital management

The Company manages its capital to ensure that it will be able to continue as a going concern while increasing the return to shareholders through the strive to improve the debt equity ratio. The Company's overall strategy remains unchanged from last year.

Russian Subsidiaries’ Business Environment

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

The conflict in Ukraine and related events has increased the perceived risks of doing business in the Russian Federation. The imposition of economic sanctions on Russian individuals and legal entities by the European Union, the United States of America, Japan, Canada, Australia and others, as well as retaliatory sanctions imposed by the Russian government, has resulted in increased economic uncertainty including more volatile equity markets, a depreciation of the Russian Rouble, a reduction in both local and foreign direct investment inflows and a significant tightening in the availability of credit. In particular, some Russian entities may be experiencing difficulties in accessing international equity and debt markets and may become increasingly dependent on Russian state banks to finance their operations. The longer term effects of recently implemented sanctions, as well as the threat of additional future sanctions, are difficult to determine.

14. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (continued)

Financial risk factors (continued)

Russian Subsidiaries’ Business Environment (continued)

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

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

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

15. FAIR VALUES

The fair values of the Company's financial assets and liabilities approximate their carrying amounts at the reporting date.