AFI DEVELOPMENT

AFI DEVELOPMENT PLC

ANNUAL REPORT 2018

Annual Report 2018

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1. Introduction

AFI Development Plc ("AFI Development" or "the Company" or "the Group") is one of the leading real estate development and investment groups, focused principally on the Russian market.

Incorporated in Cyprus in 2001 and with a premium listing on the London Stock Exchange since 2010, AFI Development builds large scale, integrated and high profile commercial and residential properties to international standards.

AFI Development 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.

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

Forward-looking Statements

This document may contain "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.
Forward-looking statements are sometimes, but not always, identified by their use of a date in the future or such words as «will», "anticipates", "aims", "due", "could", "may", "should", "expects", "believes", "intends", "plans", "targets", "goal" or "estimates." By their 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, the following:

- general economic and political conditions in the jurisdictions in which the Company operates and changes to the associated legal, regulatory, competition and tax environments;
- changes in the economies and markets 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 may affect, the Company; and
- changes in interest rates and foreign exchange rates.

Any written or oral forward-looking statements, made in this document or subsequently, which are attributable to the Company or any persons acting on their behalf are expressly qualified in their entirety by the factors referred to above. No assurances can be given that the forward-looking statements in this document will be realised. Subject to compliance with applicable law and regulations, the Company does not intend to update these forward-looking statements and does not undertake any obligation to do so.

2. CHAIRMAN'S STATEMENT

2. Chairman's Statement

Mr Elias Ebrahimpour (Eli Avrahampour)
Independent Non-Executive Chairman (from 1 January 2019)

For the Russian economy in general, 2018 was marked by the negative influence of US sanctions introduced in April, which were targeted against specific commodity producers and state-owned banks. The sanctions caused a weakening of the rouble, particularly towards the year-end, and triggered a rise in inflation. In response, the Central Bank of Russia ("CBR") raised its key lending rate by 25bps in September and December 2018 (currently at 7.75%). Inflation remains low, by Russian standards (4.3%, CBR), while the GDP grew modestly by 1.63% (OECD).

AFI Development performed steadily during the year due to continued progress at our four ongoing residential projects in Moscow and the Moscow region under construction and marketing, and our yielding properties under operation. The sale of residential properties and parking units continued to play a significant role in our revenue generation, alongside revenue earned from rent and hotel operations.

Revenue for the Company in 2018 grew 65% year-on-year to US$296.0 million, supported by strong residential sales which contributed US$169.6 million to total revenue. This is largely due to the implementation of IFRS 15[1] .

Yielding properties performed well throughout 2018, with strong contribution from our flagship project, the AFIMALL City, which generated US$86.8 million in revenue, up 5% from the prior year. Overall, rental and hotel operating income for the year was US$125.5 million, a 7% increase year-on-year.

The Company recorded a gross profit of US$89.4 million in 2018, while net profit was US$31.5 million.

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

Valuation

As at 31 December 2018, based on the Jones Lang LaSalle LLC ("JLL") independent appraisers' reports and on accounting book value of properties, the value of AFI Development's portfolio of investment properties stood at US$742.6 million, while the value of the portfolio of investment property under development stood at US$141.9 million.

The total value of the Company's assets, mainly based on independent valuation as of 31 December 2018 and book values of residential development projects, was US$1.25 billion, compared to US$1.42 billion as at 31 December 2017. The drop in values was triggered by the exchange rate fluctuation effect (the rouble depreciated by 20.61% YoY) and reduction in the book values of residential projects due to delivery of apartments in AFI Residence Paveletskaya in Q2 2018 and the implementation of IFRS 15.

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

Liquidity

We ended 2018 with approximately US$100.2 million of cash, cash equivalents and marketable securities on our balance sheet (-5% YoY), and a debt to equity level of 68%. This position reflects the Company's ability to continue balancing liquidity requirements from a number of sources.

For commercial projects, our financing strategy aims to maximise the level of debt financing for projects under construction, while maintaining healthy loan-to-value levels. After delivery and commissioning, we aim to refinance the properties at more favourable terms, including longer amortisation periods, lower interest rates and higher principal balloon payments. Property rights and shares of property holding companies are mainly used as collateral for the debt[2]. We strongly prefer, whenever possible, to use non-recourse project level financing.

For residential projects, our financing strategy is to finance the ongoing construction from pre-sales, while for the new phases of our projects, which will be developed under the newly introduced mandatory escrow-schemes, the construction will be financed by bank project finance at market terms.

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

Key Events Subsequent to 31 December 2018

The Company did not have any significant events subsequent to 31 December 2018.

[2]Debt includes all loans and borrowings. For further details please see note 27 to the Financial Statements.

Portfolio Update

AFIMALL City

During 2018, AFIMALL City continued to demonstrate growth in footfall, revenue and NOI.

Average daily footfall in December 2018 was 21% higher compared to December 2017, reflecting the development of the Moscow City area (such as improving transportation infrastructure, and opening of new office space).

Revenue grew 5% year-on-year to US$ 86.8 million and NOI increased 1% year-on-year to US$63.7. Occupancy stood at 93% at the end of the year.

In January 2019, the Russian government announced that three federal ministries, namely the Ministry of Economic Development, the Ministry of Communications and the Ministry of Industry and Trade will relocate to Moscow City in 2019, occupying about 70,000-80,000 sq.m of office space.

AQUAMARINE III (OZERKOVSKAYA III)

In February 2018, AFI Development successfully completed the disposal transaction of two buildings in the complex for RUR7.89 billion (circa US$135 million). The Company currently owns one remaining building in the complex (GBA 18,759 sq.m including underground parking), which is leased to Deutsche Bank, Brown-Forman and other tenants.

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 2018. Notably, the Aquamarine hotel benefited from the football World Cup held in Russia in the summer of 2018.

ODINBURG

At Odinburg, construction work and marketing continued throughout the year. The construction and sales of Building 3 (phase II) have commenced, while Building 3 (Phase I) and Building 6 (Phase II) are under construction and currently being marketed to customers.

As of 31 March 2019, 697 apartments (99% of total) were sold in Building 2, 680 (74% of total) in Building 3 (Phase I) and 206 (92% of total) in Building 6.

AFI RESIDENCE PAVELETSKAYA

In December 2015, AFI Development successfully launched the main construction phase of the project. The pre-sale of apartments and "special units"[3] began simultaneously with the onset of construction.

In 2018, construction and marketing of AFI Residence Paveletskaya proceeded according to schedule. Delivery of Phase I apartments to customers was completed while construction of Phase II and Phase III apartments remains ongoing. As of 31 March 2019, 558 contracts for pre-sales of both apartments and "special units" have been signed (88% of Phase I and Phase II combined).

[3]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

The main construction phase and pre-sale of apartments was launched in Q1 2017 at Bolshaya Pochtovaya. During 2018, construction and marketing of the apartments progressed to schedule and as of 31 March 2019, 251 apartments (62% of Phase I and Phase II combined) had been pre-sold to customers.

BOTANIC GARDEN

The main construction phase and pre-sale of apartments at Botanic Garden, which began in Q1 2017, continues to progress as expected. As of 31 March 2019, 348 apartments (43% of Phase I) have been pre-sold to customers.

TVERSKAYA PLAZA Ic

The project, located in 2nd Brestskaya street in the office district near the Belorussky Railway station, is planned as a grade A office building. Construction of the building commenced in Q1 2019.

TVERSKAYA PLAZA II

In Q2 2017, the Company obtained development rights for a project at Tverskaya Plaza II. This has been approved for development by the Moscow construction authorities as a “recreational centre”, with a gross buildable area of 22,000 sq.m.

Outlook

A weaker rouble and additional taxation are expected to place downward pressure on the profitability of both the Company's yielding properties, AFIMALL City in particular, and the residential projects. The impact of these two factors is already reflected in the valuation of our portfolio, which resulted in valuation loss on properties of US$11.5 million for 2018.

Broadly speaking, the tax increases introduced in 2019 will drive up the investment cost for all projects under development. The introduction of new escrow schemes for residential development poses uncertainty as to the magnitude of its effects on costs and cash flows. For details on taxation increases and the new mandatory escrow schemes please refer to the Market Update section below.

We see that sanctions have caused the CBR to increase its key lending rate in 2018 and we believe further increases in 2019 are likely. The CBR key lending rate, in turn, will drive the cost of mortgage finance higher. Approximately 55-65% of our residential sales are mortgage financed and therefore, we expect the demand for our residential units to decline. Furthermore, if the CBR further increases its key lending rates, our cost of rouble financing will also increase.

New competition in residential segment from the state renovation programme will most probably affect future sales. We remain cautiously optimistic and believe that AFI Development will meet the challenges in both residential and commercial segments, supported by our market experience and competitive projects.

BOARD OF DIRECTORS

The Directors of AFI Development, as at the date of publication of this report, are as set out below:

Mr Elias Ebrahimpour (Eli Avrahampour),
Non-Executive Chairman of the Board

Mr Panayiotis Demetriou,
Senior Non-Executive Independent Director

Mr Avraham Noach Novogrocki,
Non-Executive Independent Director

Elias Ebrahimpour (Eli Avrahampour), Chairman

3. UNDERSTANDING AFI DEVELOPMENT

3. Understanding AFI Development

In this section we provide an overview of AFI Development Group's structure, our operations and development projects.

3.1 Group structure

AFI Development Plc acts as a holding company for the Group's investments in subsidiaries, usually structured as special purpose vehicles set up to develop and operate particular projects, and joint ventures, when applicable. AFI Development Plc is managed by the Board of Directors, which is based in Cyprus and regularly meets there. The majority of our real estate projects are managed by our operating subsidiary, AFI RUS LLC, which acts as a management company for the Russian subsidiaries and for the branches of international subsidiaries.

Stroyinkom-K LLC, another key operating company in the Group, serves as project and construction manager for most of the Group's Russian projects under development. It is a Russian company licensed to perform various technical and supervisory functions in the development and construction process, which is heavily regulated in Russia.

AFI Development Hotels Limited is a subsidiary which operates the Company's hospitality projects.

AFI Ukraine Limited is a dedicated subsidiary holding stakes in the Company's projects in Ukraine.

A list of significant subsidiaries of AFI Development Plc can be found in Note 33 to the consolidated financial statements. A simplified structure of the AFI Development Group is presented in the Exhibit 1 below (this is not a legal structure, it is intended to illustrate how the Company's holding structure and operations are organised):

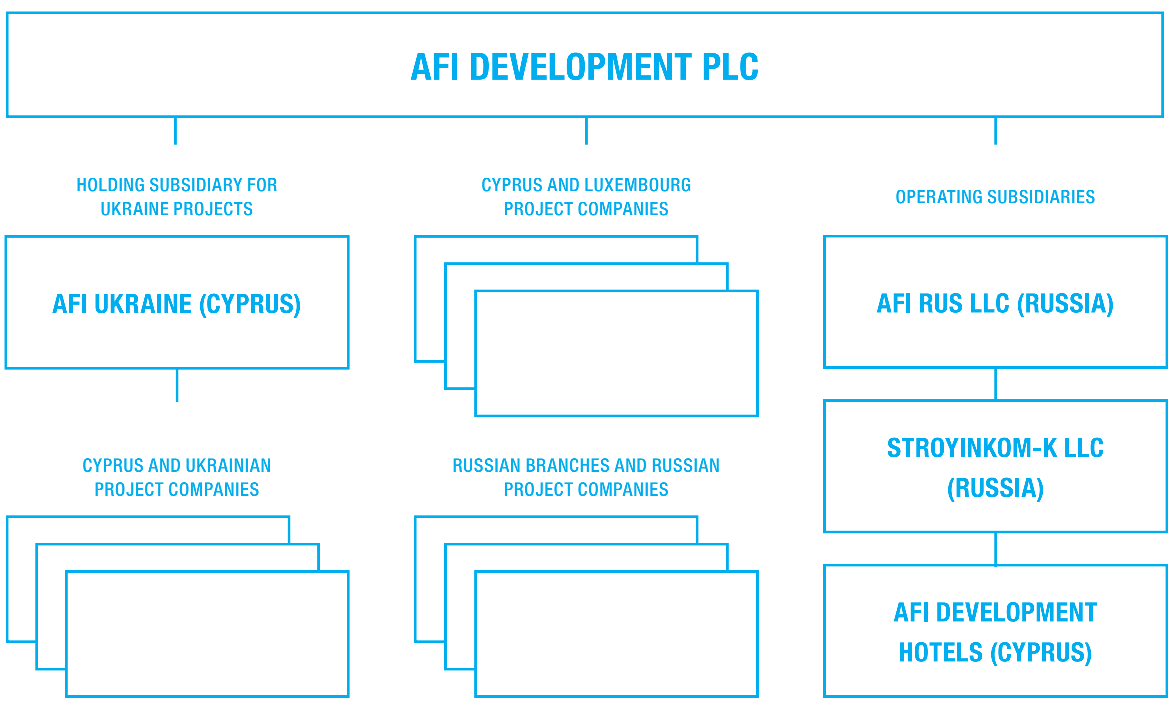


Exhibit 1: Simplified structure of the AFI Development Group

CHAIRMAN'S STATEMENT
3 UNDERSTANDING AFI DEVELOPMENT
OPERATIONAL REVIEW
PRINCIPAL BUSINESS RISKS AND UNCERTAINTIES AFFECTING THE COMPANY
CORPORATE GOVERNANCE AND COMPLIANCE WITH THE UK LISTING RULES
DIRECTORS' REMUNERATION REPORT
MANAGEMENT REPORT ON NON-FINANCIAL DISCLOSURE
FINANCIAL STATEMENTS

3.2 Our strategy

AFI Development is focused on developing and redeveloping high-quality, integrated, large-scale, commercial and residential real estate assets including offices, shopping centres, hotels, mixed-use properties and residential projects. As part of our strategy, we aim to sell the residential units we develop and lease the commercial properties, whilst not excluding opportunistic sales of select developments. We are committed to growing our high-quality income-generating real estate portfolio.

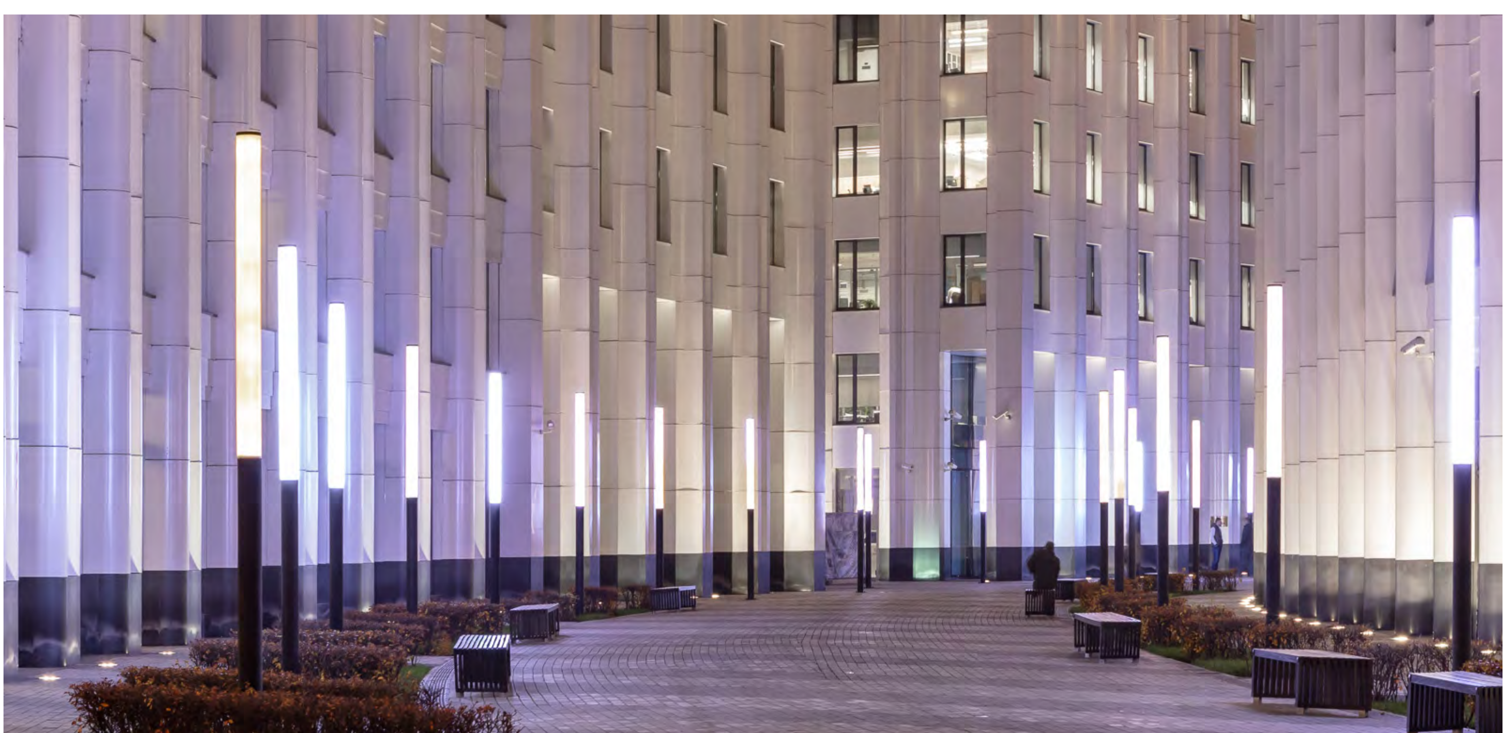
Moscow is a rapidly expanding city; AFI Development has been part of this expansion for the last ten years and aims to develop projects that meet the needs of a growing, global city, creating new urban environments.

In addition to their large scale and high complexity, our projects are regenerative for their local environments and involve significant improvements to existing infrastructure. As such, we aim to enhance the overall value of the neighbourhoods we enter, creating more comfortable living and working conditions.

During our years of successful operations in Moscow, we have worked closely with the City authorities who have long recognised the high value-added nature of our projects. We have every confidence in our continued successful cooperation with the authorities going forward.

Our experienced management team, with strong knowledge and a proven track record of operating in the Russian market, aims to maintain a diversified portfolio whilst using a flexible, phased development approach. This allows us to leverage its development platform and complete projects on a cost-efficient basis, whilst also generating cash returns at the earliest possible opportunity. The high-quality of our developments enables us to attract international and local tenants on favourable terms. To ensure high retention rates, we aim to sign leases of increasing length and place significant emphasis on on-going tenant relations.

Our expectation for the medium to long-term is that the Moscow real estate market will continue to offer a high volume of business activity and robust development potential due to its size, its position as the largest financial centre in Russia and as one of the largest capital cities in Europe. We believe that the current macroeconomic headwinds are temporary and do not change our view on the long-term fundamental strength of the Moscow market. Our development focus will remain in Moscow, with expectations of further market improvement. At the same time, we will continue to review opportunities outside of Moscow and consider select projects based on the availability of financing and strength of demand.



3.3 Our project portfolio

Yielding properties

AFIMALL CITY

AFIMALL City is a retail and entertainment development, located in the high-rise business district of Moscow, "Moscow-City". With a total gross building area ('GBA') of 274,877 sq.m (including parking), and gross leasable area ('GLA') of 107,036 sq.m, the project has a shopping gallery of nearly 460 shops, an 11-screen movie theatre and a number of additional outstanding leisure and dining facilities. The Mall introduces a new standard of quality to the Russian retail sector and offers visitors a combined shopping, dining and entertainment experience.

AFIMALL City has direct underground access from three metro stations (Vystavochnaya, Mezhdunarodnaya, Delovoy Tsentr) and from the Third Transportation Ring. "City" railway station, of the new circular rail line, is also in close vicinity to AFIMALL.

Type	Retail
Company share	100%
GBA, (sq.m)	274,877
GLA, (sq.m)	107,036
Parking, units	2,022
Valuation by JLL as at 31.12.2018 (US$ million)	637.3
Status	Yielding

OZERKOVSKAYA (AQUAMARINE) PHASE III

Ozerkovskaya (Aquamarine) III is an office complex forming part of the "Aquamarine" mixed-use development, located on the Ozerkovskaya embankment in the heart of the historical Zamoskvorechie district of Moscow. The project consists of four Class A buildings, with shared underground parking, and creates attractive working conditions through state-of-the-art architecture, innovative design and efficient use of space. Due to these characteristics, "Aquamarine III" sets new standards for quality and an aspirational environment among Moscow's commercial developments. The project is located within the Garden Ring and is served by two metro stations.

As of 31 December 2018, the Company owned one building in the complex, which is leased to high-quality international tenants, including Deutsche Bank and Brown Forman. In 2013, AFI Development disposed of Building 1 in the complex to ALROSA mining company, while in 2017 Buildings 2 and 4 were disposed to a large Russian bank.

Type	Office
Company share	100%
GBA, (sq.m)	18,759*
GLA, (sq.m)	13,622
Parking, units	199
Valuation by JLL as at 31.12.2018 (US$ million)	57.4
Status	Leased to tenants

** After the disposal of Buildings 1, 2 and 4*

BEREZHKOVSKAYA – RIVERSIDE STATION

The project comprises four reconstructed Class B+ office buildings, which form a gated business park. The project is located in central Moscow, between the Garden Ring and the Third Transportation Ring, and is within walking distance of the Kievskaya transportation hub.

Type	Office, business park
Company share	100%
GBA, (sq.m)	7,910
GLA, (sq.m)	6,928
Parking, units	105
Valuation by JLL as at 31.12.2018 (US$ million)	10.0
Status	Yielding

PAVELETSKAYA I OFFICE COMPLEX

The Paveletskaya I office complex comprises a reconstructed Class B building. It is located in close vicinity to the AFI Residence Paveletskaya residential complex.

Type	Office, business park
Company share	99.18%
GBA, (sq.m)	16,082
GLA, (sq.m)	13,506
Parking, units	102
Valuation by JLL as at 31.12.2018 (US$ million)	9.5
Status	Yielding

H20 OFFICE COMPLEX

The project comprises a Class B office building which was reconstructed around the frame of a former administrative building. It is located in a dynamic and developing business area on the border of Moscow's Central and Southern Administrative Districts. It is located in close vicinity to the AFI Residence Paveletskaya residential complex.

Type	Office
Company share	99.18%
GBA, (sq.m)	9,002
GLA, (sq.m)	8,012
Parking, units	40
Valuation by JLL as at 31.12.2018 (US$ million)	7.0
Status	Yielding

Development projects

ODINBURG

Odinburg is located in the town of Odintsovo in the Moscow region (11 km west of Moscow). The entire residential district spans an area of 33.14 hectares. The development is planned to include multi-functional infrastructure comprising 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 (2,850 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 307,200 sq.m (6,573 apartments).

Each phase includes commercial premises on the ground loor that will be sold to end users. In addition, the project will include stand-alone shopping centres with areas to be leased to tenants.

Type	Residential
Company share	100%
GBA, (sq.m)	789,300
GSA residential/ GSA commercial/ GLA shopping centres, (sq.m)	461,039/ 19,560/16,800
Parking, units	4,563
Book value *	90.3
Status	Construction

** Odinburg is an asset of the Trading properties under development and Trading property category and presented in the Financial Statements at cost. Trading property under development is represented by accumulated cost of construction less impairment and comprises US$87.5 million. Trading property comprises completed apartments, parking places and offices of Buildings 1 and 2 amounting to US$2.8 million*

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 property is being marketed under the brand "Residence of Composers".

Part of the project's commercial area is designated to "special units". These "special units" are premises not legally zoned for housing but, according to common practice on the Russian market, are widely sold for residence (a person cannot register at this address, but the premises can be used for housing). The prices of "special units" are normally lower than that of similar apartments (zoned housing units).

The project consists of three phases:

- Phase I – residential buildings with a total General Buildable Area ('GBA') of 52,928 sq.m and total General Sellable Area ('GSA') of 31,841 sq.m. This phase is planned to include 175 apartments, 220 special units and 5,900 sq.m of flexible commercial space.
- Phase II – planned to have a GBA of 49,860 sq.m and total GSA of 27,620 sq.m. This phase will include apartments and 1,403 sq.m of flexible commercial space.
- Phase III – comprises a GBA of 31,061 sq.m and total GSA of 20,000 sq.m. This phase is planned to include 9,842 sq.m of apartments and flexible commercial space.

Type	Residential
Company share	99.18%
GBA, (sq.m)	136,068
GSA residential/ GSA commercial (sq.m)	79,400/ 17,300
Parking, units	1,085
Book value, (US$ million) *	53.2
Status	Construction

** AFI Residence Paveletskaya is an asset of the Trading properties under development and Trading property category and presented in the Financial Statements at cost. Trading property under development is represented by accumulated cost of construction and comprises US$37.9 million. Trading property is represented by completed apartments, parking places and offices of Phase 1 and comprises US$15.3 million*

BOLSHAYA POCHTOVAYA

Bolshaya Pochtovaya is a mixed-use project (predominantly residential) on a land area of 5.65 hectares. The development is located in the Central Administrative district of Moscow. The land plot borders the Yauza river, providing notable views from the project. The project is located in an attractive neighbourhood, which benefits from developed social infrastructure: transport, shops and cultural/leisure amenities. The main construction phase was launched in March 2017 and the property is being marketed under the brand, "Residence of Architects".

The project will include 11 residential buildings, 4 stand-alone commercial buildings, 2 levels of underground parking and a kindergarten. The construction will be realised in four phases:

- Phase I – several residential buildings with a total General Buildable Area ('GBA') of of 40,788 sq.m and total General Sellable Area ('GSA') of 25,969 sq.m. This phase will comprise apartments, 8,400 sq.m of flexible commercial space and a kindergarten.
- Phase II – will have a GBA of 37,373 sq.m and total GSA of 21,483 sq.m. This phase will include apartments and 3,382 sq.m of flexible commercial space.
- Phase III – has a GBA of 35,629 sq.m and total GSA of 22,719 sq.m. This phase will include apartments and 2,953 sq.m of flexible commercial space.
- Phase IV – will have a GBA of 22,792 sq.m and total GSA of 14,744 sq.m. It is designed to include apartments and 1,002 sq.m of retail space.

Type	Residential
Company share	99.71%
GBA, (sq.m)	136,581
GSA residential/ GSA commercial (sq.m)	51,760/31, 974
Parking, units	666
Book value, (US$ million) *	75.6
Status	Construction

** Bolshaya Pochtovaya is an asset of the Trading properties under development category and presented in the Financial Statements at cost.*

BOTANIC GARDEN

Botanic Garden is a residential project, located in the North-Eastern Administrative District of Moscow. It is approximately 8km from the Third Transportation Ring, near the major transportation route of the district Prospect Mira and within walking distance to Botanichesky Sad and Sviblovo metro stations. The future residential complex has a land plot of 3.2 hectares and a GBA of 206,790 sq.m.

The project will comprise several residential buildings with ground-floor commercial space, two levels of underground parking and will be realised in two phases:

- Phase I – includes several residential buildings with a total General Buildable Area ('GBA') of 138,655 sq.m and total General Sellable Area (GSA) of 71,773 sq.m. This phase is planned to include apartments and 6,2120sq.m of flexible commercial space.
- Phase II – has a GBA of 68,135 sq.m and total GSA of 46,327 sq.m. This phase is planned to include apartments and 697 sq.m of flexible commercial space.

Type	Residential
Company share	100%
GBA, (sq.m)	206,790
GSA residential/ GSA commercial (sq.m)	111,191/6,909
Parking, units	542
Book value, (US$ million) *	77.8
Status	Construction

** Botanic Garden is an asset of the Trading property under construction category and presented in the Financial Statements at cost.*

TVERSKAYA PLAZA IC

The project is a Class A office complex located at 50/2, 2nd Brestskaya street, Moscow. Among the key attractions of this project are its excellent public and private transport links and its location in a well-developed and established business district. It lies in close proximity to The Four Winds Plaza and other Class A office properties in the well-developed office area between the Garden Ring and Belorussky railway station.
The Company launched construction of this project in Q1 2019.

Type	Office
Company share	100%
GBA, (sq.m)	50,200
GLA, (sq.m)	40,000
Parking, units	238
Valuation by JLL as at 31.12.2018 (US$ million)	61.1
Status	Construction

TVERSKAYA PLAZA II

The project is located at Tverskaya Zastava square, near the Belorussky railway station.
In Q2 2017, the Company obtained development rights for the project, which has been approved for development by the Moscow construction authorities as a “recreational centre” with a gross buildable area (‘GBA’) of 22,000 sq.m. Plaza II is a retail-entertainment development project for the construction of a 7-storey building with one underground level and a total GBA of 22,000 sq.m and providing 14,000 sq.m of Gross Leasable Area.

Type	Office
Company share	100%
GBA, (sq.m)	22,000
GLA, (sq.m)	14,000
Parking, units	44
Valuation by JLL as at 31.12.2018 (US$ million)	18.0
Status	Development stage

TVERSKAYA PLAZA IV

Plaza IV development project is located 200 meters from Tverskaya Zastava square at 11 Grouzinsky Val, Moscow. The project comprises a major office development with a supporting retail zone on the ground floor.

Type	Office
Company share	100%
GBA, (sq.m)	92,285
GLA, (sq.m)	75,292
Parking, units	389
Valuation by JLL as at 31.12.2018 (US$ million)	54.0
Status	Development stage

KOSSINSKAYA

Kossinskaya is a mixed-use building with 9 above ground floors and a single underground level. The property was initially constructed in 2005.

Type	Mixed-use retail/office
Company share	100%
GBA, (sq.m)	108,528
GLA, (sq.m)	70,000
Parking, units	1,200
Valuation by JLL as at 31.12.2018 (US$ million)	25.7
Status	Pipeline

HOTELS

AQUAMARINE HOTEL (MOSCOW)

The four star hotel, which offers a full range of business and leisure facilities, is located in the historical centre of Moscow, near the Kremlin, and forms part of AFI Development's major Ozekovskaya Embankment mixed-use development.

In July 2018, the Company concluded a franchising agreement with the Intercontinental Hotel Group to allow the Aquamarine Hotel to be rebranded as Crowne Plaza. The Hotel will be renamed "Crowne Plaza Tretyakovskaya".

Type	City-hotel
Company share	100%
GBA, (sq.m)	8,848
Number of rooms	159
Status	Operating

PLAZA SPA HOTEL (KISLOVODSK)

Plaza Spa Hotel in Kislovodsk is a 4-star hotel located on a 1.5 hectare land plot. It comprises two hotel buildings, a spa, a health and fitness center, a swimming pool, saunas, restaurants and conference facilities. Located in the Caucasus mineral waters region, the Plaza Spa Kislovodsk caters to guests seeking treatment for cardiovascular and nervous system conditions, as well as respiratory diseases.

Type	Hotel/Spa resort
Company share	100%
GBA, (sq.m)	25,000
Number of rooms	275
Status	Operating

PLAZA SPA HOTEL (ZHELEZNOVODSK)

The Plaza Spa Hotel Zheleznovodsk is a modern mid-class spa and medical resort in the Caucasus mineral waters region. The hotel is adjacent to the main park of Zheleznovodsk, featuring a thermal water source, and has a direct access to the park. A spa treatment area occupies approximately 1,100 sq.m, which includes 45 treatment rooms, saunas, a jacuzzi, an indoor swimming pool and extensive medical and diagnostic facilities.

Type	Hotel/Spa resort
Company share	100%
GBA, (sq.m)	11,701
Number of rooms	134
Status	Operating

COMPLETED PROJECTS

FOUR WINDS PLAZA

Four Winds Plaza is one of the most prestigious modern Class A office buildings in central Moscow. Designed by NBBJ, and co-developed by AFI Development and Snegiri Development, Four Winds Plaza hosts the Russian headquarters of Morgan Stanley, Barclays Capital and Moody's among its high-quality tenant mix. Four Winds Plaza is easily accessible from Mayakovskaya and Belorusskaya metro stations, as well as from 1st Tverskskaya Yamskaya streets and the Garden Ring. The Company disposed of its share in the project in January 2013.

Type	Office
Company share	50%
GBA, (sq.m)	28,241
GLA, (sq.m)	22,035
Parking, units	138
Status	Completed

FOUR WINDS RESIDENTIAL

Four Winds Residential is a luxury residential building, with a commercial area on the ground floor, which is part of the Four Winds mixed-use development. Construction of the building was completed at the end of 2008. The project includes a fitness and retail zone, which is leased to third party tenants.

Type	Residential
GBA, (sq.m)	41,364
GSA, (sq.m)	18,100
GLA, (sq.m)	5,069
Number of apartments	108
Parking, units	323
Status	Completed

OZERKOVSAYA (AQUAMARINE) PHASE II

Ozerkovskaya (Aquamarine) II is a high-end residential complex comprising 114 luxury apartments varying between 70 and 300 sq.m in size. The complex has its own amenities including a courtyard with a playground, a recreational area, a flower garden and lawns, and a 240 sq.m pond, which is converted into an ice skating rink in winter.

Type	Residential
GBA, (sq.m)	41,980
GSA, (sq.m)	15,821
Number of apartments	114
Status	Completed

3.4 Board of Directors

AFI Development Plc is managed by a highly experienced Board of Directors, which currently comprises three directors with extensive experience in the fields of finance, investment management and real estate.
There were some changes in the Board during 2018:

- Mr Leviev resigned from the Board on 31 August 2018;
- Mr Tahan resigned on 1 January 2019;
- Mr Avraham Noach Novogrocki was appointed as a director on 1 December 2018;
- Mr Elias Ebrahimpour was appointed as Chairman from 1 January 2019; and
- Mr Mark Groysman, CEO of the main operating subsidiary AFI RUS LLC, provisionally served on the Board as Executive Director between 1 September 2018 and 1 December 2018.

Of the Company's current three directors (Mr Ebrahimpour, Mr Demetriou and Mr Novogrocki), all three are independent.

Lev Leviev

Executive Chairman of the Board (up to 31 August 2018)[4]

Mr Leviev served as AFI Development's Executive Chairman between 22 November 2012 and 31 August 2018. He was Non-Executive Chairman from 1 January 2008 until 21 November 2012. Mr Leviev is the owner and the President of the Leviev group of companies, and the President of the Federation of Jewish Communities of the CIS.

Panayiotis Demetriou

Senior Independent Non-Executive Director; Chairman of the Remuneration and Nomination Committees

Mr Demetriou serves as Independent Non-Executive Director of AFI Development Plc. He is a qualified lawyer in both Cyprus and England (Barrister at Law). Mr Demetriou is a former Member of Cyprus Parliament and of European Parliament, as well as an Honorary Member of the Parliamentary Assembly of the Council of Europe. He currently provides legal services through his law office, Panayiotis Demetriou & Associates LLC

David Tahan

Independent Non-Executive Director; Non-Executive Chairman, Chairman of the Audit Committee (up to 31 December 2018)[4]

Mr Tahan served as Independent Non-Executive Director of AFI Development Plc between 20 January 2017 and 31 December 2018. Following the resignation of Mr Leviev from the Board, Mr Tahan served as a Non-Executive Chairman between 1 September and 31 December 2018.

Mr Tahan is an investment professional, with ten years' experience at Goldman Sachs International in both the Equities and Investment Management divisions. He currently works as the Chief Investment Officer at Manray Partners Limited in London. Mr Tahan holds a Bachelor's degree in Economics from the University of Manchester, UK.

[4]Mr Leviev resigned from the Board on 31 August 2018. Mr Tahan resigned from the Board on 1 January 2019.

Avraham Noach Novogrocki

Independent Non-Executive Director; Chairman of the Audit Committee (from 1 December 2018)

Mr Novogrocki joined the Board as Independent Non-Executive Director in December 2018. Mr Novogrocki had previously served on the Board as a representative of the former controlling shareholder, Africa Israel Investments Ltd ("Africa Israel"), between 2012 and 2016. Mr Novogrocki is also Chairman of the Board of Hod Assaf Industries Ltd, a private Israeli steel products manufacturer. He was also CEO of Africa Israel between 2012 and September 2018. In January 2019, he was invited by the Board of Africa Israel, which is currently in receivership, to serve as its part-time CEO to oversee the disposal of assets.

Mr Novogrocki holds an MBA and BA in Economics and Business Administration degrees from the Bar-Ilan University, Israel.

Mark Groysman

Executive Director (between 1 September 2018 and 1 December 2018)

Mr Groysman served as Executive Director on AFI Development's Board between 1 September 2018 and 1 December 2018. Since May 2011, he has served as the CEO of AFI RUS LLC, the main Russian operating subsidiary. From 2012 to 2015, Mr Groysman served as Executive Director of AFI Development Plc.

Mr Groysman has over 30 years' experience in real estate development, investments, and asset and property management. Prior to joining AFI Development, Mr Groysman was the general manager of Sawatzky Property Management, the company he established in 1992, which has since become one of the leaders in the Moscow property management market. Mr Groysman graduated from the Israel Institute of Technology.

Elias Ebrahimpour (Eli Avrahampour)

Independent Non-Executive Chairman (from 1 January 2019)

Mr Avrahampour joined the Board as Non-Executive Chairman in January 2019. Mr Avrahampour is currently an economist and advisor on corporate finance and private markets to Deloitte LLP in London. Formerly, he worked as the First Vice President of Meryll Lynch UK and a Managing Director for Europe, Middle East and Africa at Citibank UK. Mr Avrahampour holds a BA in Economics, Philosophy and Political Sciences from the Hebrew University in Jerusalem, Israel.

3.5 Management team

AFI Development's Russian operations are concentrated in its main Russian operating subsidiary, AFI RUS LLC. Led by its CEO, Mr Mark Groysman, the senior management team of AFI RUS LLC consists of highly experienced professionals:

Mark Groysman

CEO of AFI RUS LLC

Mr Groysman, CEO of AFI RUS LLC from May 2011, is a seasoned real estate professional with over 25 years of experience in real estate development, investments and asset and property management. Prior to joining AFI Development, Mr Groysman was the general manager of Sawatzky Property Management, the company he established in 1992 which later became a leader in the Moscow property management market.

Tzvia Leviev-Eliazarov

Deputy CEO Asset Management, Marketing and Business Development, AFI RUS LLC

Mrs Leviev-Eliazarov's core experience revolves around management of large shopping centres. Before joining AFI Development, Mrs Leviev-Eliazarov managed shopping centres for Africa-Israel Investments Ltd. in Israel and established long-term business relationships with a variety of international retail chains. She is responsible for managing AFIMALL City and for general marketing activities

Evgeny Potashnikov

First Deputy CEO, AFI RUS LLC

Mr Potashnikov has been with AFI Development since 2005. Prior to joining the Company, he was Deputy Chief Engineer at the Mayor's office in Arara Ba Negev, Israel. Mr Potashnikov and his team are responsible for the Company's relationships with Russian local authorities and pre-development approval processes.

Natalia Pirogova

Deputy CEO Strategic Development and Investments, AFI RUS LLC

Mrs Pirogova joined the management team in October 2011 as CFO, having a long and successful track record in Russian real estate, particularly with regards to M&A deals and tax issues. For seven years prior to joining AFI Development, Natalia worked as Finance Director and Managing Partner at Fleming Family and Partners Limited and as Managing Director at Marbleton Advisers Limited.

Alexei Miroshnikov

Deputy CEO Finance and Economics, AFI RUS LLC

Mr Miroshnikov joined the management team in April 2018. Mr Miroshnikov is an experienced finance professional with many years of experience in the Russian real estate market. He joined AFI Development from the Etalon Group, a London listed Russian real estate developer, where he was responsible for financing, budgeting and asset management.

Klim Chizhik

Deputy CEO Construction, AFI RUS LLC

Mr Chizhik joined AFI Development in May 2018 from the Pioneer Group, where he worked for more than 10 years. A highly experienced development and construction manager, Klim has a strong track record in completed business class residential projects "Life-Ecopark", "Life-Kutuzovsky", "Life-Mitinskaya", "Shuvalovsky" and others. Mr Chizhik headed the general contractor company of the Pioneer Group and managed the portfolio of its key projects.

4. OPERATIONAL REVIEW

4. Operational review

4.1 Market Update 2018

Macroeconomic Environment

The Russian economy is expected to grow at a moderate rate in the medium term. The Organisation for Economic Co-operation and Development ('OECD') estimated GDP growth at 1.63% in 2018 with 2019 forecast at 1.46%.

The rouble weakened significantly versus the dollar towards the end of 2018, reaching 69.82 at its peak in December. However, during Q1 2019 it strengthened to RUR64 - 67/$1. The rate at 31 December 2018 was RUR69.47, compared to RUR65.59 at 30 September 2018.

The Central Bank of Russia ("CBR") has increased its key lending rate by 25 bps to 7.75% in December 2018, subsequent to a 0.25% raise in September 2018, quoting rising inflation and RUR/USD exchange rate volatility. Consumer price inflation was 4.3% in 2018, close to the CBR target of 4.0%. The CBR expects inflation in 2019 to be in the range of 5.0% to 5.5%.

On 6 April 2018, the United States' Office of Foreign Assets Control ("OFAC") exercised its powers under Executive Order 13662 to designate specially designated nationals ("SDNs") and impose strict blocking sanctions, rather than the more limited sectoral sanctions, employed in previous years. The US sanctions freeze the assets of these individuals and entities (to the extent those assets are within US jurisdiction) and prevent US persons from dealing with these individuals and entities. US persons include (a) entities organised under US law (and their non-US branches), (b) individuals or entities in the US, and (c) US citizens or permanent resident aliens.

On 15 August 2018, OFAC published a list identifying a number of Russian state-controlled financial institutions, with whom US persons are prohibited to enter into transactions on provision of new debt or equity. The leading Russian lenders, such as Sberbank PJSC, VTB Bank PJSC, Vnesheconombank PJSC, Rosselhozbank PJSC and Gazprombank PJSC were included on the list. This event is expected to significantly restrict US dollar borrowing on the Russian market.

(Sources: Organisation for Economic Cooperation and Development (OECD) website, Central Bank of Russia website; Allen&Overy Loan Documentation and Sanctions, 2018; Fieldfisher US v Russia Sanctions Crossfire, April 2018; OFAC Sectoral Sanctions ID List, August 2018)

Legislative change: escrow schemes in the "share participation agreements"

At the end of 2018, a number of changes were introduced in Russian legislation in relation to pre-sales of residential units during construction – the "share participation agreements" (Federal Law No 478-FZ dated 25.12.2018). These changes effectively mean that, from July 2019, developers of all projects under construction can only pre-sell apartments using escrow schemes: all proceeds received from customers who are buying residential units during construction should be kept in an escrow account and cannot be used by the developers to finance the ongoing construction. Under the new legislation, the money in the escrow account can only be released to the developer when construction is completed and residential units are delivered to customers. Consequently, the current financial model of residential developers will need to change: client funds so far received by developers under the share participation agreements ("DDU"), which have been traditionally used to finance construction, need to be replaced with external project financing from banks and own equity financing.

Between May 2019 and June 2019, the Russian Government must define and publish the conditions under which certain projects currently under construction can continue to use the previous financing scheme. It is expected that projects which are less than 30% complete (calculated of the total project construction budget), and number of signed share participation agreements not less than 10%, will be exempt from the escrow scheme.

Changes to the financing of residential development projects, a transition from client funds financing to project financing, and the corresponding increase in equity share required to finance the projects will have a significant effect on projects' cash flows and increase projects' costs. As a result, market participants expect an upward pressure to be placed on primary market prices.

In December 2018, PWC published an impact analysis of the newly introduced escrow scheme on a typical residential project. According to this analysis, the average increase in developers' costs upon transition to the new scheme is expected to equate to approximately 3-4% of the total project cost.

(Source: Russian legislation; PWC, Indicative analysis of influence of transition to the escrow accounts mechanism for a typical residential project and a complex residential scheme project)

Legislation change: VAT and property tax

From 1 January 2019, the VAT rate and the property tax rate in Russia were increased.

The VAT rate has been increased from 18% to 20% (The Federal Law of 03.08.2018 No. 303-FZ). The increase in the VAT rate is expected to contribute to increased inflation in the short term - a report published by the CBR estimates a 0.6-1.5 percentage point inflation increase in 2019 due to VAT increase.

The VAT increase is expected to cause inflation of construction materials and construction services cost, which, in turn, will inflate development project budgets and place an upward pressure on apartment prices.

According to the changes introduced to the Moscow Law of 05.11.2003 No. 64, from 1 January 2019 the property tax rate, calculated from cadastral value of properties, has increased from 1.5% to 1.6%. These changes also stipulate an annual increase in the property tax rate of 0.1% until 2023, when the rate should reach 2% of the cadastral value.

(Source: Russian legislation; Central Bank of Russia's report on estimation of the influence of the VAT rate increase on inflation, August 2018)

Moscow Office Market

In 2018, the supply of new Class A and Class B office space amounted to only 133,000 sqm of space (compared to 436,000 sqm delivered in 2017).

The take up in 2018 was about 2 million sq.m[5] , a 5% year-on-year decline. The take up was led by banks and finance, IT and retail sectors. However, the vacancy rates in Class A and B continue to decline. According to JLL, the vacancy rate in Class A was recorded at 10.8% in Q4 2018 (Q4 2017: 16.4%) and 9.8% in Class B (Q4 2017: 12.8%). The overall vacancy rate in 2018 was 10.3% (Q4 2017: 13.8%).

Rents in 2018 remained broadly stable. Asking rents for Class A prime central premises were approximately US$600-750 per sqm pa while asking rents for Class A office buildings were US$370-615 per sqm pa and for Class B $130-385 per sqm pa. Rouble denominated rents continue to prevail, with Class B working exclusively in roubles. Dollar denominated transactions accounted for 8.8% of all transactions during 2018[5].

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

[5]Cushman & Wakefield

Moscow Retail Market

In 2018, shopping centre completions in Moscow amounted to 123,000 sqm , with Kashirskaya Plaza, Milya Zhulebino and Arena Plaza being the most notable. The development activity in the sector remains at historically low levels.
30 new brands entered the market in 2018. Most of these brands were in the fashion, footwear and cosmetics segments. Meanwhile, 7 international retailers left the market during the period.

As of the end of Q4 2018, the vacancy rate across Moscow shopping centres was at 5.2%[6].
Turnover rent (12-15%), with a low minimum rent, continues to be the most common lease structure. Fixed exchange rates are commonly provided to tenants whose leases are foreign currency denominated.
(Source: Moscow Retail Market Overview, Q4 2018, JLL; Marketbeat - Commercial Real Estate Russia Q4 2018, Cushman & Wakefield)

Moscow Residential Market

At the end of 2018, supply in the "Old Moscow" primary residential market (excluding "apartments") was about 2.29 million sqm (equating to c.32,525 residential units), a 1.0% decrease compared to the end of Q3 2018[7].
By the end of 2018, the weighted average asking price in the newly built business class residential market in Moscow amounted to RUR228,100 psqm (US$3,456, USD/RUB = 66). Compared to the end of Q3 2018, the average prices in roubles increased by 1.4%. In the mass segment, the weighted average asking price was RUR162,090 psqm (about US$2,456)[7].
At the end of Q4 2018, the primary market supply (newly built residential units) in the Moscow region amounted to 2.8 million sqm[8].

As of end of Q4 2018, the weighted average price per sqm in the Moscow region was RUR76,100 (about US$1,153)[9].
According to VTB Capital, the volume of mortgages across Russia was at record high in 2018 and reached RUR 3 trillion, beating the previous year's record by 30%. The share of credit sales has also reached historical highs, standing at 49% and 56% in the secondary and primary markets, respectively. Among the publicly listed homebuilders, the share of mortgage sales was at 55-65% in the mass-market segment.
(Source: Moscow Primary Residential Real Estate Market, Q4 2018, Metrium Group; IRN, Azbuka Zhilya; VTB Capital Real Estate Watch, February 2019)

[6]JLL
[7]Metrium Group
[8]IRN
[9]Azbuka Zhilva

The Moscow government sponsored "Renovation Programme" and its influence on the Moscow residential market

On 1 August 2017 the Government of Moscow approved Decree #497-PP followed by Decree #517-PP issued 08.08.2017, which launched a large-scale state-financed programme of renovation of outdated housing stock, built by the state in Soviet times. This programme was adopted for a period until 2032 and it is aimed at upgrading the outdated housing in Moscow: old buildings will be demolished and new ones will be constructed by the Moscow-owned development entity instead (the "Renovation Programme").

At present, the Renovation Programme includes 5,173 old apartment buildings (erected in the 1950-60s): about 4.6 million sq.m of new housing will be constructed (about 50 thousand apartments for nearly 1.5 million citizens). In 2018, construction of 34 new apartment buildings in six districts of the city began The programme stipulates that an owner of apartment in a building to be demolished is entitled to receive an equivalent apartment in a newly built apartment building in the same city district free of charge. Conditions of the Renovation Programme also provide that such apartment owner can opt to receive, instead of an equivalent apartment, a compensation in monetary or natural form. The construction density on the sites cleared after building demolition is claimed by the Construction Ministry of Moscow to be increased several times to 25,000 sqm per ha, allowing construction of both social and speculative housing by the Renovation Fund, the Moscow municipal entity responsible for managing the Renovation Programme.

Start of the Renovation Programme, operated by large state-owned development companies coincides with introduction of escrow schemes for residential developers and, thus, introduces additional financial and competitive pressures on private residential developers. It should be noted that the new housing to be erected under the Renovation Programme is exempt from otherwise mandatory use of escrow schemes.

It is possible to outline the following main risks of the renovation programme for developers:

1. Significant new volume of cheap fitted-out economy/comfort class apartments will be introduced to the market. It can lead to overstocking of the market and move prices down.

2. The new state owned development entity, the Moscow Renovation Fund, will have an advantageous market position, due to cheap state financing and lower construction costs (thanks to economies of scale)

(Source: Renovation Fund of Moscow at fr.mos.ru, Decree of Moscow Government #497-PP dated 01.08.2017, Decree of Moscow Government #517-PP dated 08.08.2017)

4.2 Project-specific activities and update

YIELDING ASSETS

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 274,877 sq.m (including parking), and GLA of nearly 107,036 sq.m, the project has a shopping gallery of around 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.

The average daily footfall in December 2018 was up 21% from December 2017, reflecting further development of the Moscow City area such as improving transportation infrastructure, and the opening of new office space.

Revenue grew 5% year-on-year to US$ 86.8 million in 2018, while NOI increased 1% year-on-year to US$63.7. Occupancy stood at 93% at the end of 2018.

According to independent appraisers JLL, the market value of AFIMALL City as of 31 December 2018 was US$637.3 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.

At the end of 2017, 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). The transaction was successfully completed in February 2018.

The Company currently owns one remaining building in the complex with a GBA of 18,759 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 for 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 2018 was US$57.4 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 a Class A 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.

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

Due to the 2018 Football World Cup in Russia, the Hotel performed very well in 2018, with average occupancy of 79%.

The balance sheet value of the project as of 31 December 2018 was US$13.0 million.

PLAZA SPA HOTEL ZHELEZNOVODSK

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

During 2018, the hotel performed in line with expectations with average occupancy levels at 69%.

The balance sheet value of the project as of 31 December 2018 was US$9.6 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 across 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 2018, the hotel performed well with average annual occupancy at 68% for the year.

The balance sheet value of the project as of 31 December 2018 stood at US$40.8 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 more than 33 hectares, located 11 km west of Moscow in the town Odintsovo.
The development is planned to include a multi-functional infrastructure comprising 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 (2,850 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 307,200 sq.m (6,573 apartments).
Each phase includes commercial premises on the ground floor that are planned to be sold to end users.
The construction of Phases I and II are currently underway. The construction and sales of Building 3 (phase II) have recently commenced. Building 3 (Phase I) and Building 6 (Phase II) are under construction and currently being marketed to customers.
The balance sheet value of the project as of 31 December 2018 amounted to US$90.3 million.

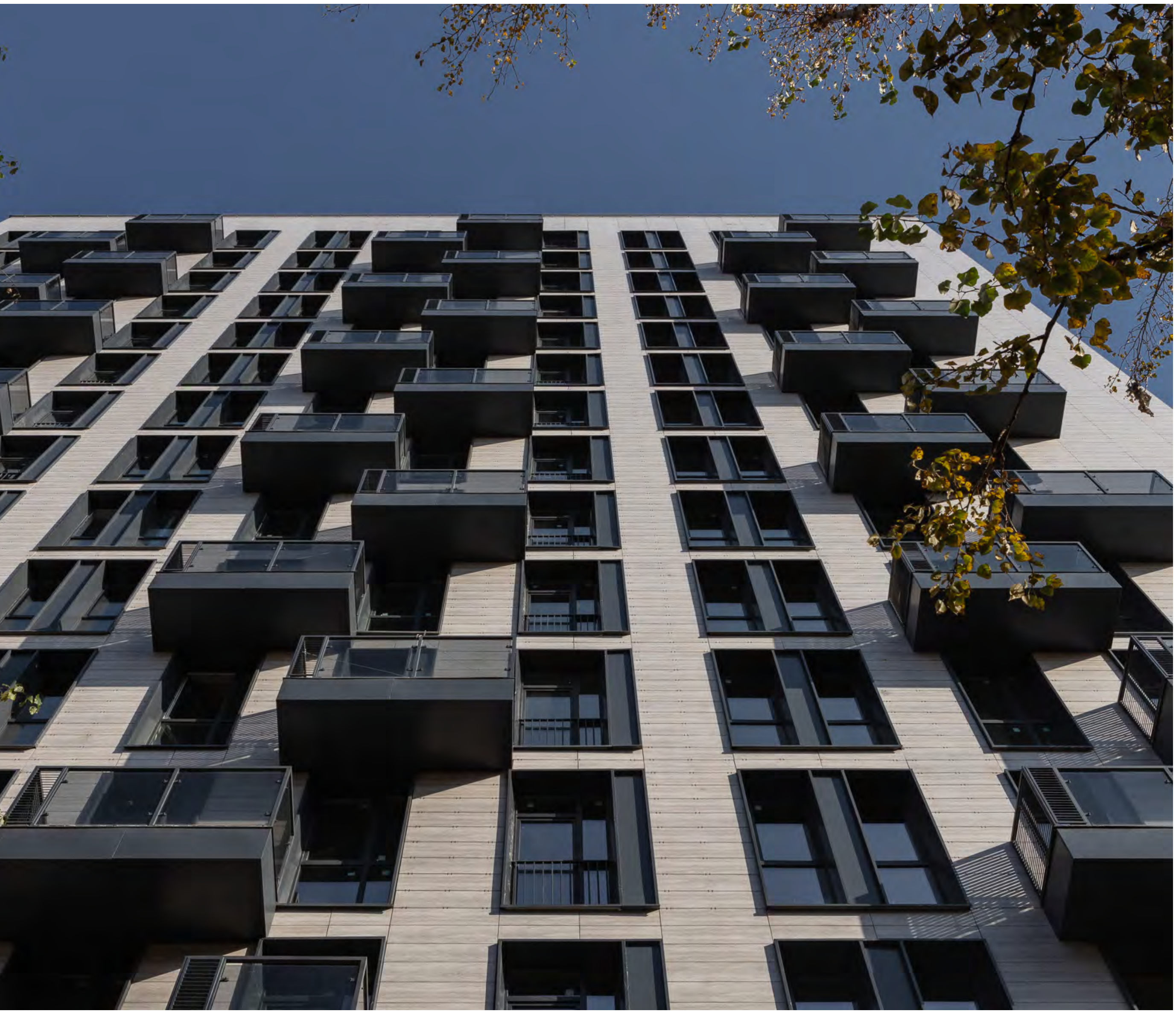
PAVELETSKAYA II (AFI RESIDENCE PAVELETSKAYA)

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 a total GBA of 52,928 sq.m and total GSA of 31,841 sq.m. This phase will comprise 175 apartments, 220 special units and 5,900 sq.m of flexible commercial space.
• Phase II – will have a GBA of 49,860 sq.m and total GSA of 27,620 sq.m. This phase is planned to include apartments, special units and flexible commercial space. A kindergarten with an area of 2,220 sq.m is also planned in the project.
• Phase III – will have a GBA of 31,061 sq.m and total GSA of 20,000 sq.m. This phase is planned to include 9,842 sq.m of apartments and 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"[10] began, alongside the launch of construction.
In 2018, construction work and marketing at AFI Residence Paveletskaya proceeded according to schedule. Phase I apartments were fully delivered to customers and the construction of Phase II and Phase III is currently ongoing.
The balance sheet value of the project as of 31 December 2018 was US$53.2 million.

BOLSHAYA 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 a total GBA of 40,788 sq.m and total GSA of 25,969 sq.m. This phase is planned to include apartments, 8,400 sq.m of flexible commercial space and a kindergarten.
• Phase II – will have a GBA of 37,373 sq.m and total GSA of 21,483 sq.m., including apartments and 3,382 sq.m of flexible commercial space.
• Phase III – is will have a GBA of 35,629 sq.m and total

[10] 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.



GSA of 22,719 sq.m. This phase is planned to include apartments and 2,953 sq.m of flexible commercial space.

- Phase IV – will have a GBA of 22,792 sq.m and total GSA of 14,744 sq.m, including 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. During 2018, the construction and marketing of the projected progressed according to plan.

The balance sheet value of the project as of 31 December 2018 amounted to US$75.6 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, and within walking distance of Botanicheskuiy Sad and Sviblovo metro stations. The future residential complex has a land plot of 3.2 Ha and a GBA of 206,790 sq.m: 111,191 sq.m of residential area, 6,909 sq.m of commercial premises and 542 underground and above ground parking lots.

The project is being constructed in two phases:

- Phase I – includes several residential buildings with a GBA of 138,655 sq.m and total GSA of 71,773 sq.m.

This phase is to include apartments and 6,212 sq.m of flexible commercial space.

- Phase II – will have a GBA of 68,135 sq.m and total GSA of 46,327 sq.m. This phase will comprise apartments and 697 sq.m of flexible commercial space.

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.

The balance sheet value of the project as of 31 December 2018 was US$ 77.8 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 50,200 sq.m, including underground parking of approximately 238 parking spaces, and an estimated GLA of 40,000 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 has launched construction of the project in Q1 2019.

Based on an independent valuation of the Company's portfolio by JLL as of 31 December 2018, the fair value of Tverskaya Plaza Ic is US$61.1 million.

TVERSKAYA PLAZA II

IIn Q2 2017, the Company obtained development rights for the project, which has been approved for development by the Moscow construction authorities as a "recreational centre" with a GBA of 22,000 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, and providing a GLA of 14,000 sq.m.

Based on an independent valuation of the Company portfolio by JLL, as of 31 December 2018, the fair value of the Company share in Plaza II was US$18.0 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 92,285 sq.m (including underground parking) and an estimated GLA of 75,292 sq.m

Based on an independent valuation of the Company portfolio by JLL, as of 31 December 2018, the fair value of the Company share in Plaza IV was US$54.0 million.

KOSSINSKAYA

Kossinskaya is mixed-use building spanning 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 2018, the fair value of Kossinskaya is US$25.7 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 the 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.

5. PRINCIPAL BUSINESS RISKS AND UNCERTAINTIES AFFECTING THE COMPANY

5. Principal business risks and uncertainties affecting the Company

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

Risk management framework

The Board of Directors is ultimately responsible for the establishment and oversight of the Company's risk management framework as well as 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 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

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. 80% of available cash is invested into bank deposits and money market to guarantee liquidity.

The management monitors liquidity of the Company daily.

The Board reviews and discusses the investment portfolio on quarterly basis.

Guarantees

The Company's policy is to provide financial guarantees 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.

All of AFI Development guarantees under a loan facility agreement of Bellgate Constructions Limited (AFIMALL City), Krown Investments LLC (Ozerkovskaya III) and OJSC MKPK (AFI Residence Paveletskaya) were terminated in 2018 due to repayment of debt. As at 31 December 2018, there were no outstanding guarantees.

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 foreign currency exchange rates, interest rates and equity prices. We do not use financial instruments, such as foreign exchange forward contracts, foreign currency options and forward rate agreements, to manage these market risks.

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 2018, 73 % of our financial liabilities were fixed rate. For more detail see note 32 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 priority is to meet construction and delivery schedule of residential premises to customers. [To preserve once received construction rights the Company is obliged to accomplish construction within a pre-set time schedule.] The Company owns a number of valid building permits and is exposed to the risk of construction rights loss in case of breach of construction time schedule.

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.

Renovation Programme

The launch of the municipal "Renovation Programme" in Moscow will create a large new state-owned player mainly in the economy and comfort-class segments. Due to significant uncertainty, currently existing on the market, as for further evolvement of this programme, the Company's management along with other market players believe that the programme can have a significant influence on the Moscow housing market. For details on the "Renovation Programme" please refer to the Market Update section above.

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 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 recognising 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

During 2018, the Company had one related party transaction, as defined in the UK Listing Rules:

On 29th August 2018 the Board of Directors of the Company approved granting of a loan in the maximum amount of EUR 5 million to Grosolim Ltd, a company controlled by Mr Leviev. The loan is to be provided at Euribor + 5.2% annual interest rate, the interest will be paid quarterly while the principal amount will be paid at 5-year maturity. The loan is secured by a personal guarantee of Mr Lev Leviev. In September 2018, one drawdown of this loan in the amount of EUR1 million was made. On 12 April 2019 the Company received the repayment of total outstanding amount of the loan including accrued interest.

6. CORPORATE GOVERNANCE AND COMPLIANCE WITH THE UK LISTING RULES

6. Corporate Governance and compliance with the UK Listing Rules

In this section of the report the Company provides disclosures required by various UK Listing Rules applicable to it.

6.1 Information required to be disclosed under UK Listing Rule 9.8.4R

During the financial year 2018, the Company or any of its major subsidiary undertakings:
a) did not capitalise any interest;
b) did not have any long-term incentive scheme;
c) did not have any arrangement under which a director has waived or agreed to waive any emoluments;
d) made any allotment of equity securities for cash;
e) had any contract of significance where a director or a controlling shareholder was materially interested;
f) had any contract for provision of services by a controlling shareholder;
g) had any arrangement under which a shareholder waived or agreed to waive any dividends.

6.2 Compliance with UK Listing Rule 9.2.2AR

The Board of Directors states as follows:
Since 7 September 2016, the controlling shareholder of the Company is Flotonic Limited ("the controlling shareholder"), which held a 64.88% interest in AFI Development Plc as of 31 December 2018. Flotonic Limited is controlled by Mr Lev Leviev, who was the Company's Executive Chairman of the Board until 31 August 2018.
The Company has entered into a Relationship Agreement under UK Listing Rule 9.2.2A R (2)(a) with its controlling shareholder on 27 October 2016.
The Board of Directors is satisfied that the Company has complied with the independence provisions in the Relationship Agreement with its controlling shareholder during 2018.
So far as the Company is aware, the independence provisions included in the Relationship Agreement have been complied with during 2018 by the controlling shareholder and any of its associates.
All independent directors supported the above statement.
At the Annual General Meeting of Shareholders held on 20 December 2018, the Company had a separate vote of independent shareholders of the Company's B-shares (the premium listed shares) to approve the re-election of its independent directors, as required by the UK Listing Rules 9.2.2E R. All independent directors were approved by the vote of independent shareholders. The Company is therefore in compliance with the UK Listing Rule 9.2.2E R.

6.3 Compliance with the UK Corporate Governance Code

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[11] 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. For the financial year 2018, the Company applied the UK Corporate Governance Code published in April 2016 (the "Code"). The Company is applying the UK Corporate Governance

[11] A copy of the Code can be downloaded free of charge from the Financial Reporting Council website at http://www.frc.org.uk/Our-Work/Codes-Standards/Corporate-governance/UK-Corporate-Governance-Code.aspx

Code published in July 2018 to the financial year 2019 and will report on this in next year's Annual Report.
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 recommended by section A.3.1 of the Code) by virtue of the fact that he was, until 31st August 2018, an Executive Chairman while being, indirectly, a major shareholder of the Company. Mr Leviev holds a controlling stake in Flotonic Limited, the major shareholder of the Company. The directors had considered Mr Leviev to be a key member of the Company's leadership during his period in office and greatly valued his oversight and management role. It should be noted that Mr Leviev resigned from his position on the Board on 31 August 2018.

6.4 Financial reporting and the 'going concern' basis for accounting

The Board seeks to present a fair, balanced and understandable assessment of the Company's position and prospects, and details are given in the Management Report. The Directors consider that the Annual Report and Accounts, taken as a whole, is fair, balanced and understandable and provides the information necessary for shareholders to assess the Company's position and performance, business model and strategy.
The directors are responsible for the preparation of the Annual Report and financial statements of the Company.
The Full Year 2018 consolidated financial statements were approved by the Board of Directors on 15 April 2019, and published on 16 April 2019. After having reviewed a cash flow projection up to the period ending 31 December 2023, having discussed it with management and the Company auditors, the directors reached a reasonable expectation that the Company had adequate resources to continue in operational existence for at least the coming 12 months. For this reason, they did not adopt the going concern basis in preparing the accounts.

6.5 Viability Statement

The Board assessed the prospects of the Company over a period of five years in December 2018. The Board approves detailed Company business plans for each calendar year, which normally include five years projections, the period that the Board considers most appropriate. The period of five year enables the Board to see the long term development of real estate projects and a long term financial performance picture of the Company. Where appropriate, sensitivity and scenario analysis are used to stress-test the resilience of the Company and its business model to the potential impact of the principal risks, or a combination of those risks.
The Board confirms that its assessment of the principal risks facing the Company, including those that would threaten its business model, future performance, solvency and/or liquidity, and which are set out in the Principal Risks and Uncertainties section of this report, was robust.
Based on its assessment, the Board confirms that it has a reasonable expectation that the Company will be able to continue in operation and meet its liabilities as they fall due over the period of five years, to December 2023.

6.6 Working processes at the Board of Directors

Balance of Directors

Throughout 2018, the Company had a strong non-executive representation on the Board. Throughout the year there were no less than two non-executive directors: till 1st December 2018 these were Panayiotis Demetriou and David Tahan, while on 1st December Avraham Novogrocki joined as the third non-executive director. All three directors were independent. On 1st January 2019 Mr Tahan resigned from the Board, while the new Chairman, Mr Elias Ebrahimpour (Eli Avrahampour), was appointed on the same date.

Panayiotis Demetriou has served as Senior Independent Director since 14 July 2016. None of the directors that the Board determined as independent has been an employee of the Company, has had a material business relationship with the Company, has received additional remuneration from the Company apart from director's fee, has had close family ties with any of the Company's advisers, directors or senior employees, holds cross-directorships or has significant links with other directors, represents a significant shareholder or has served on the Board for more than nine years.

The biographies of directors are provided in this report in the 'Board of Directors' section above and can be also reviewed on the website of the Company at: http://www.afi-development.com/en/about/board-of-directors

The Board is satisfied that no one individual or group of directors has unfettered powers of discretion and that between them, the directors bring the range of skills, knowledge and expertise necessary to lead the Company. The Company had a position of the Executive Chairman until 31 August 2018. The roles of the Executive Chairman and Chief Executive were split and clearly defined. The Executive Chairman, Mr Lev Leviev, provided strategic leadership and led key negotiations with the Moscow Authorities, other government authorities in regions of AFI Development operations, with key lenders and with its counterparties in transactions of strategic importance. Additionally, the Executive Chairman was generally responsible, till his resignation in August 2018, for the governance of the Board, for facilitating the effective contribution of all directors and for ensuring that Board members are aware of the views of major shareholders. The Chief Executive in the Company's structure is the CEO of AFI RUS LLC, the main operating subsidiary of the Company. The Chief Executive, Mr Mark Groysman, has occupied this position since 2011. Mr Groysman is responsible for all aspects of the operation and management of the business in the Russian Federation. His role includes developing an appropriate business strategy for the Board's consideration and approval, and ensuring that the strategy agreed by the Board is implemented in a timely and effective manner. Although not being currently a Board member, the Chief Executive actively participates in every Board meeting and then works with the Board on any aspect the Board indicates that needs to be addressed.

Board Practices

The Board of Directors normally meets at least five times a year to review trading performance, budgets and funding; to set and monitor strategy; to examine acquisition and disposal opportunities; to review and approve financial statements and to report to shareholders. There is a formal schedule of matters specifically reserved to the Board for decisions[12] . The Board is responsible for the strategy, approval of annual budgets, approval of interim and final financial results, maintaining the system of internal control, compliance and risk management, approving major transactions and other matters.

To enable the Board to perform its duties, each director has full access to all relevant information. It is the Chairman's responsibility to ensure that the Board is provided with accurate, timely and clear information in relation to the Company and its business.

[12]A copy of the schedule can be found on the Company website: www.afi-development.com.

Attendance at Board Meetings in 2018 was as follows:

Name	Board	Audit Committee	Remuneration Committee	Nomination Committee
Lev Leviev	0	-	-	-
David Tahan	10	5	2	3
Panayiotis Demetriou	10	5	2	3
Avraham Noach Novogrocki	1	1	-	-
Dates held	17.01.2018			
	02.02.2018			
	09.02.2018			
	13.03.2018			
	16.04.2018	16.04.2018		
	23.05.2018	23.05.2018		
	25.06.2018			
	29.08.2018	29.08.2018	29.08.2018	29.08.2018
	19.11.2018[13]	19.11.2018		19.11.2018
	17.12.2018	17.12.2018	17.12.2018	17.12.2018
No. of meetings held during 2018	10	5	2	3

Note: Where '-' is shown, the director listed is not a member of the committee.

The matters discussed at the board meetings included:

- the approval of the annual budget;
- the approval of various transactions;
- the approval of company policies;
- a review of committee recommendations;
- the approval of audit reports and financial statements.

All directors, the Board and each of the Board Committees are authorised to obtain independent legal or other professional advice as necessary, to secure the attendance of external advisers at their meetings and to seek information from any employees of the Company in order to perform their duties.

At the Board Meeting on 17 December 2018 the non-executive directors met without the Chairman present to appraise the Chairman's performance in 2018.

[13] Mr Mark Groysman was a director between 1 September and 1 December 2018 and he also participated in the meeting on 19.11.2018 as a director.

Terms of appointment

Non-executive directors are invited to join the Board for a three-year period, subject to re-election by shareholders as provided for in the Company's articles of association.

The Board has adopted procedures for managing and, where appropriate, approving conflicts or potential conflicts of interest.

Insurance cover is in place to protect board members and officers against liability arising from legal action taken against them in the course of their duties.

The appointment and removal of the Company Secretary is a matter for the Board. All directors have access to the advice and services of the Company Secretary.

Board Appraisal

In 2018 AFI Development conducted performance evaluations for the Board, its committees and individual directors in-house.

The appraisal of the Chairman's performance was conducted in December 2018 by the non-executive directors, under the leadership of Mr Panayiotis Demetriou, the Senior Independent Director.

Other significant commitments of the Chairman

Mr Leviev is the owner and the President of the Leviev group of companies, and the President of the Federation of Jewish Communities of the CIS. Current Company's Chairman (from 1 January 2019), Mr Elias Ebrahimpour (Eli Avrahampour) is an economist and advisor on corporate finance and private markets to Deloitte LLP in London, UK.

Committees

In accordance with the Code, the Company has established an Audit Committee, a Nomination Committee and a Remuneration Committee, each of which has defined terms of reference which are summarised below and are available on the Company's website: www.afi-development.com. Members of these committees are appointed principally from among the independent directors. Each committee and each director has the authority to seek independent professional advice where necessary and to discharge their respective duties at the Company's expense.

Nomination Committee

As of 31 December 2018 the Committee comprised Panayiotis Demetriou (Chairman) and David Tahan. All members of the Committee throughout the year were independent non-executive directors. The Nomination Committee meets as required for its role. It is responsible for preparing selection criteria and appointment procedures for members of the Board and reviewing on a regular basis the structure, size and composition of the Board. In undertaking this role, the Committee refers to the balance of skills, knowledge, independence and experience required on the Board based on the Company's stage of development and in light of such considerations, makes its appointment recommendations to the Board. When assessing candidates, the Nomination Committee uses objective criteria; all appointments are based on merit. The Nomination Committee also considers future appointments and makes recommendations regarding the composition of the Audit and Remuneration Committees.

When appointing new directors to the Board, objective criteria are applied. When Mr Novogrocki and Mr Ebrahimpour were appointed to the Board, neither an external search consultancy nor open advertising were used: the Company relied on its own network to identify appropriate candidates for the Board. Appointments are made on merit with due regard to the benefit of diversity on the Board, both in terms of a broad range of skills, expertise and experience, and with respect to gender. There are currently no women on the Board. However, the Company is committed to the principle of diversity and equal opportunities. As of 31 December 2018, female representation across the workforce of AFI Development was approximately 68%, while at the middle management level the figure was approximately 40%. In addition, 29% of the senior management team of AFI RUS LLC, the Company's main operating subsidiary, are female.

During 2018 the Nomination Committee met on three occasions, when it considered the appointment of new directors to the Board (Mr Mark Groysman, Mr Avraham Novogrocki and Mr Elias Ebrahimpour).

Remuneration Committee

As of 31 December 2018, the Remuneration committee consisted of Panayiotis Demetriou, (Chairman) and David Tahan. All committee members have been independent non-executive directors. The Remuneration Committee is responsible for:

- making recommendations on the Company's remuneration policies and reviewing and determining the remuneration of executive directors; and
- reviewing the scale and structure of the remuneration packages of the executive directors and senior management, and the terms of their service or employment contracts, including participation in the Company's Share Options Plan, other employee incentive schemes adopted by the Company from time to time, pension contributions and any compensation payments.

The remuneration of non-executive directors is determined by the Board, following a recommendation of the Remuneration Committee, although this can be reviewed by the Remuneration Committee. No director or manager may be involved in any discussions or decisions relating to his or her own remuneration.

The Remuneration Committee discussed the existing executive remuneration practices in place and came to the opinion that the remuneration package of executive directors should be determined on an individual basis, in the context of both the market, in which the Company operates, and good corporate governance practice. In determining executive directors' individual remuneration packages, the Remuneration Committee applies the relevant provisions of the UK Corporate Governance Code. As of 31 December 2018, the Company did not have executive directors on the Board.

The Remuneration Committee met on two occasions in 2018.

The Remuneration Committee did not appoint any external consultants during 2018.

Audit Committee

As of 31 December 2018, the Audit Committee comprised three independent directors. The Committee meets at least five times each year at appropriate times in the reporting and audit cycle of the Company and more frequently if required. The members of the Audit Committee during the year were David Tahan (Chairman), Panayiotis Demetriou and Avraham Novogrocki. All members of the Committee have been independent non-executive directors.

The purpose of the Audit Committee is to assist the Board in fulfilling its responsibilities of oversight and supervision of, among other things:

- the integrity of the Company's financial statements, including its annual and interim accounts;
- the adequacy and effectiveness of the Company's internal controls, accounting standards and risk management systems, assessing consistency and clarity of disclosure as well as the operating and financial review and corporate governance statement;
- the terms of appointment and remuneration of the Company's external auditor, assessing independence and objectivity and ultimately reviewing the findings and assessing the standard and effectiveness of the external audit; and
- managing the internal audit process as necessary,

including the appointment of an internal auditor, approving annual internal audit plans and reviewing internal audit reports.

The Audit Committee supervises and monitors, and advises the Board on risk management and control systems and the implementation of codes of conduct. In addition, the Audit Committee supervises the submission by the Company of financial information and a number of other audit related issues (both external and internal) and makes recommendations to the Board accordingly.

During 2018 KPMG Limited (Cyprus) continued to serve as the Company's external auditors. In 2017 the Committee led and supervised the tender for external audit services following the expiry of 10 years term of KPMG Limited. Results of the tender were reported to the Committee in November 2017 and, upon discussion, the Committee recommended to re-appoint KPMG Limited for a new term.

The Committee is fully satisfied with its work and that the remuneration of the auditors is adequate and competitive. During the year KPMG Limited provided an insignificant scope of non-audit services – it was primarily VAT compliance work for Cyprus companies and other tax compliance and consulting services in the total amount of EUR69 thousand without VAT. The Audit Committee believes that independence of the auditors was safeguarded by the fact that these services are in the "permitted non-audit services" category, according to the Company's Non-audit fees policy, while the amount was below the EUR50 thousand threshold per each contract.

External auditors are present at every meeting of the Audit Committee. The auditors' reports are reviewed and discussed by the Committee members to ensure the Committee understands all issues and, if required, appropriate action can be taken.

The Company currently does not have a permanent internal auditor function (it had it previously till 2016). The Board has the right to appoint an internal auditor on an ad hoc basis to analyse a specific matter or project. During 2018 no internal audit was conducted and no internal auditor was appointed.

The Audit Committee held five meetings during 2018. The Board is satisfied that at all stages during 2018 at least one member of the Audit Committee (Mr Tahan and Mr Novogrocki) had recent and relevant financial experience.

During the year the Committee reviewed financial performance, annual budget and discussed cash management and external investment issues. The Audit Committee supervises the submission of internal and external information on financial performance, budget, cash management and external investments, reviews it, discusses with the management, examines in details and makes recommendations to the Board accordingly.

Dividends

During 2018, the Company did not pay any dividends. In the future, the Company may consider making dividend payments in respect to its ordinary shares, when and if commercially prudent, after taking into account profits, cash flow and capital investment requirements. No dividends will be paid outside of profits.

Safety

The Company takes its commitment to health and safety very seriously. It reviews its policies, procedures and standards on a regular basis to ensure that its properties and developments offer a safe environment for its employees, customers and suppliers, as well as for other visitors.

The Company works with its suppliers and contractors to ensure that they meet the Company's high health and safety standards. For more details please refer to the Non-financial statement section of this Annual Report.

Communication with shareholders

The directors place considerable importance on maintaining open and clear communication with the Company's investors. The Company's investor relations department is dedicated to facilitating communication with shareholders.

The Company maintains an ongoing dialogue with its shareholders, discussing a wide range of relevant issues including strategy, performance, the market, management and governance within the constraints of the information already known to the market. The principal methods of communication with shareholders are the Company's news announcements, the interim report, the annual report and financial statements, the annual general meeting, the quarterly investors' conference calls and the corporate website. In addition, the Company undertakes regular meetings with investors and participates in sector conferences. Upon request, individual meetings with existing or potential investors can be arranged via the Investor Relations department of the Company. The Senior Independent Director can also be available to shareholders, in case they have concerns.

Since the foundation of AFI Development, the main shareholder of the Company had been Africa-Israel Investments Limited ("AFI Investments"), which had held a 64.88% interest in AFI Development. On 7 September 2016 AFI Investments disposed of all its holding in AFI Development to Flotonic Limited, controlled by Mr Lev Leviev ("the disposal transaction"). Following the disposal transaction, Mr Lev Leviev, the Executive Chairman of the Company until August 2018, has become the sole major shareholder of AFI Development.

The remaining shareholder base of AFI Development consists of a diverse group of small shareholders, each of whom holds a stake of less than 3%. Communication with these shareholders is maintained through public, regulatory and investor relations channels.

During the course of a year, shareholders are kept informed of the progress of the Company through results statements and other announcements that are released through the Regulated Information Service of the London Stock Exchange and other news services. Company announcements are made available simultaneously on the Company's website, affording all shareholders full access to material information. Shareholders can also raise questions directly with the Company at any time through a facility on the Company's website.

Following publication of quarterly results the Company organises conference calls, during which interested investors, analysts, business journalists and the general audience can converse with senior representatives of the Company. The times and contact numbers of these conference calls are announced in advance via the Regulated Information Service of the London Stock Exchange and published on the Company website.

The Company's annual general meeting allows individual shareholders the opportunity to question the Chairman and members of the Board. Notice of the annual general meeting is sent to shareholders at least 21 days before the meeting. At the meeting, after each resolution has been passed, details are given of the number of proxies lodged together with details of the number of votes cast for and against each resolution. Although the Company encourages active participation of minority shareholders in its general meetings, a large number of shareholders do not participate in the meetings and the votes for their shares are reported as "withheld".

6.7 Statement on Diversity Policy as required by Disclosure and Transparency Rule ("DTR") 7.2.8A

Under UK DTR 7.2.8A, the Corporate Governance statement of the Company must contain a description of its diversity policy or an explanation, if no diversity policy is applied by the Company.

As of 31 December 2018 the Company has not yet adopted a diversity policy, as it faced objective difficulties formulating and applying it in its main market of operations - Russia, where no relevant legislation on the subject exists and no relevant metrics are normally collected. The diversity concept implies that certain metrics of the management and workforce (e.g. religion, sexual orientation, ethnic origin, health conditions) are collected and that certain measurable KPIs are established and achieved. Unfortunately, in the current legislative and social environment in Russia and generally conservative and sometimes xenophobic and homophobic worldviews of many Russians, our employees do not voluntarily disclose their ethnic origin, religion or sexual orientation to their employer and, under the existing Russian laws, they are under no obligation to do so. The only metrics collected by the Company are age and gender, on which we report in the Non-Financial Statement section of the current report.

6.8 Risk Management Processes and internal control

The Board has overall responsibility for maintaining the Company's system of internal control to safeguard shareholders' investments and the Company's assets, as well as for monitoring the effectiveness of this system. The Audit Committee supervises, monitors and advises the Board of Directors on risk management and control systems together with the implementation of codes of conduct.

The Company implements its procedures according to the best practice on internal control provided in the UK Financial Reporting Council "Guidance on Risk Management, Internal Control and Related Financial and Business Reporting" ("the FRC Guidance"). The Company's system of internal control supports identification, evaluation and management of the risks affecting the Company and the business environment in which it operates.

Internal Control Framework

The Company's systems of risk management and internal control are designed, inter alia, to provide a reasonable amount of confidence as to the reliability of the Company's financial reporting, to ensure that the financial reports are prepared in accordance with the requirements of the law and to ensure that the information that the Company is required to disclose in its reports and announcements is gathered, processed, summarised and reported on time and in the format set forth in the Disclosure and Transparency Rules and the Listing Rules of the UK Listing Authority.

The system of internal control at AFI Development is structured along four main groups of controls:

1. Entity Level Controls - these are controls that may have an overall impact on the organisation and reflect the Board leadership principle of the UK Corporate Governance Code. These organisation level controls constitute the infrastructure for the course and nature of the activities executed by the Company. These controls are embedded into the organisational structure of the Company. Controls at the Entity Level include, among others: Decision making process in the Company; Procedures regarding identifying, approving and reporting of transactions with related parties and people of interest; Procedures regarding identifying and approving transactions that are in conflict of interest; The appropriateness of the function of the Board and it's Committees; Efficiency of the function of the Audit Committee; Segregation of duties between the management and the Board; Risk identification and risk management; Assessment and control over the corporate results; Active supervision of the Board over Company Management.

2. Preparation of the Financial Statements - this group of controls relates to examination of the last segment of the financial reporting process which includes, among other things, the following activities: Gathering of the data to the trial balances and performance of substantive examinations of the appropriateness of the data received; Determination and implementation of the accounting policies by the company; Recording of necessary adjustments for purposes of preparation of the annual and quarterly financial statements, including adjustments for the purposes of consolidation of the financial statements; Compilation and preparation of the statements including the relevant disclosures; Discussion and approval of the financial statements by the relevant corporate organs.

3. General Controls over the Information Systems – these are control procedures relating to IT infrastructure and informational security of the Company. The controls are focused mainly on: Procedures regarding system access right controls; Procedures regarding performing changes to the system; Backup and restoration procedures; Information security procedures.

4. Controls related to the core business operations – this large group of controls is divided into three subgroups: Development activities, Investment activities and Asset management. These controls focus on business processes that have a material impact on the company's financial performance. Development activities subgroup covers processes related to development, construction and delivery of commercial and residential projects. Investment activities controls address decision making process for investment and divestment of projects. Asset management is focused on the management of yielding commercial properties, including AFIMALL City.

During 2018, the AFI Development Group employed one full time dedicated internal controller, who was responsible for day-to-day management of the internal control system, preparation and maintenance of necessary documentation, liaising with internal auditors and for internal control reporting to senior management.
Authority is delegated from the Board through the senior management to the operating divisions and clear reporting lines and assigned responsibilities exist amongst different management levels within each division. Segregation of duties is applied throughout the Company.
The Company has a clearly set out organisational structure with well-defined reporting lines between the Board and the heads of each operating division.
The Board of Directors has ultimate decision-making power over significant matters relating to the financial management of the Company such as material changes in banking arrangements (including a change of bankers facilities and signatory category limits), approval of project budgets, General Annual Budget and the Annual Working Programme, changes to the Company's capital structure, and acquisitions and disposals of subsidiaries or projects.
commercial properties, including AFIMALL City.

Budgeting and reporting

The Company has comprehensive project-based budgeting and reporting processes as well as a finance reporting process, and produces monthly operational results and forecasts.

Detailed annual budgets for the coming year are presented to the Board in December.

Financial control procedures

Senior management of the Company has implemented the appropriate controls for the Company's financial reporting processes.

Investment appraisal process

The Company has a well-defined strategy, which is determined by the senior management and approved by the Board.

The policies and procedures relating to the core business processes are formally documented and communicated to the relevant employees.

Compliance with laws and regulations

The Company retains legal counsels in all relevant jurisdictions in order to ensure on-going compliance with all applicable laws and regulations.

Monitoring and review of activities

Assurances on compliance with the internal control systems are obtained through a number of monitoring processes, including formal annual and quarterly confirmations of compliance provided by Mr Mark Groysman and Mr Alexei Miroshnikov, respectively the Chief Executive Officer and the Chief Financial Officer of AFI RUS LLC, based on quarterly reporting by the Head of Internal Control.

Review of effectiveness

Based on results of a test of the effectiveness of the Company's risk management and internal control systems conducted as at 31 December 2018, in addition to the ongoing monitoring as described below, the Board concluded that for the period ending on 31 December 2018 the risk management and internal control systems were effective.

The Board continues to monitor the effectiveness of these systems on an ongoing basis as follows:

1. Head of Internal Control of AFI RUS LLC provides end of quarter report to the senior management of AFI RUS LLC on performance results of the risk management and internal control system. Key findings are reported to the Audit Committee and the Board of Directors.

2. AFI RUS LLC management provides the Board with a quarterly declaration regarding the effectiveness of the financial, operational and compliance internal controls and discloses any information that has been detected during the period.

3. Year-end evaluation – the Internal Control Department of AFI RUS LLC undertakes, on behalf of the Board of Directors, a rigorous review of the effectiveness of the risk management, financial, operational and compliance internal controls. The results of the review with recommendations on improvements or amendments of controls are reported to the Board, which then makes appropriate decisions.

7. DIRECTORS' REMUNERATION REPORT

7. Directors' remuneration report

The principles of directors' remuneration

AFI Development Plc. became a premium listed company on the London Stock Exchange in 2010 and during 2011 the Remuneration Committee and the Board of Directors revised the principles for executive and non-executive directors' remuneration to meet the requirements of the Code. The same principles were applied during 2018.

The Company believes that its remuneration policies should be effective in attracting, retaining and motivating directors to produce superior results for the Company and in continuously creating sustainable value for its shareholders. The Company makes a clear distinction between the remuneration structure for executive and non-executive directors.

Non-executive directors have a non-performance-related remuneration structure, reflecting the time commitment and responsibilities of their role. Non-executive directors are encouraged to participate in Board meetings in person (the attendance fee for "teleconference participation" in Board meetings is 50% of the attendance fee for "in person participation"). In addition, the base fee of the Senior Independent Director is higher than that of the other non-executive directors to reflect additional duties and responsibilities conferred to such a director under the Code.

Executive directors' remuneration is performance related and includes bonuses and a long term incentive component (usually participation in the Company's share option plan). The Remuneration Committee designs remuneration packages for executive directors on an individual basis, taking into account the relevant provisions of the UK Corporate Governance Code.

Employee share option plan

The AFI Development Share Option Plan (the "Share Option Plan") was adopted by the Board on 12 April 2007 and expired in April 2017. The options given under the Share Option Plan also expired in 2017. No updated plan is currently in place, although the Company may consider to adopt a new plan in the future. In general, the Remuneration Committee is responsible for granting options and supervising and administering the Share Option Plan.

Directors' emoluments

The aggregate emoluments of each of the directors (including benefits in kind) for the financial accounting period ending 31 December 2018 were as follows[14]:

Name	Salary/Fee, US$	Benefits in kind, US$	Annual bonuses, US$	Pension, US$	Total, US$
Lev Leviev	800,000	0	0	0	800,000
David Tahan	57,315	0	0	0	57,315
Panayiotis Demetriou	58,800	0	0	0	58,800
Avraham Novogrocki	6,495	0	0	0	6,495

Options held by directors and senior managers

As of 31 December 2018, there were no valid options over A Ordinary Shares, B Ordinary Shares or GDRs. All previously granted options expired in 2017.

Pensions and benefits in kind

No pensions and contributions are currently payable to the directors by the Company.

[14] Mr Mark Groysman was a director between 1 September and 1 December 2018, however he did not receive additional remuneration for serving on the Board, apart from his remuneration as the CEO of AFI RUS LLC.

8. MANAGEMENT REPORT ON NON-FINANCIAL DISCLOSURE

8. Management report on non-financial disclosure

About the Report

The present report on non-financial information (hereinafter referred to as the "Report") looks at sustainable development activities that AFI Development PLC (hereinafter – AFI Development, the "Company") conducts. AFI Development PLC acts as a holding Company for the Group's subsidiaries that develop and operate particular projects. AFI RUS LLC is the main operating subsidiary of the Company. AFI RUS LLC is a Russian company headquartered in Moscow that manages the Company's projects. For the purpose of the present report, we shall distinguish between the four key functions or reporting units of the Company – "Construction and Development", "Asset management", "Hotel operations" and the "Head Office" (including offices at large properties as well as temporary offices at construction sites).

The present report is prepared in line with requirements of the EU Directive 2014/95/EU on Non-financial and Diversity Information (hereinafter, the "Directive") and Art. 151A of the Cyprus Companies Law (Cap. 113). The Company recognises that non-financial reporting allows investors to assess the relationships between non-financial matters and overall strategy, performance and prospects, as it provides a more holistic view of the factors that affect the creation of long-term value.

The Company has developed and adopted the package of Corporate Social Responsibility policies in 2018. The policies have been published on the Company's official website showing its commitment to implement them in corporate culture. A brief description of each policy pursued, as well as the KPIs against which progress is measured, are included in the following Report. The Company measured the outcome of the newly implemented policies against the KPIs in the current reporting period for the first time.

Requirements of Non-Financial Reporting

EU Directive on non-financial reporting

The Directive 2014/95/EU on the disclosure of non-financial and diversity information, succeeded the Accounting Directive 2013/34/EU that requires certain large companies to disclose information about policies and management of risks relating to environmental, social and employee matters, respect for human rights, anticorruption and bribery issues, and diversity on the Board of Directors.

Cyprus Law

As a company incorporated in Cyprus, AFI Development has to follow certain Cyprus legislation. On 2 June 2017, Cyprus ratified the Directive, which prescribed reporting of non-financial matters as mentioned above. The compliance and reporting requirements were incorporated into Cyprus legislation as Art. 151A of the Companies Act (Cap. 113).

UK Corporate Governance Code

As a UK-listed Company, AFI Development is obliged to adhere to the UK Corporate Governance Code. Since 2010, the Company's shares have had a premium listing status on the London Stock Exchange. As a-UK listed company, AFI Development is required to report on diversity, a requirement also set by the Directive. We consider the principles and best practices described in Code as a useful and efficient guide that contributes to our efforts to always take into account the interests of our stakeholders. The Code also supports transparency in decision-making and helps strengthen the principles of good governance.

Russian regulations

The Company's main operations are in Russia, and this is where its activities have most business, environmental and social impact. At the time of writing this Report, a legislation on mandatory non-financial reporting is in the formation stage in Russia, however the draft of future potential legislation is publicly available. In this respect, the Company goes beyond compliance with draft Russian national legislation by reporting on sustainability-related information before becoming a formal requirement.

However, despite the voluntary nature of non-financial reporting in Russia, the Company is required to report on such matters in other jurisdictions as stated above. Being an international company operating on many markets, AFI Development is influenced by the tendencies that exist in the highly interconnected globalized world.

About the Company

Established in 2001, AFI Development is one of the leading Russian property developers. The Company focuses on large-scale development projects in Moscow and the Moscow region.

Further information about the Company structure and detailed description of business activities can be found on the Company website and in the Annual Report.

Business model

AIn compliance with the Directive, AFI Development publishes its business model approach in this Report. The Company is focused on developing and redeveloping of high quality, integrated, large-scale, commercial and residential real estate including offices, shopping centres, hotels, mixed-use properties and housing projects. As part of our strategy, we aim to sell the residential units we develop and lease our commercial properties, whilst not excluding opportunistic sales of select developments. We are committed to growing our high quality, income-generating real estate portfolio.

INPUTS:

PHYSICAL

We acquire land rights, development rights and development projects to create high quality commercial and residential developments using materials, technologies and the natural environment

FINANCIAL

We employ equity and debt capital to maximise our profitability while employing leverage prudently

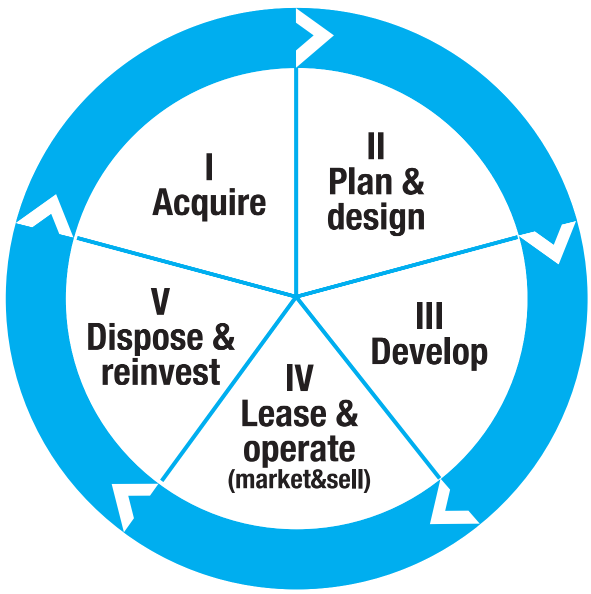
RELATIONSHIPS

We use our relationships with employees, customers, tenants, communities and contractors to create long term value

EXPERTISE

We rely on our expertise in development, marketing, project and asset management to create and operate our projects

BUSINESS ACTIVITIES:



We create value by acquiring, developing, managing and selling properties, while employing a range of physical and financial resources, as well as relationships and expertise. In our residential developments, we generate revenue by marketing and sales of residential and parking units we develop. In our commercial projects, we generate revenue by leasing our properties to tenants and operating them as yielding assets. In our hospitality projects, the revenue is generated by providing hospitality and recreation services to our customers.

The high quality of our commercial developments enables us to attract international and local tenants on favourable terms. To ensure high retention rates, we aim to sign leases of increasing length and place greater emphasis on ongoing tenant relations. This translates into focus on long-term relationships and long-term growth.

OUTPUTS:

PHYSICAL

We create valuable new commercial and residential space by meeting the requirements of our customers and communities we operate in

FINANCIAL

We generate income from operations of commercial space, hotels and sales of residential properties

CUSTOMERS

We maintain high degree of customer satisfaction by creating high quality products

COMMUNITY

Through our integrated complex projects we deliver new sustainable living and working environments with the aim of creating positive socio-economic impact

In addition to their large scale and high complexity, our projects help rejuvenate local communities and involve significant improvements to existing infrastructure. As such, we aim to enhance the overall value of the neighbourhoods we enter, creating more comfortable living and working conditions. Therefore, our activities improve the well-being of the affected tenants and communities as a whole.

We are currently working on integrating sustainability aspects into our business model. To integrate the sustainability related policies into our overall business strategy, we need to clearly define sustainability objectives, identify material issues for the Company and introduce a new approach to our day-to-day management practices. Integrating sustainability-focused practices into the overall business strategy will foster alignment between management of sustainability issues and the overall strategy of AFI Development. In the following section, we provide a description of sustainability aspects we have determined as most applicable to our activities and how their management will be embedded into the Company's operations.

Sustainability agenda

We are convinced that greater transparency resulting from non-financial reporting will make our Company more resilient and lead to better performance, both in financial and non-financial terms. Over time, integration of sustainability practices will lead to more robust growth and employment practices, as well as higher trust between stakeholders, including investors and consumers. We fully recognise that transparent business management is consistent with long-term investment.

AFI Development is committed to improving the economic and social well-being of its stakeholders through the continuous responsible execution of development projects and management of its operations. The Company strives to construct and manage properties with an adequate balance between environment, society and economy.

In the table below, we present the aspects of sustainable development we have identified as applicable to our activities and operations.

Environment (E)	Social (S)	Governance (G)
E – actions and efficiency measures undertaken in order to monitor and decrease the environmental footprint of the portfolio • Energy efficiency • Waste treatment and disposal • Water supply and treatment • GHG emissions • Climate change (prospect)	S – Company's relationship with and impact on its stakeholders and direct social impact of our activities • Health & Safety • Employment benefits • Contractor management • Socio-economic contributions	G – policies and procedures, composition of management, approach to sustainability integration at the Company level • Compliance • Business ethics

Sustainability risks and opportunities

We strive to monitor and manage the environmental, social and governance (ESG) risks and opportunities of the Company's investments, and to prepare for the increasingly rigorous ESG requirements to avoid potential threats.

AFI Development recognises that risk assessment helps to reduce exposure to long-term sustainability risks. Integration of sustainability risk assessments into our business processes will demonstrate our commitment to ESG management, our focus on mitigating financial risks, and a forward-looking approach to our portfolio development.

8.1 Governance

Goals: ensure continuous compliance with the UK Corporate Governance Code; develop a separate standing Diversity Policy based on the Directive's requirements (description of objectives, implementation processes and results); collect data and report on the identified governance-related KPIs.

Organisational governance is the system by which an organisation makes and implements decisions in pursuit of its objectives. AFI Development recognises that to ensure effective business management and operations it is crucial to have a solid governance structure in place. The Company places much importance on compliance with the various governance-related regulations applicable to it.

Following its 2007 listing on the London Stock Exchange, AFI Development became Russia's first real estate developer to attain a Premium listing in 2010. Since becoming a listed company, in line with the Listing Rules' requirements, AFI Development has outlined the composition of its Board of Directors and its Management. The Annual Report includes a short description of their responsibilities and provides some background information.

Roles and Responsibilities – Board of Directors

Role	Responsibility
Chairman of the Board	Elias Ebrahimpour (Eli Avrahampour)
Senior Independent Non-Executive Director; Chairman of the Remuneration and Nomination Committees	Panayiotis Demetriou
Independent Non-Executive Director; Chairman of the Audit Committee	Avraham Novogrocki

A team of highly-experienced professionals is managing AFI Development's Russian operations. The Management of AFI RUS LLC has a strong local and international expertise and a proven operating record of accomplishment in Russia. The Management team of AFI RUS LLC is constantly maintaining a diversified project portfolio and evaluating new investment opportunities based on the emerging trends in market demand. The detailed description of the management team can be found on page 70 of this Annual Report.

Presented in the table below are the individuals who are responsible for the sustainability agenda and collection of consolidated non-financial data. The presence of senior management dedicated to sustainability increases the likelihood that sustainability objectives are met. We are committed to establishing an internal taskforce that will be focused on the development of a sustainability strategy and its implementation. The existence of such taskforce focused on sustainability issues will demonstrate a structured approach towards integrating sustainability practices across the organisation.

Roles and Responsibilities – Corporate Governance (Sustainability)

Role	Responsibility
Corporate Affairs/Investments Director/CSR Manager	Ilya Kutnov
Manager of Corporate Security	Andrey Robu
Manager of Occupational Health and Safety	Tatiana Sapozhkova
Manager of Human Resources	Anna Anisimova

The following indicators describe metrics collected by the Company to understand diversity at governance level. Diversity has become a clear priority for investors and is considered to be positively affecting investment decisions. For relevant specific data collected for 2018, please see consolidated reporting table below.

KPIs – governance

Diversity of the Board of Directors: total number of men and women
Diversity of Senior Management: total number of men and women
Diversity of Middle Management: total number of men and women

Reporting Scope: Head Office.
Applicable GRI Reporting Standards: 102-17, 102-18, 102-20, 102-32, 405-1.

Policies

The Company has developed policies that emphasize on ethical behaviour and how the Company is generally accountable to internal and external stakeholders.

Anti-bribery Policy – the Company works against bribery and corruption in all its forms, including extortion and bribery. Full Policy is available on Company website.

KPIs – anti-bribery policy

Total number and nature of confirmed incidents of corruption by employees
Total number and nature of confirmed cases of corruption when dealing with contractors

Reporting Scope: Construction and Development, Asset Management, Hotel Operations, Head Office.
Applicable GRI Reporting Standards: 205-2, 205-3.
Human Rights Policy – the Company works to ensure that fundamentals rights of all its employees, contractors and other stakeholders are met. Full Policy is available on Company website.

KPIs – human rights policy

Total number of identified incidents of discrimination

Reporting Scope: Construction and Development, Asset Management, Hotel Operations, Head Office.
Applicable GRI Reporting Standards: 406-1, 412.

8.2 Social

Goals: continue to provide our employees with decent working conditions and employment benefits; implement the newly developed policies (Human Rights, Anti-bribery) and measure their impact against the defined KPIs; ensure health and safety; contribute to the society's well-being.

The social component of our sustainability agenda focuses on our interaction with a broad array of stakeholders. Our approach to stakeholder engagement is in alignment with our Human Rights Policy, Anti-bribery Policy and the Code of Ethics. Appropriate measures are in place to ensure compliance to our internal regulations and the law.

Employees

At AFI Development, every employee is treated with respect, equality and esteem and is entitled to freedom of thought, conscience, religion and expression of opinion in accordance with fundamental human rights. The Company is required to give every employee and candidate equal opportunities in all work sectors, position appointments and professional advancement. AFI Development is committed to employee well-being and health. In particular, all employees are entitled to a fitness-club membership on the Company's account. Furthermore, all employees receive health insurance as well as certain life insurance payments. As a responsible employer and in compliance with applicable regulations of the Russian Federation, AFI Development employs handicapped individuals as well as supports new generations by employing young university graduates.

The Company forbids discrimination on the basis of race, ethnic background, creed, religion, gender, family status, political views. All the Company's employees are required to refrain from any type of rude, violent or threatening behaviour vis-a-vis other Company employees, including sexual harassment and physical or verbal attacks, as well as from any activity that might give rise to an insulting, harmful or hostile environment.

The Company respects the right of privacy of all its employees, customers and contractors and exercises extreme caution when handling and filing personal information as well as in connection with its distribution, in order to ensure protection of privacy.

Employees are key stakeholders in any business. AFI Development strives to make use of sustainability reporting metrics to boost employee engagement, motivation, recruitment and retention of talent, work-life balance, teamwork and leadership development. Employee engagement also contributes to the successful implementation of best sustainability practices across the Company. Furthermore, proper understanding of workplace-related ESG issues help the Company in our branding as a responsible employer.

KPIs - employees

Total number of employees (by gender, age (under 30, over 50)
New employee hires and employee turnover
Total amount of employees who have received training on the Human Rights Policy
Total amount of employees who have received training on the Anti-bribery Policy

Reporting scope: Head Office.

Applicable GRI Reporting Standards: 102-8, 401-1, 404-2, 405-1, 412-2, 102-16.

Contractors

Our contractors are organizations or persons working on-site or off-site on our behalf with a relationship determined by a contract. Our contractors may hire their own staff directly or hire sub-contractors or independent contractors. The Company makes best effort to work only with contractors that carry on their affairs honestly and fairly, in accordance with law, who refrain from bribery and corruption, are very strict with respect to our policies and

Code of Ethics.

Sustainability-specific requirements for contractors ensure proper implementation of the Company's sustainability policies for construction and renovation projects. Relationships with contractors and the written agreements that define those relationships make sustainability requirements enforceable upon a wider range of stakeholders.

ESG-specific requirements for contractors refer to any ESG-related requirements that the Company has included in its contracts with its contractors, for example, specification on human rights, health and safety requirements, anti-bribery practices, and compliance with environmental legislation among others.

Negative supply chain-related ESG issues can pose a reputational risk, and can put purchasing and contracting strategies at risk. As a property development company, we are in a strong position to influence the behaviour of external property/asset managers and/or other external suppliers with regard to ESG issues.

KPIs - contractors

Total number of contractors, including new contractors
Total number of contracts that include human rights clauses

Reporting Scope: Construction and Development, Asset Management, Hotel Operations.

Applicable GRI Sustainability Reporting Standards: 414-1, 412-3.

Occupational Health and Safety Policy

Monitoring and reporting on occupational health and safety is an indicator of good management and allows for a continuous understanding of organizational health and safety issues. Maintaining records of the number of incidents over time helps to analyze incidents and to identify areas where improvements are necessary.

The dangerous nature of construction and building services work can lead to hazardous and harmful events, such as incidents, injuries, and fatalities. Such incidents are not only a factor of human life, but also have the potential to undermine our brand and long-term success. We perceive occupational health and safety performance as a key measure of our Company's duty of care. Monitoring of and reporting on on-site occupational health and safety is an indicator of prudent risk management.

KPIs – health and safety

Total amount of accidents including fatalities
Number of audits and inspections undertaken across the business on a monthly/annual basis

Reporting scope: Construction and Development, Asset Management, Hotel Operations.

GRI Sustainability Reporting Standards: 403-2.

Social contribution

The built environment has a significant direct and indirect socio-economic impact, for example on social wellbeing, quality of life, and the prosperity of local communities and individuals. Assessing the social-economic impact helps to minimize the potential negative impact of new construction and major renovation projects and can create more livable, prosperous and sustainable communities.

The Company also occasionally donates to a number of charities that are aimed at promoting development of local communities and society.

KPIs – social contribution

Charitable donations and investments of funds in the broader community
Key charity and/or sponsorship projects (by type)

Reporting scope: Head Office.
GRI Sustainability Reporting Standards: 413-1.

8.3 Environmental

Goals: ensure continuous compliance to rigorous environmental law regulations; implement the Environmental Policy; measure outcomes of the Policy implementation using the identified KPIs; define key risks and opportunities.
As a real estate development and investment company, we rely heavily on natural resources used in construction and management of real estate. Consequently, we focus on efficient management of these resources and strive to find ways to optimise their use in our operations. Sound environmental management such as managing water, reducing waste and energy use improve costs.
In this respect as a first step, the Company has developed an Environmental Policy focusing on a set of principles the company commits to follow. Full Policy is available on Company website.

Energy efficiency

Some of the Company's properties introduce activities that emphasise on reducing energy use. For example, concerning the lighting of buildings, basic lamps are being replaced with LED lamps, which are more economical and contribute to cost reduction. Furthermore, parts of equipment are furnished with automated processes as managerial algorithms are optimised, therefore electricity use is also reduced. Special recovery systems have been installed at some of the properties to save on energy used for heating and cooling.

KPIs – environmental policy

Total number amount of fines paid out due to incompliance with the regulations
Total amount of energy used
Total amount of waste generated (by type of waste and disposal method)
Total amount of water used

Reporting scope: Construction and Development, Asset Management, Hotel Operations.
Applicable GRI Sustainability Reporting Standards: GRI, 301, 302, 303, 304, 305, 306, 307, 416.

Consolidated reporting table

	Sustainability Aspect	Construction & Development	Asset Management	Hotel Operations	Head Office
Governance and diversity					
Governance and diversity	Diversity of the Board of Directors: total number of men and women				3m/0w
	Diversity of Top Management: total number of men and women				5m/2w
	Diversity of Middle Management: total number of men and women				57m/43w
Human Rights Policy	Total number of identified incidents of discrimination	0	0	0	0
Anti-Bribery Policy	Total number and nature of confirmed incidents of corruption by employees	0	0	0	1
	Total number and nature of confirmed cases of corruption when dealing with contractors	0	0	0	0
Social					
Employees	Total number of employees (by gender, age (under 30, over 50))	Total 1217, 321m/784w; 219 below 30, 298 above 50			
	New employee hires and employee turnover	Total new hires 357; average turnover 18.36%			
	Total amount of employees who receive additional training	357			
	Total amount of employees who have received training on the Human Rights Policy	357			
	Total amount of employees who have received training on the Anti-bribery Policy	357			
Contractors	Total number of contractors, including new contractors	201	117	2	22
	Total number of contracts that include human rights clauses	52	46	1	4
Health and safety	Total amount of accidents including fatalities*	2	0	0	0
	Number of audits and inspections undertaken across the business on a monthly/annual basis	6	6	6	6
	The system of rules applied in recording and reporting accident statistics	x	x	x	
Society	Charitable donations and investments of funds in the broader community				US$33,052
	Key charity and/or sponsorship projects (by type)	Russian Orthodox Church, Gift for sick children aid fund			
Environmental					
Environmental Policy	Total number amount of fines paid out due to incompliance with the regulations	0	0	0	
	Total amount of energy used (kWt)	9 755 854	69 065 268	7 512 105	1 475 804
	Total amount of waste generated (by type of waste and disposal method)**	no data	Class 1 - 985 kg Class 4 - 353 794 kg Class 5 - 2 153 757 kg	Class 4 - 4 319 м3 Class 5 - 5 025,12 м3	Class 5 - 722 м3
	Total amount of water used (cubic metres)	39 290	361 686	128 368	13 333

Notes: * 2 fatalities occurred during the year at two construction sites at the sole responsibility of general contractors

** The amount of waste is reported according to waste classes in the Russian standard GOST 12.1.007-76 “Harmful substances. Classification and general safety requirements”

8.4 Going forward

The Company has set itself an ambitious task of implementing new policies as well as the related data collection mechanisms. It is now clear that new policies would lead to changes in the Company, however being present on other European markets apart from the Russian market, we realise our responsibility to act responsibly. We make sure that our operational activity meets the external regulations and internal requirements of AFI Development in the field of ecology, safety and social responsibility.

During 2018 the Company has taken on the goal of measuring the outcome of the newly implemented policies against the identified KPIs, introduce due diligence procedures for efficient implementation, identify key risks and opportunities for each of the ESG aspects. The outcomes have been presented in the current report and will be presented for the 2019 reporting period and onward.

Frameworks and methodologies

ISO 14001, 26000
IIRC Reporting Framework
GRI Reporting Standards
BREEAM - Building Research Establishment Environmental Assessment Methodology (BREEAM 2012)
LEED - Leadership in energy and environmental design (LEED 2013)
SBTool – Sustainable Building Tool (iiSBE 2012)

9. FINANCIAL STATEMENTS

9. Financial Statements

9.1 Management discussion and analysis of financial condition and results of operations

Overview

As at 31 December 2018, the Company's portfolio consisted of 7 investment properties, 4 investment properties under development, 4 trading properties under development and 4 hotel projects (3 of them are active and 1 is frozen). The portfolio comprises commercial projects focused on offices, shopping centres, hotels and mixed-use properties, as well as residential projects, in Moscow and other regions of Russia. The total value of the Company's assets, based predominantly on independent valuation as of 31 December 2018, was US$1.25 billion[15], compared to US$1.42 billion as at 31 December 2017. Revenues for 2018 increased by 65.3% year-on-year to US$296.0 million, mainly as a result of initial application of IFRS 15 Revenue from Contracts with Customers from 1 January 2018. The average exchange rate of the Russian rouble to US dollar increased by 7.5% during 2018. Mainly due to these two factors, AFI Development recorded a 46.6% year-on-year increase in gross profit to US$89.4 million. Cash, cash equivalents and marketable securities decreased by 5.5% to US$100.2 million as at 31 December 2018.

In 2018, AFI Development incurred a net profit of US$31.5 million, compared to net loss of US$4.7 million in 2017.

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 2018, %	Year ended 31 December 2017,%
Real Gross Domestic Product growth	1.7	1.8
Consumer prices growth (inflation)	2.8	4.2

Source: The International Monetary Fund

Company Specific Factors

- From 1 January 2018 the Company has adopted and applied IFRS 15 Revenue from Contracts with Customers. The effect of this is mainly attributed to the earlier recognition of revenue from sales of residential properties under the "DDU" (pre-sales) contracts which contributed US$154.9 million to revenue for 2018 (for details on IFRS 15 please refer to note 5 to the Consolidated Financial Statements);
- At the AFI Residence Paveletskaya project, Phase I was delivered to customers in H1 2018, which enabled the Company to recognise revenue from sales of trading properties in the amount of US$23.9 million for 2018.
- In December 2017 the Company refinanced the AFIMALL City loan and repaid the Ozerkovskaya III loan in January 2018. For further details please see note 27 to the Consolidated Financial Statements.

[15]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.

Disposals and Acquisitions

The Company did not have any disposals or acquisitions in 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 under sales agreements.** 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.
- **Sales of trading properties under DDU contracts.** The Company has initially applied IFRS 15 Revenue from Contracts with Customers from 1 January 2018 which effects earlier recognition of revenue from sales of residential properties under DDU contracts and recognition of significant financial component on payments received in advance from customers for residential properties under DDU contracts. DDU contracts are advance sale contracts for trading properties which are signed while the development of the respective residential property is still ongoing. The revenue from sale of trading properties under such DDU contracts is recognised over time as the construction progresses. The Company has determined that this results in revenue and associated costs to fulfil the contracts being recognised over time, i.e. before the ownership of flats is actually transferred to the customer. The transaction price for such contract is determined by adjusting the promised amount of consideration which is received in advance, for the effect of significant finance component. The contract liability is presented in the statement of financial position as Advances from customers.
- **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.

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 from interest on our bank deposits and gains from other investments.

Finance expenses

Our finance expense comprises loss on other investments, if any, 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 and EURO 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 eight 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 and EURO denominated payables and receivables of our Russian and foreign 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. However, the recognition of such costs as expenses may result in accumulated tax losses for Russian tax purposes that we may be able to carry forward against estimated future profits, resulting in deferred tax assets. 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 2018 and 2017

US$ million	For the year ended 31 December 2018	For the year ended 31 December 2017	Change 2018/2017 US$ million	Change 2018/2017 %%
Revenue				
Construction consulting/management services	0.0	0.2	(0.2)	-98.5%
Rental income	125.5	117.0	8.5	7.2%
Non-core activity revenue	0.9	0.0	0.9	100%
Sale of residential	14.7	61.8	(47.2)	-76.3%
Sale of residential – transferred over time	154.9	0.0	154.9	100%
	296.0	179.1	117.0	65.3%
Other income	3.3	3.8	(0.5)	-14.3%
Expenses				
Operating expenses	(63.4)	(57.1)	(6.3)	11.1%
Administrative expenses	(5.5)	(6.0)	0.5	-8.0%
(including Bad debt provisions and write-offs)	(0.1)	(0.1)	(0.0)	-18.2%
Cost of sales of residential	(11.7)	(58.4)	46.7	-80.0%
Cost of sales of residential – transferred over time	(124.8)	0.0	(124.8)	100%
Other expenses	(4.5)	(2.4)	(2.2)	90.4%
	(206.6)	(120.0)	(86.6)	72.2%
Share of the after tax (loss)/profit of joint ventures	0.0	2.0	(2.0)	-100.0%
Gross profit	89.4	61.0	28.4	46.6%
Profit on disposal of investments in subsidiaries	(0.0)	(3.9)	3.9	-100.0%
Profit on purchase of 50% of JV	0.0	7.5	(7.5)	-100.0%
Valuation gain/(loss) on properties	(11.5)	2.0	(13.5)	-668.4%
Impairment loss on inventory of real estate	-	-	-	0.0%
Results from operating activities	77.9	66.6	11.3	17.0%
Finance income	1.6	0.8	0.8	118.6%
Finance expense	(35.2)	(50.4)	15.2	-30.2%
FX Gain/(Loss)	(2.3)	12.4	(14.6)	-118.4%
Net finance income/(costs)	(35.8)	(37.3)	1.4	-3.9%
Profit before income tax	42.1	29.3	12.8	43.5%
Income tax expense	(10.5)	(34.0)	23.4	-69.0%
Profit (Loss) from continuing operations	31.5	(4.7)	36.2	-776%

Revenue – General Overview

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

Rental income

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

US$ million	For the year ended 31 December 2018	For the year ended 31 December 2017	Change 2018/2017 US$ million	Change 2018/2017 %%
	Investment property			
AFIMALL City	85.9	81.8	4.1	5.0%
Premises at Tverskaya Zastava Square	1.9	2.0	(0.0)	-2.2%
Berezhkovskya office building	1.8	1.9	(0.1)	-5.1%
Ozerkovskaya (Aquamarine) III	4.1	1.0	3.0	298.5%
H2O office building	0.8	0.9	(0.1)	-12.5%
Premises at Tverskaya Plaza IV	0.0	0.1	(0.0)	-74.6%
Other land bank assets	0.1	0.0	0.0	58.8%
Paveletskaya I	0.1	0.0	0.0	54.6
	Hotels			
Plaza Spa Hotel (Kislovodsk)	18.5	17.1	1.4	8.2%
Plaza Spa Hotel (Zheleznovodsk)	6.2	6.5	(0.3)	-4.4%
Aquamarine hotel	6.1	5.6	0.4	7.9%
Total	125.5	117.0	8.4	7.2%

Sale of residential

US$ million	For the year ended 31 December 2018	For the year ended 31 December 2017	Change 2018/2017 US$ million	Change 2018/2017 %%
Revenue				
Odinburg	5.7	61.4	(55.6)	-90.6%
Ozerkovskaya II	0.1	0.5	(0.4)	-82.4%
Paveletskaya II	8.8	0	8.8	100%
Total	14.7	61.8	(47.2)	-76.3%

Sale of residential - transferred over time

US$ million	For the year ended 31 December 2018	For the year ended 31 December 2017	Change 2018/2017 US$ million	Change 2018/2017 %%
Revenue				
Paveletskaya II	39.1	0	39.1	100%
Botanic Garden	40.2	0	40.2	100%
Pochtovaya	38.4	0	38.4	100%
Odinburg	37.2	0	37.2	100%
Total	154.9	0	154.9	100%

Sale of residential

Our income from sale of residential increased by US$107.7 million in total, from US$61.8 million in 2017 to US$169.6 million in 2018, due to the IFRS 15 adoption. For more details see Note 5 to the Consolidated Financial Statements.

Operating expenses

Our operating expenses increased by 11.1% year-on-year to US$63.4 million in 2018 (2017: US$57.1 million). More than half of operating expenses' rise is explained by amended property tax calculation methodology. Other factor causing increase in operating costs relates to our marketing efforts as for the projects AFI Residence Paveletskaya, Bolshaya Pochtovaya and Botanic Garden.

Administrative expenses

Our administrative expenses decreased by 8.0% year-on-year to US$5.5 million in 2018 (2017: US$6.0 million). The decrease is attributable to the cost saving initiatives across the Company.

Net valuation gain/ (losses) on properties

Net result of investment property valuation changed from a gain of US$2.0 million in 2017 to a loss of US$11.5 million in 2018. For additional information, please refer to "Portfolio Valuation" section below.

Finance income

Our finance income increased by 118.6% year-on-year to US$1.6 million in 2018 (2017: US$0.8 million). The increase was a result of more efficient cash management.

Finance expense

Our finance expense decreased by 30.2% year-on-year to US$35.2 million in 2018 (2017: US$50.4 million), as a result of repayment of Ozerkovskaya (Aquamarine) III loan and decrease of interest rate due to the conversion of US$ denominated loans into EUR.

FX Gain/ (Loss)

We recorded a foreign exchange loss of US$2.3 million in 2018, against a gain of US$12.4 million in 2017. This was a result of Russian Rouble depreciation versus the US Dollar during 2018.

Income tax expense

Our current tax expense decreased by US$ 8.5 million to US$ 4.3 million due to the additional Russian capital gain tax from sale of non-residential premises to an end-user at Ozerkovskaya III Business Centre incurred in Q4 2017. Deferred tax expense decreased by US$ 14.9 million to US$ 6.2 million.

Profit/Loss for the year

Due to the factors described above, we recorded a US$ 31.5 million net gain for 2018 compared to net loss of US$4.7 million for 2017.

Liquidity and Capital Resources

Cash flows

Summary of cash flows for 2018 and 2017

US$ thousand	For the year ended 31 December 2018	For the year ended 31 December 2017
Net cash from operating activities	64,438	104,735
Net cash from/(used in) investing activities	(17,805)	105,864
Net cash from/(used in) financing activities	(50,767)	(125,271)
Effect of exchange rate fluctuations	(2,331)	(479)
Net increase/(decrease) in cash and cash equivalents	(6,465)	84,849
Cash and cash equivalents at 1 January	95,468	10,619
Cash and cash equivalents at 31 December*	89,003	95,468

** Note: the cash and cash equivalents do not include US$11.2 million (2017: US$10.5 million) fair value of marketable securities.*

Net cash from operating activities

Net cash from operating activities decreased to US$64.4million in 2018, from US$104.7 million in 2017. The decrease is attributable to the adoption and application of IFRS 15 Revenue from Contracts with Customers from 1 January 2018.

Net cash from investing activities

Net cash outflow used in investing activities amounted to US$ 17.8 million in 2018 against cash from investing activity amounted to US$ 105.9 in 2017 attributable to cash inflow from sale of two buildings at Aquamarine III Business Centre in 2017.

Net cash used in financing activities

Net cash used in financing activities increased to a negative US$50.8 million in 2018 from a negative US$125.3 million in 2017 due to refinancing of Bellgate loan and repayment of Ozerkovskaya III loan in January 2018. For further details please see note 27 to the Consolidated Financial Statements.

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 2018 with of approximately US$100.2 million in cash, cash equivalents and marketable securities on our balance sheet and a debt[17] to equity level of 68%.

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[16]. We strongly prefer, whenever possible, to use non-recourse project level financing.

Project / Subsidiary	Lending bank	Max dept limit (US$ mn)	Balance as of Dec -31, 2018 (US$ mn)	Available (US$ mn)	Nominal Interest rate	Currency	Maturity
AFIMALLCity / Bellgate Constractions Ltd	VTB Bank JSC	36. 5 billion rub	135. 8 324. 0	0	CBR + 0.75% 4.2%	RUR EUR	27/12/2022 27/12/2022
Plaza Spa Hotel (Kislovodsk) / Sanatorium Plaza LLC	VTB Bank JSC	21.3 11 .8	14.4 11 .3	0	4.2% 4.2%	EUR EUR	21/02/2022 20/09/2022
Plaza Spa Hotel (Zheleznovodsk) / Sanatorium Plaza SPA LLC	VTB Bank JSC	18.6	18.0	0	4.2%	EUR	20/09/2022

[16]Debt includes all loans and borrowings. For further details please see note 27 to the consolidated financial statements.

The total balance of secured debt financing reached US$503.52 million as at 31 of December 2018, including US$503.4 million of Principal Debt and US$0.17 million of accrued interest with average interest rate 5.4% per annum as at 31.12.2018 (6.9% per annum as at 31.12.2017) (for more details see note 27 to our consolidated financial statements).

As at 31 December 2018, our loans and borrowings were payable as follows:

US$ thousand	As at 31 December 2018	As at 31 December 2017
Less than one year	16,433	86,775
Between one and five years	487,348	492,484
Total	503,781	579,259

Portfolio Valuation

In 2018 Jones Lang LaSalle LLC ("JLL") continued to serve as the Company independent appraisers. As at 31 December 2018, based on the JLL independent appraisers' report, the value of AFI Development's portfolio of investment properties stood at US$ 742.6 million, while the value of the portfolio of investment property under development stood at US$ 141.9 million.

Consequently, the total value of the Company's assets, based predominantly on independent valuation as of 31 December 2018, decreased 12% year-on-year to US$1.25 billion., compared to US$1.42 billion as at 31 December 2017. The drop in values was mostly technical, triggered by the exchange rate fluctuation effect (the rouble depreciated by 20,61% YoY) and reduction in the book values of residential projects due to delivery of apartments in AFI Residence Paveletskaya in Q2 2018. and the implementation of IFRS 15.

	Property	Valuation 31/12/2018, US Dollars	Valuation 31/12/2017, US Dollars	Change in valuation, %	Balance sheet value 31/12/2018, US Dollars	Balance sheet value 31/12/2017, US Dollars
Investment property						
1	AFIMALL City	637,300,000	696,000,000	-8%	637,300,000	696,000,000
2	Ozerkovskaya III	57,430,000	63,200,000	-9%	57,430,000	63,200,000
3	Tverskaya Plaza II	18,000,000	21,700,000	-17%	18,000,000	21,700,000
4	Berezhkovskaya	9,970,000	11,900,000	-16%	9,970,000	11,900,000
5	Paveletskaya I	9,520,000	11,712,379	-19%	9,520,000	11,810,000
6	H2O	6,980,000	9,808,249	-29%	6,980,000	9,890,000
7	Tverskaya Plaza Ib	3,390,000	3,560,000	-5%	3,390,000	3,560,000
	Total	742,590,000	817,880,628	-9%	742,590,000	818,060,000
Investment property under development						
8	Tverskaya Plaza IV	54,000,000	67,000,000	-19%	54,000,000	67,000,000
9	Tverskaya Plaza Ic	61,100,000	66,300,000	-8%	61,100,000	66,300,000
10	Kossinskaya	25,700,000	28,700,000	-10%	25,700,000	28,700,000
11	Starokaluzhskoye shosse	1,080,000	1,240,000	-13%	1,080,000	1,240,000
	Total	141,880,000	163,240,000	-13%	141,880,000	163,240,000
Trading property & Trading property under development						
13	AFI Residence Paveletskaya	n/a	n/a	-	53,204,937	114,983,691
14	Odinburg	n/a	n/a	-	90,326,793	108,815,920
15	Bolshaya Pochtovaya	n/a	n/a	-	75,556,973	84,336,992
16	Botanic Garden	n/a	n/a	-	77,835,579	50,364,056
17	Ozerkovskaya II	n/a	n/a	-	958,253	2,027,075
	Total	-	-	-	297,882,536	360,527,734
Hotels						
18	Plaza Spa Hotel Kislovodsk	n/a	n/a	-	40,841,822	44,942,392
19	Aquamarine Hotel	n/a	n/a	-	12,986,550	15,750,733
20	Plaza Spa Hotel Zheleznovodsk	n/a	n/a	-	9,575,647	11,774,505
21	Park Plaza hotel Kislovodsk	n/a	n/a	-	3,549,859	4,240,732
	Total	-	-	-	66,953,879	76,708,362
	Grand Total	884,470,000	981,120,628	-10%	1,249,306,414	1,418,536,096

9.2 Management Report and Directors Responsibility Statement
Board of Directors and professional advisers

Board of Directors	Elias Ebrahimpour (Eli Avraampour) - Chairman
	Panayiotis Demetriou
	Avraham Noach Novogrocki
Secretary	Fuamari Secretarial Limited
Independent Auditors	KPMG Limited
Bankers	Public Joint Stock Company VTB Bank
	Public Joint Stock Commercial Savings Bank of the Russian Federation (Sberbank)
	Otkritie FC Bank
	VP Bank (Switzerland)
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 management report together with the audited consolidated financial statements of the Company for the year ended 31 December 2018.

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 2018, the Company's portfolio consisted of 7 investment properties, 4 investment properties under development, 4 trading properties under construction, 2 trading properties and 4 hotel projects.

FINANCIAL RESULTS

The Group's results are set out in the consolidated income statement on page 97. The profit of the Group for the year before taxation amounted to US$42,084 thousand (2017: US$29,327 thousand). The profit after taxation attributable to the Group's owners amounted to US$31,510 thousand (2017: loss US$4,918 thousand).

DIVIDENDS

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

MAIN RISKS AND UNCERTAINTIES

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 32 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. For the financial year 2018, the Company applied the UK Corporate Governance Code published in April 2016 (the "Code"), on which the Company reported in its 2018 Annual report. The Company is applying the UK Corporate Governance Code published in July 2018 to the financial year 2019 and will report on this in next year's Annual Report.

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 recommended by section A.3.1 of the Code) by virtue of the fact that he was, until 31st August 2018, an Executive Chairman while being, indirectly, a major shareholder of the Company. Mr Leviev holds a controlling stake in Flotonic Limited, the major shareholder of the Company. The directors had considered Mr Leviev to be a key member of the Company's leadership during his period in office and greatly valued his oversight and management role. It should be noted that Mr Leviev resigned from his position on the Board on 31 August 2018.

PARTICIPATION OF DIRECTORS IN THE COMPANY'S SHARE CAPITAL

None of the Directors holds shares of the Company directly. Mr Lev Leviev, a former Executive Chairman of the Board, holds 64.88% indirectly through Flotonic Limited as described in detail in note 33 "Group Composition".

BRANCHES

The Group operates six 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, Aquamare Uno Ltd branch and Triumvirate I S.a r.l branch hold investment properties under development projects 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 2018 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 of the Board of Directors during the current year. Remuneration of Board of Directors is disclosed in note 38.

OPERATING ENVIRONMENT OF THE COMPANY

Any significant events that relate to the operating environment of the Company are described in note 32 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 39 of the consolidated financial statements.

RELATED PARTY TRANSACTIONS

Disclosed in note 38 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, 15 April 2019

9.3 INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OFAFI DEVELOPMENT PLC

9.3 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 96 to 179 and comprise the consolidated statement of financial position and the statement of financial position of the Company as at 31 December 2018, 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 2018, 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 consolidated financial statements and separate financial statements" section of our report. We remained independent of the Group and Company throughout the period of our appointment 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 16 and 17 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$742,590 thousand and investment property under development portfolio of US$141,880 thousand together representing 62% of the Group's total assets as at 31 December 2018. 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 properties under development, factors also include projected costs to complete and timing until completion. The existence of significant estimation uncertainty, which could result in a material misstatement, arrants 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 for other engagements between the valuers and the Group 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 ofproperties within the property portfolio.

Other Information

The Board of Directors is responsible for the other information. The other information comprises the management report, the preliminary statement of results, the chairman's statement, the management discussion and analysis of financial condition and results of operations and the annual report which includes the corporate governance statement and the corporate social responsibility statement but does not include the consolidated and separate financial statements and our auditor's report thereon.

Our opinion on the consolidated and separate 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 and separate 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 and separate 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 chairman's statement, the management discussion and analysis of financial condition and results of operations, the annual report and the corporate social responsibility statement 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 and regulatory requirements" section.

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 and/ or the Group or to cease operations, or there is no realistic alternative but to do so.

The Board of Directors and those charged with governance are 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 Group and the Company to express an opinion on the consolidated and separate financial statements. We are responsible for the direction, supervision and performance of the Group and Company audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance 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 those charged with governance 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 those charged with governance, 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 legal and regulatory requirements

Other regulatory requirements

Pursuant to the requirements of Article 10(2) of European Union (EU) Regulation 537/2014 we provide the following information in our Independent Auditors' Report, which is required in addition to the requirements of ISAs.

Date of our appointment and period of engagement

We were reappointed as auditors on 20 December 2018 by the General Meeting of the Company's members to audit the consolidated and separate financial statements of the Group and the Company for the year ended 31 December 2018. Our total uninterrupted period of engagement is 18 years, covering the periods ending 31 December 2001 to 31 December 2018.

Consistency of auditor's report to the additional report to the Audit Committee

We confirm that our audit opinion is consistent with the additional report presented to the Audit Committee dated 10 April 2019.

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 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, and which is published on the Company's website, 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 Article 10(1) of the EU Regulation 537/2014 and 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 Marios G. Gregoriades.

Marios G. Gregoriades, CPA
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

15 April 2019

9.4 CONSOLIDATED FINANCIAL STATEMENTS

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 2018, 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:
Non-executive independent directors

Elias Ebrahimpour – Chairman ....

Panayiotis Demetriou ....

Avraham Noach Novogrocki..

Company officers:

Chief executive officer
Mark Groysman ....

Chief financial officer
Alexey Miroshnikov ....

15 April 2019

CONSOLIDATED INCOME STATEMENT

For the year ended 31 December 2018

	Note	2018 US$ '000	2017 US$ '000
Revenue	8	296,043	179,051
Other income	9	3,272	3,819
Operating expenses	10	(63,364)	(57,054)
Carrying value of trading properties sold	21,22	(136,485)	(58,404)
Administrative expenses	11	(5,524)	(6,005)
Other expenses	12	(4,542)	(2,386)
Total expenses		(209,915)	(123,849)
Share of the after tax profit of joint ventures		-	1 957
Gross Profit		89,400	60,978
Gain on 100% acquisition of previously held interest in a joint venture	34	-	7,532
(Loss)/profit on disposal of investment property	16	-	(3,934)
(Decrease)/increase in fair value of properties	16,17	(11,494)	11,570
Impairment loss on properties		-	(9,548)
Net valuation gain/(loss) on properties		(11,494)	2,022
Results from operating activities		77,906	66,598
Finance income		1,635	13,119
Finance costs		(37,457)	(50,390)
Net finance costs	13	(35,822)	(37,271)
Profit before tax		42,084	29,327
Tax expense	14	(10,547)	(33,991)
Profit/(loss) for the year		31,537	(4,664)
Profit/(loss) attributable to:			
Owners of the Company		31,510	(4,918)
Non-controlling interests		27	254
		31,537	(4,664)
		31,537	(4,664)
Earnings per share			
Basic and diluted earnings per share (cent)	15	3.01	(0.47)

The notes on pages 103 to 158 are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2018

	2018 US$ '000	2017 US$ '000
Profit/(l oss) for the year	31,537	(4,664)
Other comprehensive (expense)/income 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 state ment		(4,271)
Foreign currency translation differences for foreign operations	(70,945)	14,295
Other comp rehensive income for the year	(70,945)	10,024
Total comprehensive (expense)/income for the year	(39,408)	5,360
Total comprehensive (expense)/income attributable to:		
Owners of the Company	(39,443)	5,126
Non-controlling interests	35	234
	(39,408)	5,360

The notes on pages 103 to 158 are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2018

	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	Accumulated losses US$ '000	Total US$ '000	US$ '000	US$ '000
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/ (expense) 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/ (expense) for the period		-	-	10,044	(4,918)	5,126	234	5,360
Transactions with owners of the Company Contributions and distributions								
Acquisition of non-controlling interests (note 35)		-	(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
Balance at 1 January 2018 as reported previously	1,048	1,763,409	(19,333)	(301.287)	(672,719)	771,118	(171)	770,947
Adjustment on initial application of IFRS 15 net of tax	-	-	-	581	13,885	14,466	73	14,539
Adjusted balance at 1 January 2018	1,048	1,763,409	(19,333)	(300,706)	(658,834)	785,584	(98)	785,486
Total comprehensive income for the period								
Profit for the period	-	-	-	-	31,510	31,510	27	31,537
Other comprehensive income	-	-	-	(70,953)	-	(70,953)	8	(70,945)
Total comprehensive income for the period	-	-	-	(70,953)	31,510	(39,443)	35	(39,408)
Balance at 31 December 2018	1,048	1,763,409	(19,333)	(371,659)	(627,324)	746,141	(63)	746,078

The notes on pages 103 to 158 are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2018

	Note	2018 US$ '000	2017 US$ '000
Assets			
Investment property	16	742,590	818,060
Investment property under development	17	141,880	163,240
Property, plant and equipment	18	67,868	77,633
Long-term loans receivable	19	2,811	1,669
Intangible assets		230	204
VAT recoverable	20	51	48
Other investments	23	5,244	-
Non-current assets		960,674	1,060,854
Trading properties	21	19,082	10,792
Trading properties under construction	22	278,800	349,735
Other investments	23	11,168	10,515
Inventories		1,120	1,318
Short-term loans receivable	19	578	1,090
Trade and other receivables	24	54,569	70,402
Current tax assets		4,431	4,114
Cash and cash equivalents	25	89,003	95,468
Current assets		458,751	543,434
Total assets		1,419,425	1,604,288
Equity			
Share capital	26	1,048	1,048
Share premium	26	1,763,409	1,763,409
Translation reserve	26	(371,659)	(301,287)
Capital reserve	26	(19,333)	(19,333)
Accumulated losses		(627,324)	(672,719)
Equity attributable to owners of the Company		746,141	771,118
Non-controlling interests	35	(63)	(171)
Total equity		746,078	770,947
Liabilities			
Long-term loans and borrowings	27	487,348	492,484
Deferred tax liabilities	28	54,772	42,652
Deferred income	31	11,964	12,641
Non-current liabilities		554,084	547,777
Short-term loans and borrowings	27	16,433	86,775
Trade and other payables	29	37,378	65,106
Advances from customers	30	65,407	123,766
Current tax liabilities		45	9,917
Current liabilities		119,263	285,564
Total liabilities		673,347	833,341
Total equity and liabilities		1,419,425	1,604,288

The consolidated financial statements were approved by the Board of Directors on 15 April 2019.

Elias Ebrahimpour
Chairman

Avraham Noach Novogrocki
Director

The notes on pages 103 to 158 are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2018

	Note	2018 US$'000	2017 US$'000
Cash flows from operating activities			
Loss for the year		31,537	(4,664)
Adjustments for:			
Depreciation	18	899	846
Net finance costs	13	34,568	36,549
(Increase)/decrease in fair value of properties	16,17	11,494	(11,570)
Impairment loss on properties	22	-	9,548
Share of profit in joint ventures	34	-	(1,957)
Gain on 100% acquisition of previously held interest in a joint venture		-	(7,532)
Loss on disposal of investment property		-	3,934
Tax expense/(benefit)	14	10 547	33,991
		89 045	59,145
Change in trade and other receivables		15,403	(2,407)
Change in inventories		(31)	(217)
Change in trading properties and trading properties under construction	21,22	(32,150)	(36,734)
Change in advances and amounts payable to builders of trading properties under construction		(5,363)	(1,613)
Changes in advances from customers		30,309	68,843
Change in trade and other p ayables		(22,332)	23,164
Change in VAT recoverable on trading		2,630	(3,975)
Change in deferred income		1,643	1,610
Cash generated from operating activities		79,154	107,816
Taxes paid		(14,716)	(3,081)
Net cash from operating acti vities		64,438	104,735
Cash flows from investing activities			
Acquisition of subsidiary net of cash acquired	34	-	(786)
Proceeds from sale of other investments	23	12,977	11,825
Proceeds from disposal of investment property		-	114,588
Proceeds from sale of property, plant and equipment		150	137
Interest received		1,169	631
Change in advances and amounts payable to builders		(1,591)	3,495
Payments for construction of investment property under development	17	(5,691)	(4,865)
Payments for the acquisition/renovation of investment property	16	(793)	(998)
Change in VAT recoverable on construction		65	(1,565)
Acquisition of intangible assets		(880)	(200)
Acquisition of property, plant and equipment	18	(1,596)	(484)
Acquisition of other i nvestments	23	(20,995)	(16,408)
Payments for loan receivable		(6,477)	(3,851)
Proceeds from repayment of loans receivable		5,857	4,345
Net cash from investing activities		(17,805)	105,864

The notes on pages 103 to 158 are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS (CONTINUED)

For the year ended 31 December 2018

	Note	2018 US$'000	2017 US$'000
Cash flows from financing activities			
Acquisition of non -controlling interes ts		-	(1,369)
Proceeds from loans and borrowings		586,072	43,648
Repayment of loans and borrowings		(605,779)	(117,442)
Interest paid		(31,060)	(50,108)
Net cash used in financing activities		(50,767)	(125,271)
Effect of exchange ra te fluctuations		(2,331)	(479)
Net (decrease)/increase in cash and cash equivalents		(6,465)	84,849
Cash and cash equivalents at 1 January		95,468	10,619
Cash and cash equivalents at 31 December	25	89,003	95,468

The notes on pages 103 to 158 are an integral part of these consolidated financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

1. INCORPORATION AND PRINCIPAL ACTIVITY

AFI Development PLC (the "Company") was incorporated in Cyprus on 13 February 2001 as a limited liability company under the name Donkamill Holdings Limited. In April 2007 the Company was transformed into public company and changed its name to AFI Development PLC. The address of the Company's registered office is 165 Spyrou Araouzou Street, Lordos Waterfront Building, 5th floor, Flat/office 505, 3035 Limassol, Cyprus. As of 7 September 2016 the Company is a 64.88% subsidiary of Flotonic Limited, a private holding company registered in Cyprus, 100% owned by Mr Lev Leviev. 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 33 "Group Composition".

2. BASIS OF ACCOUNTING

I. GOING CONCERN BASIS OF ACCOUNTING

Macroeconomic environment was challenging in 2018. The Rouble weakened significantly versus the dollar towards the end of 2018, the Central Bank of Russia has increased its key lending rate in December 2018 and the United States' Office of Foreign Assets Control imposed strict blocking sanctions on April 6, 2018. In addition to that, legislation and tax changes affecting real estate sector will be effective in 2019. At the same time the Russian economy is expected to grow at moderate rates.

Despite the challenging operating environment, the Group has recognised a profit after tax of US$31.5 million for the twelve month period ended 31 December 2018. Its cash and cash equivalents and marketable securities remained stable at circa US$100.2 million. Its current liabilities decreased to US$16.4 million due to the repayment of Ozerkovskaya III loan in January 2018.

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 management succeeded in reducing debt and refinancing loans in Euro, decreasing the interest rates by 2%, which in turn resulted in a total decrease of finance cost by 13 bps. This will enable the Company to repay the principal when it falls due and to secure stable operational existence for the foreseeable future.

Based on cash flow projection for following 12 month period, the management reached a reasonable conclusion that the Group is in a position to secure further financing for its projects under construction by sales proceeds and to generate enough cash to cover its working capital requirements in order to continue its operations in the foreseeable future.

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 15 April 2019.

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 8 – revenue recognition: (i) whether revenue from pre-sale contracts with buyers of residential development units (flats, parking, commercial premises) is recognised over time or at a point in time, (ii) whether the price of these contracts contains element of significant finance component.
- Note 36 – lease classification

ASSUMPTIONS AND ESTIMATION UNCERTAINTIES

Information about assumptions and estimation uncertainties at 31 December 2018 that have a significant risk of resulting in a material adjustment to the carrying amounts of assets and liabilities in the next financial year is included in the following notes:

- Note 22 – lower of cost and net realisable value of trading properties under construction
- Note 8(C) - revenue recognition: timing of satisfaction of performance obligation and measurement of significant finance component
- Note 14 – provision for tax liabilities
- Note 28 – 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.
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 16 – investment property
- Note 17 – investment property under development
- Note 32 – financial instruments

4. STANDARDS ISSUED BUT NOT YET EFFECTIVE

ADOPTION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS AS ADOPTED BY THE EUROPEAN UNION (EU)

As from 1 January 2018, 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 consolidated financial statements except for the adoption of IFRS 15 "Revenue from contracts with customers" (see note 5).

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 2018. 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 16 "Leases" (effective for annual periods beginning on or after 1 January 2019), see below for the impact.
- 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 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.

- 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.

STANDARDS AND INTERPRETATIONS NOT ADOPTED BY THE EU

- '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 derecognised 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.

- IFRS 3 "Business Combinations" (amendments): Definition of a Business (effective for annual periods beginning on or after 1 January 2020).

The amendments narrow and clarify the definition of a business. They also permit a simplified assessment of whether an acquired set of activities and assets is a group of assets rather than a business. The amended definition emphasises that the output of a business is to provide goods and services to customers, whereas the previous definition focused on returns in the form of dividends, lower costs or other economic benefits to investors and others. In addition to amending the wording of the definition, the Board has provided supplementary guidance. Distinguishing between a business and a group of assets is important because an acquirer recognises goodwill only when acquiring a business.

- IAS 1 and IAS 8 (amendments): Definition of Material (effective for annual periods beginning on or after 1 January 2020).

The amendments clarify and align the definition of 'material' and provide guidance to help improve consistency in the application of that concept whenever it is used in IFRS Standards. The amendments include definition guidance that until now has featured elsewhere in IFRS Standards. In addition, the explanations accompanying the definition have been improved. Finally, the amendments ensure that the definition of material is consistent across all IFRS

Standards. Old definition: Omissions or misstatements of items are material if they could, individually or collectively, influence the economic decisions that users make on the basis of the financial statements (IAS 1 Presentation of Financial Statements). New definition: Information is material if omitting, misstating or obscuring it could reasonably be expected to influence the decisions that the primary users of general purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity.

- IFRS 10 (Amendments) and IAS 28 (Amendments) ''Sale or Contribution of Assets between an Investor and its Associate or Joint Venture" (effective date postponed indefinitely).

The amendments address an acknowledged inconsistency between the requirements in IFRS 10 and those in IAS 28, in dealing with the sale or contribution of assets between an investor and its associate or joint venture. The main consequence of the amendments is that a full gain or loss is recognised when a transaction involves a business (as defined in IFRS 3). A partial gain or loss is recognised when a transaction involves assets that do not constitute a business. In December 2015, the IASB postponed the effective date of this amendment indefinitely pending the outcome of its research project on the equity method of accounting.

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

Of those standards that are not yet effective, IFRS 16 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 16 "LEASES"

The Group is required to adopt IFRS 16 "Leases" from 1 January 2019. The Group has assessed the estimated impact that the initial application of IFRS 16 will have on its consolidated financial statements, as described below. The estimated impact of the adoption of this standard on the Group's equity as at 1 January 2019 is based on assessment undertaken to date and is summarised below. The actual impact of adopting the standard at 1 January 2019 may change because the new accounting policy is subject to change until the Group presents its first financial statements that include the date of initial application.

The standard introduces a single, on-balance sheet lease accounting model for lessees. 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.

FRS 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.

A. Leases in which the Group is a lessee

The Group will recognise new assets and liabilities for its leases of land. The nature of expenses related to those leases will now change because the Group will recognise a depreciation charge for right-of-use assets, other than those classified as investment property and investment property under development under fair value model, and interest expense on lease liabilities. The depreciation charge related to right-of-use assets arising from land lease under trading properties under development will be capitalised as an addition to its cost.

Currently, the Group recognises operating lease expense on a straight-line basis over the term of the lease, and recognises assets or liabilities only to the extent that there is a timing difference between actual lease payments and the expense recognised.

Based on the information currently available, the Group estimates that it will recognise lease liabilities of US$ 20,667 thousand, increase in investment property and investment property under development carrying amounts of US$ 9,084 thousand and right-of-use assets of US$ 7,804 thousand as at 1 January 2019, with overall effect on retained earnings/accumulated losses of US$ 3,780 thousand at the same date.

B. Leases in which the Group is a lessor

No impact is expected for leases in which the Group is a lessor.

C. Transition

The Group plans to apply IFRS 16 initially on 1 January 2019, using modified retrospective approach. Therefore, the cumulative effect of adopting IFRS 16 will be recognised as an adjustment to the opening balance of retained earnings at 1 January 2019, with no restatement of comparative information.

5. CHANGES IN SIGNIFICANT ACCOUNTING POLICIES

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

A. IFRS 15 Revenue from Contracts with Customers

Due to the transition method chosen by the Group in applying this standard, comparative information throughout these financial statements has not been restated to reflect the requirements of this standard.

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

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

IFRS 15 establishes a comprehensive framework for determining whether, how much and when revenue is recognised. It replaces existing revenue recognition guidance, including IAS 18 Revenue, IAS 11 Construction Contracts and related interpretations. Under IFRS 15, revenue is recognised when a customer obtains control of the goods or services. Determining the timing of the transfer of control – at a point in time or over time – requires judgement.

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

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

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

The following tables summarise the impacts of adopting IFRS 15 on the Group's statement of financial position as at 31 December 2018 and its statement of profit or loss and other comprehensive income for the year then ended for each of the line items affected. There was no material impact on the Group's statement of cash flows for the year ended 31 December 2018.

Impact on the consolidated statement of profit or loss and other comprehensive income
For the year ended 31 December 2018

	As reported	Adjustments	Amounts without adoption of IFRS 15
	US$ '000	US$ '000	US$ '000
Revenue	296,043	(95,921)	200,122
Cost of sales of trading properties	(136,485)	82,980	(53,505)
Others	(117,474)	-	(117,474)
Profit before tax	42,084	(12,941)	29,143
Tax expense	(10,547)	2,588	(7,959)
Profit for the year	31,537	(10,353)	21,184
Total comprehensive income for the year	(39,408)	(10,353)	(49,761)

Impact on the consolidated statement of financial position
31 December 2018

	As reported	Adjustments	Amounts without adoption of IFRS 15
	US$ '000	US$ '000	US$ '000
Assets			
Trading properties under construction	278,800	123,538	402,338
Others	1,140,625	-	1,140,625
Total assets	1,419,425	123,538	1,542,963
Equity			
Translation reserve	(371,659)	10,544	(361,115)
Retained earnings	(627,324)	(24,238)	(651,562)
Non-controlling interests	(63)	(89)	(152)
Others	1,745,124	-	1,745,124
Total equity	746,078	(13,783)	732,295
Liabilities			
Deferred tax liabilities	54,772	(5,334)	49,438
Advances from customers	65,407	142,655	208,062
Others	553,168	-	553,168
Total liabilities	673,347	137,321	810,668
Total equity and liabilities	1,419,425	123,538	1,542,963

The details of the new accounting policy and the nature of the changes to previous accounting policy in relation to the Group's revenue from sales of trading properties under DDU contracts is set below.

SALES OF TRADING PROPERTIES UNDER DDU CONTRACTS

DDU contracts are advance sale contracts for trading properties which are signed while the development of the respective residential property is still ongoing. Under IAS 18, revenue from these contracts and associated costs were recognised at point in time when risks and rewards of ownership were transferred to the customer (i.e. when act of transfer was signed by both parties). Under IFRS 15, the revenue from the contracts with customers for sale of trading properties under such DDU contracts is recognised over time as the construction progresses. The Group has determined that this results in revenue and associated costs to fulfil the contracts being recognised over time, i.e. before the ownership of flats is actually transferred to the customer. The transaction price for such contract is determined by adjusting the promised amount of consideration which is received in advance, for the effect of significant finance component. The contract liability is presented in the statement of financial position as Advances from customers.

Therefore, for these contracts, revenue is recognised sooner under IFRS 15 than under IAS 18, and also at higher amount due to the effect of significant finance component. The impacts of these changes on items other than revenue are a decrease in Advances from customers, decrease in Trading properties under development, increase in Cost of sales of trading properties, increase in Deferred tax liabilities and Tax expense.

The adoption of IFRS 15 did not have a significant impact on the accounting policies with respect to the other sources of revenue (see note 6).

B. IFRS 9 Financial instruments

IFRS 9 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.

As a result of the adoption of IFRS 9, the Group has adopted consequential amendments to IAS 1 Presentation of Financial Statements, which require impairment of financial assets to be presented in a separate line item in the statement of profit or loss. Previously, the Group's approach was to include the impairment of trade receivables in administrative expenses. The Group did not reclassify impairment losses amounting to US$ 120 thousand (2018) and US$ 147 thousand (2017) to a separate line in profit or loss in these consolidated financial statements, but presented them in administrative expenses as 'Provision for doubtful debts' because considered such reclassification immaterial.

There is no material effect on the opening retained earnings on 1 January 2018 from the adoption of IFRS 9.

Classification and measurement of financial assets and financial liabilities

IFRS 9 contains three principal classification categories for financial assets: measured at amortised cost, FVOCI and FVTPL. The classification of financial assets under IFRS 9 is generally based on the business model in which a financial asset is managed and its contractual cash flow characteristics. IFRS 9 eliminates the previous IAS 39 categories of held to maturity, loans and receivables and available for sale. IFRS 9 largely retains the existing requirements in IAS 39 for the classification and measurement of financial liabilities.

For an explanation of how the Company classifies and measures financial instruments and accounts for related gains and losses under IFRS 9, see note 6.

The measurement of the Group's financial assets and financial liabilities was not materially affected due to adoption of IFRS 9 and its new measurement categories.

Impairment of financial assets

IFRS 9 replaces the 'incurred loss' model in IAS 39 with an 'expected credit loss' (ECL) model. The new impairment model applies to:

– financial assets measured at amortised cost;
– debt investments at FVOCI;
– contract assets;
– lease receivables;
– loan commitments and financial guarantee contracts issued.

The new impairment model does not apply to investments in equity instruments.

Under IFRS 9, credit losses are recognised earlier than under IAS 39.

For assets in the scope of the IFRS 9 impairment model, impairment losses are generally expected to increase and become more volatile. The Company has determined that the application of IFRS 9 impairment requirements at 1 January 2018 does not result in a material additional

6. 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.

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:

	Exchange rate Russian Roubles	
As of:	for US$1	% Change
31 December 2018	69.4706	20.61
31 December 2017	57.6002	(5.04)
Average rate during:		
Year ended 31 December 2018	62.7078	7.46
Year ended 31 December 2017	58.3529	(12.95)

FINANCIAL INSTRUMENTS

RECOGNITION AND INITIAL MEASUREMENT

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

A financial asset (unless it is a trade receivable without a significant financing component) or financial liability is initially measured at fair value plus, for an item not at fair value through profit or loss (FVTPL), transaction costs that are directly attributable to its acquisition or issue. A trade receivable without a significant financing component is initially measured at the transaction price.

CLASSIFICATION AND SUBSEQUENT MEASUREMENT

Financial assets - policy applicable from 1 January 2018

On initial recognition, a financial asset is classified as measured at: amortised cost, Fair Value through Other Comprehensive income (FVOCI), or Fair Value Trough Profit or Loss (FVTPL).

Financial assets are not reclassified subsequent to their initial recognition unless the Group changes its business model for managing financial assets, in which case all affected financial assets are reclassified on the first day of the first reporting period following the change in the business model.

A financial asset is measured at amortised cost if it meets both of the following conditions and is not designated as at FVTPL:

- it is held within a business model whose objective is to hold assets to collect contractual cash flows; and
- its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

A debt investment is measured at FVOCI if it meets both of the following conditions and is not designated as at FVTPL:

- it is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets; and
- its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

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.

Financial assets - Business model assessment: Policy applicable from 1 January 2018

The Group makes an assessment of the objective of the business model in which a financial asset is held at a portfolio level because this best reflects the way the business is managed and information is provided to management. The information considered includes:

- the stated policies and objectives for the portfolio and the operation of those policies in practice. These include whether management's strategy focuses on earning contractual interest income, maintaining a particular interest rate profile, matching the duration of the financial assets to the duration of any related liabilities or expected cash outflows or realising cash flows through the sale of the assets;
- how the performance of the portfolio is evaluated and reported to the Group's management;
- the risks that affect the performance of the business model (and the financial assets held within that business model) and how those risks are managed;
- how managers of the business are compensated e.g. whether compensation is based on the fair value of the assets managed or the contractual cash flows collected; and
- the frequency, volume and timing of sales of financial assets in prior periods, the reasons for such sales and expectations about future sales activity.

Transfers of financial assets to third parties in transactions that do not qualify for derecognition are not considered sales for this purpose, consistent with the Group's continuing recognition of the assets.

Financial assets that are held for trading or are managed and whose performance is evaluated on a fair value basis are measured at FVTPL.

Financial assets - Subsequent measurement and gains and losses: Policy applicable from 1 January 2018

Financial assets at FVTPL	These assets are subsequently measured at fair value. Net gains and losses, including any interest or dividend income, are recognised in profit or loss.
Financial assets at amortised cost	These assets are subsequently measured at amortised cost using the effective interest method. The amortised cost is reduced by impairment losses. Interest income, foreign exchange gains and losses and impairment are recognised in profit or loss. Any gain or loss on derecognition is recognised in profit or loss.
Debt investments at FVOCI	These assets are subsequently measured at fair value. Interest income calculated using the effective interest method, foreign exchange gains and losses and impairment are recognised in profit or loss. Other net gains and losses are recognised in OCI. On derecognition, gains and losses accumulated in OCI are reclassified to profit or loss.
Equity investments at FVOCI	These assets are subsequently measured at fair value. Dividends are recognised as income in profit or loss unless the dividend clearly represents a recovery of part of the cost of the investment. Other net gains and losses are recognised in OCI and are never reclassified to profit or loss.

Financial assets - Classification: Policy applicable before 1 January 2018

The Group classified its financial assets into one of the following categories:

- loans and receivables;
- cash and cash equivalents;
- held to maturity;
- available for sale; and
- at FVTPL, and within this category as:
  - held for trading;
  - derivative hedging instruments; or
  - designated as at FVTPL.

Financial assets – Subsequent measurement and gains and losses: Policy applicable before 1 January 2018

Financial assets at FVTPL	Measured at fair value and changes therein, including any interest or dividend income, were recognised in profit or loss.
Held-to-maturity financial assets	Measured at amortised cost using the effective interest method.
Loans and receivables	Measured at amortised cost using the effective interest method.
Available-for-sale financial assets	Measured at fair value and changes therein, other than impairment losses, interest income and foreign currency differences on debt instruments, were recognised in OCI and accumulated in the fair value reserve. When these assets were derecognised, the gain or loss accumulated in equity was reclassified to profit or loss.

FINANCIAL LIABILITIES

CLASSIFICATION, SUBSEQUENT MEASUREMENT AND GAINS AND LOSSES

Financial liabilities are classified as measured at amortised cost or FVTPL. A financial liability is classified as at FVTPL if it is classified as held for trading, it is a derivative or it is designated as such on initial recognition. Financial liabilities at FVTPL are measured at fair value and net gains and losses, including any interest expense, are recognised in profit or loss. Other financial liabilities are subsequently measured at amortised cost using the effective interest method. Interest expense and foreign exchange gains and losses are recognised in profit or loss. Any gain or loss on derecognition is also recognised in profit or loss.

DERECOGNITION OF FINANCIAL ASSETS AND LIABILITIES

Financial assets

The Company derecognises a financial asset (or, where applicable a part of a financial asset or part of a Company of similar financial assets) when:

- the contractual 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 transfers the rights to receive the contractual 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.

Any interest in such derecognised financial assets that is created or retained by the Company is recognised as a separate asset or liability

Financial liabilities

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

The Company also derecognises a financial liability when it is replaced by another from the same lender on substantially different terms, or when the terms of the liability are substantially modified, and the cash flows of the modified liability are substantially different, in which case a new financial liability based on the modified terms is recognised at fair value.

On derecognition of a financial liability, the difference between the carrying amount extinguished and the consideration paid (including any non cash assets transferred or liabilities assumed) is recognised in profit or loss.

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.

IINVESTMENT PROPERTY

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

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

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.

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-$33^1/_3$%
Motor vehicles	$33^1/_3$%

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.

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

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.

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

IMPAIRMENT

NON-DERIVATIVE FINANCIAL ASSETS

Policy applicable from 1 January 2018

Financial instruments and contract assets

The Group recognises loss allowances for expected credit losses (ECLs) on:

- financial assets measured at amortised cost;
- debt investments measured at FVOCI;
- and contract assets.

The Group measures loss allowances at an amount equal to lifetime ECLs, except for the following, which are measured at 12 month ECLs:

- debt securities that are determined to have low credit risk at the reporting date;
- and other debt securities and bank balances for which credit risk (i.e. the risk of default occurring over the expected life of the financial instrument) has not increased significantly since initial recognition.

Loss allowances for trade receivables and contract assets are always measured at an amount equal to lifetime ECLs.

When determining whether the credit risk of a financial asset has increased significantly since initial recognition and when estimating ECLs, the Group considers reasonable and supportable information that is relevant and available without undue cost or effort. This includes both quantitative and qualitative information and analysis, based on the Group's historical experience and informed credit assessment and including forward looking information.

The Group assumes that the credit risk on a financial asset has increased significantly if it is more than 30 days past due.

The Group considers a financial asset to be in default when:

- the borrower is unlikely to pay its credit obligations to the Group in full, without recourse by the Group to actions such as realising security (if any is held); or
- the financial asset is more than 90 days past due.

The Group considers a debt security to have low credit risk when its credit risk rating is equivalent to the globally understood definition of 'investment grade'. The Group considers this to be Baa3 or higher per Moody's rating agency or BBB or higher per Standard & Poor's Rating Agency.

12 month ECLs are the portion of ECLs that result from default events that are possible within the 12 months after the reporting date (or a shorter period if the expected life of the instrument is less than 12 months).

The maximum period considered when estimating ECLs is the maximum contractual period over which the Group is exposed to credit risk.

MEASUREMENT OF ECLS

ECLs are a probability weighted estimate of credit losses. Credit losses are measured as the present value of all cash shortfalls (i.e. the difference between the cash flows due to the entity in accordance with the contract and the cash flows that the Company expects to receive). ECLs are discounted at the effective interest rate of the financial asset.

CREDIT-IMPAIRED FINANCIAL ASSETS

At each reporting date, the Group assesses whether financial assets carried at amortised cost and debt securities at FVOCI are credit-impaired. A financial asset is 'credit-impaired' when one or more of the following events that have a detrimental impact on the estimated cash flows of the financial asset have occurred.

Evidence that a financial asset is credit-impaired includes the following observable data:

- significant financial difficulty of the borrower or issuer;
- a breach if contract such as default or being more than 90 days past due;
- the restructuring of a loan or advance by the Group on terms that the Group would not consider otherwise;
- it is probable that the borrower will enter bankruptcy or other financial reorganization; or
- the disappearance of an active market for a security because of financial difficulties.

PRESENTATION OF ALLOWANCE FOR ECL IN THE STATEMENT OF FINANCIAL POSITION

Loss allowances for financial assets measured at amortised cost are deducted from the gross carrying amount of the assets.

For debt securities at FVOCI, the loss allowance is charged to profit or loss and is recognized in OCI.

WRITE-OFF

The gross carrying amount of a financial asset is written off when the Group has no reasonable expectations of recovering a financial asset in its entirety or a portion thereof. Financial assets that are written off could still be subject to enforcement activities in order to comply with the Group's procedures for recovery of amounts due.

Policy applicable before 1 January 2018

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.

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.

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

REVENUE FROM CONTRACTS WITH CUSTOMERS

The Group has initially applied IFRS 15 from 1 January 2018. Information about the Group's accounting policies relating to contracts with customers is provided in note 8(C). The effect of initially applying IFRS 15 is disclosed in note 5.

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.

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.

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.

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.

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.

7. 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.
- Development Projects-Commercial projects: Include construction of investment 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.

Reportable segments

	Development projects				Asset management		Hotel Operation		Land bank		Other		Total	
	Commercial projects		Residential projects											
	2018 US$'000	2017 US$'000	2018 US$'000	2017 US$'000	2018 US$'000	2017 US$'000	2018 US$'000	2017 US$'000	2018 US$'000	2017 US$'000	2018 US$'000	2017 US$'000	2018 US$'000	2017 US$'000
External revenues	1,921	-	169,640	61,971	92,632	85,665	30,854	29,298	42	2,055	4	62	295,093	179,051
Inter-segment revenue	27	-	2	24,241	5,233	5,707	4	4	5	26	8,300	10,195	13,571	40,173
Segment revenue	1,948	-	169,642	86,212	97,865	91,372	30,858	29,302	47	2,081	8,304	10,257	308,664	219,224
Segment (loss) profit before tax	(8,333)	-	29,908	(14,259)	18,493	37,454	5,446	9,360	(2,185)	7,643	(5,373)	(9,171)	37,956	31,027
Interest income	1	-	359	136	673	93	197	145	-	-	-	-	1,230	374
Interest expense	-	-	(358)	(188)	(27,764)	(47,969)	(2,819)	(1,511)	-	-	-	-	(30,941)	(49,668)
Depreciation	-	-	(46)	(49)	(97)	(53)	(675)	(685)	(2)	(3)	(73)	(56)	(893)	(846)
Share of profit of joint-ventures	-	-	-	-	-	-	-	1,957	-	-	-	-	-	1,957
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	(9,460)	-	-	(2,163)	(953)	7,041	-	-	(1,081)	6,692	-	-	(11,494)	11,570
Segment assets	118,219	-	359,133	418,891	758,359	866,433	69,577	81,487	52,839	196,326	885	1,270	1,359,012	1,564,407
Capital expenditure	4,561	-	152,842	97,823	536	998	-	-	1,387	4,278	-	-	159,326	103,099
Segment liabilities	453	-	96,405	145,918	520,871	622,352	52,811	61,360	990	1,646	978	1,409	672,508	832,685

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

	2018 US$' 000	2017 US$'000
Revenues		
Total revenue for reportable segments	308,664	219,224
Unallocated revenue	950	-
Elimination of inter-segment revenue	(13,571)	(40,173)
Consolidated revenue	296,043	179,051
Profit before tax		
Total profit/(loss) before tax for reportable segments	37 ,956	31,027
Unallocated amounts:		
Other profit or loss	4,128	(3,657)
Share of the after tax profit of joint ventures	-	1,957
Consolidated profit/(loss) before tax	42, 084	29,327
Assets		
Total assets for reportable segments	1,359, 012	1,564 ,407
Other unallocated amounts	60, 413	39 ,881
Consolidated total assets	1,419, 425	1,604,288
Liabilities		
Total liabilities for reportable segments	672, 508	832,685
Other unallocated amounts	839	656
Consolidated total liabilities	673, 347	833,341

	Reportable segment totals US$'000	Adjustments US$'000	Consolidated totals US$'000
Other material items 2018			
Interest income	1,230	187	1,417
Interest expense	(30,941)	-	(30,941)
Capital expenditure	159,326	-	159,326
Depreciation	(893)	(6)	(899)
Decrease in fair value of properties	(11,494)	-	(11,494)
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

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.

8. REVENUE

The effect of initially applying IFRS 15 on the Group's revenue from contracts with customers is described in note 5. Due to the transition method chosen in applying IFRS 15, comparative information has not been restated to reflect new requirements.

A. REVENUE STREAMS AND DISAGGREGATION OF REVENUE FROM CONTRACTS WITH CUSTOMERS

The Group generates revenue primarily from the sale of residential properties, rentals of investment properties and hotels operation. In the following table, revenue from contracts with customers is disaggregated by timing of transfer – over time or at point in time and by type of revenue.

	2018 US$ '000	2017 US$ '000
Revenue from contracts with customers		
Revenue from sale of trading properties – transferred at a point in time (note 21)	14,672	61,844
Revenue from sale of trading properties – transferred over time (note 5, note 22)	154,900	-
Hotel operation income	30,854	29,189
Construction consulting/management fees	3	166
	200,429	91,199
Other revenue		
Investment property renta l income	94,665	87,852
Non-core activity revenue	949	-
	95,614	87,852
Total revenue	296,043	179,051

Reconciliation with reportable segments in note 7: the revenue from contracts with customers included in line Revenue from sale of trading properties is presented in the reportable segment Development projects – Residential projects, Hotel operation income is presented in reportable segment Hotel operation, and Construction consulting/management fees is presented in reportable segment Other.

B. CONTRACT BALANCES

The following table provides information about contract liabilities from contracts with customers.

	31 December 2018 US$ '000	1 January 2018 US$ '000
Contract liabilities - included in 'Advances from customers'	65,407	45,889

The contract liabilities primarily relate to the advance consideration received from customers for advance sales of residential properties, which are under development, for which revenue is recognised over time. This will be recognised as revenue according to the progress of the construction of the residential projects, approximately within two years. The amount of US$ 42,175 thousand recognised in contract liabilities as the beginning of the period has been recognised as revenue for the year ended 31 December 2018.

C. PERFORMANCE OBLIGATIONS AND REVENUE RECOGNITION POLICIES

Revenue recognition policies for revenue from contracts with customers is presented in the below table.

Type of product	Nature, timing of satisfaction of performance obligations, significant payment terms	Revenue recognition under IFRS 15 (applicable after 1 January 2018)	Revenue recognition under IAS 18 (applicable before 1 January 2018)
Sales of trading properties under DDU contracts	DDU contracts are advance sale contracts for trading properties which are signed while the development of the respective residential property is still ongoing. The consideration is paid by customers in advance, shortly after the contract is signed and registered with state authorities according to local legal requirements. According to the relevant Russian law governing these specific types of contracts, the customers have no right to unilaterally terminate contract if the developer performs without default, i.e. the developer has right not to return the money and deliver the flat. Due to this, the Group concluded that the performance obligations are satisfied over time. This results in revenue and associated costs to fulfil the contracts being recognised over time.	Revenue from these contracts are recognised over time – i.e. before the flats and other residential property units are completed and transferred to customers by signing of acts of transfers. Progress is determined based on the cost-to-cost method – i.e. actual incurred cost vs budgeted. The related costs are recognised in profit or loss when they are incurred. The transaction price for such contracts is determined by adjusting the promised amount of consideration which is received in advance, for the effect of significant finance component. Advances received are included in contract liabilities which are presented in the statement of financial position as Advances from customers.	Revenue from these contracts and associated costs were recognised at point in time when risks and rewards of ownership were transferred to the customer (i.e. when act of transfer was signed).
Sales of trading properties under regular sale contracts	The regular sale contracts are signed with customers upon sale of completed residential property units (flats, parking etc). Control is transferred to the customer when act of transfer was signed. The payment of consideration is due upon signing of the contract but before the act of transfer is signed.	Revenue from these contracts and associated costs are recognised at point in time when control is transferred to the customer, (i.e. when act of transfer was signed).	Revenue from these contracts and associated costs were recognised at point in time when risks and rewards of ownership were transferred to the customer (i.e. when act of transfer was signed).
Hotel services	Hotel services comprise accommodation, , treatments and other services offered at the hotels operated by the group and sales of food and beverages.	Revenue is recognised upon transfer of the service to the client and acceptance by the client.	Revenue was recognised upon transfer of the service to the client and acceptance by the client.
Construction consulting/ management services	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.		

9. OTHER INCOME

	2018 US$ '000	2017 US$ '000
Other income consists of:		
Penalties charged to tenants	1,446	317
Reimbursement of depositary fees	192	-
Reimbursement of property tax	211	1,918
Sundries	1,423	1,584
	3,272	3,819

10. OPERATING EXPENSES

	2018 US$ '000	2017 US$ '000
Maintenance, utility and security expenses	20,613	19,475
Agency and brokerage fees	1,979	2,354
Advertising expenses	7,413	6,843
Salaries and wages	14,688	15,545
Consultancy fees	2,498	651
Depreciation	791	740
Insurance	429	527
Rent	1,516	1,897
Property and other taxes	13,367	8,908
Other operating expenses	70	114
	63,364	57,054

The average number of employees employed by the Group during the year 2018 was 1,217 (2017: 1,159).

11. ADMINISTRATIVE EXPENSES

	2018 US$ '000	2017 US$ '000
Consultancy fees	726	444
Legal fees	1,336	1,362
Auditors' remuneration	535	811
Valuation expenses	43	60
Directors' remuneration	923	1,334
Salaries and wages	56	52
Depreciation	107	106
Insurance	140	143
Provision for doubtful debts	120	147
Donations	41	78
Other administrative expenses	1,497	1,468
	5,524	6,005

The expenses in relation to the statutory audit firm fees for mandatory statutory audit of the annual financial statements amounted to US$244 thousand (2017: US$202 thousand), for other assurance services amounted to US$281 thousand (2017: US$599 thousand) and for non-audit services amounted to US$94 thousand (2017: US$10 thousand).

12. OTHER EXPENSES

	2018 US$ '000	2017 US$ '000
Priory ears' VAT non recoverable	2,489	105
Sundries	2,053	2,281
	4,542	2,386

13. FINANCE INCOME AND FINANCE COSTS COSTS

	2018 US$ '000	2017 US$ '000
Interest income	1,417	698
Net change in fair value of financial assets	218	50
Net foreign exchange gain	-	12,371
Finance income	1,635	13,119
Interest expense on loans and borrowings	(30,941)	(49,668)
Net change in fair value of financial assets	(2,986)	-
Other finance costs	(1,253)	(722)
Net foreign exchange loss	(2,277)	-
Finance costs	(37,457)	(50,390)
Net finance (costs) /income	(35,822)	(37,271)

The net foreign exchange loss recognised during 2018 is a result of the weakening of the Russian Rouble to the US Dollar by 20.6% by the end of 2018 in comparison to exchange rate prevailing at the end of 2017. The currency risk exposure was partially mitigated by converting a part of the bank loans from US Dollars to Euro during 2018.

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 2018 the Group capitalised an amount of US$9,414 thousand of finance cost to the residential development projects that are in construction phase, due to significant finance component identified in the contracts with customers according to the provisions of the new IFRS 15 'Revenue from contracts with customers' (see note 22) (2017 Nil).

14. TAX EXPENSE

	2018 US$ '000	2017 US$ '000
Current tax expense		
Current year	(4,289)	(12,799)
Adjustment for prior years	(26)	(64)
	(4,315)	(12,863)
Deferred tax expense		
Origination and reversal of temporary differences	(6,232)	(21,128)
Total tax expense	(10,547)	(33,991)

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.

	%	2018 US$ '000	%	2017 US$ '000
Profit/(l oss) for the year after tax		31,537		(4,664)
Total tax expense/(benefit)		10,547		33,991
Profit/(l oss) before tax		42,084		29,327
Tax using the Co mpany's domestic tax rate	12.5	5,261	12.5	3,671
Effect of tax rates in foreign jurisdictions	3.9	1,627	7.9	2,315
Tax exempt income	(90.3)	(37,993)	(111.1)	(32,595)
Non-deductible expenses	87.3	36,759	195.3	57,270
Change in estimates related to prior years	0.6	268	7.0	2,057
Current year losses for which no deferred tax asset recognised	11.0	4,625	4.3	1,273
		10,547	115.9	33,991

15. EARNINGS PER SHARE

Basic earnings per share	2018 US$ '000	2017 US$ '000
Profit/(loss)attributable to ordinary shareholders	31,510	(4,918)
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)	3.01	(0.47)

16. INVESTMENT PROPERTY

Reconciliation of carrying amount

	2018 US$ '000	2017 US$ '000
Balance 1 January	818,060	915,350
Renovations/additional cost	793	998
Disposals	(812)	(140,026)
Fair value adjustment	(3,707)	18,218
Effect of movement in foreign exchange rates	(70,668)	23,520
Reclassification to trading properties under development (note 22)	(1,076)	-
Balance 31 December	742,590	818,060

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 2018. The cumulative adjustments, for all projects, are shown in "Fair value adjustment" in the table above.

The (decrease)/increase due to the effect of the foreign exchange rates is a result of the strengthening of the US Dollar to the Russian Rouble by 20.6%, during 2018 (2017: weakening by 5%).

The disposals of investment property during 2017 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 35 for further details on the acquisition of NCI.

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 17.

The fair value measurement for investment property of US$742,590 thousand (2017: US$818,060 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 $450, class B $183 $271, Retail $516-$962 - Expected market rental growth: Office 4% average; Retail 1-4% average - Vacancy rate: Office class A 1%, class B 8.8%-12%; Retail 4.5%-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)

	Type of property	Rental rates of $ per annum per sq.m.	Expected market rental growth	Vacancy Rate, %	Risk adjusted discount rates	All-risk yield
Investment property	Office, Class A	450	4%	1%	12%	9%
Aquamarine III	Retail	720	1%	5%	15%	9.75%
AFI Mall	Office, Class B	Office 271 Retail 962	4%	8.8%	18%	13.5%
Plaza IB	Retail	516	4%	4.5%	21%	9.5%
Plaza II	Office, Class B	183	4%	12%	18%	15.0%
Paveletskaya I	Office, Class B	183	4%	12%	17.75%	15.25%
H2O Riverside station	Office, Class B	256	4%	10%	17.5%	13.5%

Investment properties at fair value are categorised in the following:

	2018 US$ '000	2017 US$ '000
Retail properties	637,300	696,000
Office space properties	105,290	122,060
	742,590	818,060

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.

Discount rate/exit yield	-0.50%	-0.25%	0.00%	+0.25%	+0.50%
Market value (US$'000)	670,200	653,300	637,300	622,100	607,600
Rental income	-5.00%	-2.5%	0.00%	+2.5%	+5.00%
Market value (US$'000)	601,200	619,500	637,300	655,800	674,300
Vacancy rate	-5.00%	-2.5%	6.50%	+2.5%	+5.00%
Market value (US$'000)	673,800	655,500	637,300	619,100	600,900

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 Yields	-10%	-5%	0	5%	10%
-0.5	95,730	102,720	109,720	116,580	123,590
-0.25	93,760	100,580	107,380	114,270	121,080
0	91,860	98,580	**105,290**	112,020	118,650
0.25	90,120	96,660	103,300	109,850	116,390
0.5	88,430	94,890	101,360	107,730	114,210

17. INVESTMENT PROPERTY UNDER DEVELOPMENT

Reconciliation of carrying amount	2018 US$ '000	2017 US$ '000
Balance 1 January	163,240	232,900
Construction costs	5,691	4,865
Transfer to trading properties under construction (note 22)	-	(74,100)
Fair value adjustment	(7,787)	(6,648)
Effect of movements in foreign exchange rates	(19,264)	6,223
Balance 31 December	141,880	163,240

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 2018. The cumulative adjustments, for all projects, are shown in line "Fair value adjustment" in the table above.

The (decrease)/increase due to the effect of the foreign exchange rates is a result of the strengthening of the US Dollar to the Russian Rouble by 20.6%, during 2018 (2017: weakening by 5%).

Fair value hierarchy

The fair value measurement for investment property under development of US$141,880 thousand (2017: US$163,240 thousand) has been categorised as a level 3 fair value based on the inputs to the valuation technique used.

Level 3 fair value

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

Valuation technique and significant unobservable inputs

The 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-$500-525, class B $130, Retail $126-$525 - Expected market rental growth: Office 4% average; Retail 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)

Investment property under development	Type of property	Rental rates of $ per annum per sq.m	Expected market rental growth	Vacancy Rate, %	Risk adjusted discount rates	All-risk yield
Starokaluzhskoye shosse	Retail	126-198	4%	0%	16%	11.5%
Plaza IC	Office, Class A	Office - 525 Retail - 525	4%	5%	21%	9.25%
Plaza IV	Office, Class A	Office - 500 Retail - 500	4%	5%	23.5%	9.25%
Kosinskaya	Office, Class B	Office - 130 Retail - 210	4%	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 / Yields	-10%	-5%	0	5%	10%
-0.5	148,260	158,930	169,610	180,080	190,860
-0.25	128,650	138,820	148,990	159,160	169,340
0	121,940	131,910	**141,880**	151,950	161,920
0.25	115,530	125,400	135,160	145,030	154,800
0.5	104,820	114,280	123,950	133,420	143,080

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$14,600 thousand and vice-versa.

18. PROPERTY, PLANT AND EQUIPMENT

	Buildings under construction US$ '000	Land & Buildings US$ '000	Office Equipment US$ '000	Motor Vehicles US$ '000	Total US$ '000
Cost					
Balance at 1 January 2018	4,241	76,446	2,727	1,163	84,577
Additions	-	1,183	323	86	1,592
Disposals	-	(222)	(134)	-	(356)
Effect of movement in foreign exchange rates	(691)	(10,183)	(484)	(201)	(11,559)
Balance at 31 December 2018	3,550	67,224	2,432	1,048	74,254
Accumulated depreciation					
Balance at 1 January 2018	-	3,636	2,400	908	6,944
Charge for the year	-	650	171	77	898
Disposals	-	(81)	(125)	-	(206)
Effect of movement in foreign exchange rates	-	(676)	(413)	(161)	(1,250)
Balance at 31 December 2018	-	3,529	2,033	824	6,386
Carrying amount					
At 31 December 2018	3,550	63,695	399	224	67,868

	Buildings under construction US$ '000	Land & Buildings US$ '000	Office Equipment US$ '000	Motor Vehicles US$ '000	Total US$ '000
Cost					
Balance at 1 January 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

19. LOANS RECEIVABLE

	2018 US$ '000	2017 US$ '000
Long-term loans		
Loans to related companies (note 38)	1,163	-
Loans to non-related companies	1,648	1,669
	2,811	1,669
Short-term loans		
Loans to related companies	-	427
Loans to non-related companies	578	663
	578	1,090

Terms and loan repayment schedule

Terms and conditions of outstanding loans were as follows:

	Currency	Nominal interest rate	Year of maturity	2018 US$ '000	2017 US$ '000
Secured loans torelated companies	EUR	5.2%+ EURIBOR	2023	1,163	-
Unsecured loans to related companies	USD	3.08%	2018	-	427
Unsecured loans to non-related companies	RUR	6%	2021-2022	1,622	1,632
			2020	26	28
	RUR	2.5%			
	RUR	5.5-7%	2019	370	203
				208	469
	RUR	5%	2018		
				3,389	2,759

20. 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 12). 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 24.

21. TRADING PROPERTIES

	2018 US$ '000	2017 US$ '000
Balance 1 January	349,735	243,327
Effect of adoption of IFRS 15 as at 1 January 2018	(59,801)	-
Restated balance at 1 January	289,934	243,327
Transfer from investment property under development (note 17)	-	74,100
Transfer from investment property (note 16)	1,076	-
Transfer to trading properties (note 21)	(23,054)	(63,202)
Construction costs	159,186	96,481
Finance cost capitalised	9,414	-
Cost of trading properties sold	(124,804)	-
Impairment	-	(9,548)
Effect of movements in exchange rates	(32,952)	8,577
Balance 31 December	278,800	349,735

Trading properties comprise unsold apartments, commercial premises and parking spaces.

The transfer from trading properties under construction during 2018 represents the completion of the construction of a number of flats, commercial premises and parking places of "AFI Residence Paveletskaya" project, phase 1. The amount of transfer represents the book value of the flats, commercial premises and parking places which had not been sold under advance sale agreements before the completion of phase 1.

During 2018, 158 sale agreements were signed and the cost of sales was recognised in the income statement, upon transferring of the control to the buyers according to the signed acts of transfer.

The transfer from trading properties under construction during 2017 represents the completion of the construction of a number of flats, offices and parking places of "Odinburg" project.

22. TRADING PROPERTIES UNDER CONSTRUCTION

	2018 US$ '000	2017 US$ '000
Balance 1 January	349,735	243,327
Effect of adoption of IFRS 15 as at 1 January 2018	(59,801)	-
Restated balance at 1 January	289,934	243,327
Transfer from investment property under development (note 17)		74,100
Transfer from investment property (note 16)	1,076	-
Transfer to trading properties (note 21)	(23,054)	(63,202)
Construction costs	159,186	96,481
Finance cost capitalised	9,414	-
Cost of trading properties sold	(124,804)	-
Impairment	-	(9,548)
Effect of movements in exchange rates	(32,952)	8,577
Balance 31 December	278,800	349,735

*The Group has initially adopted IFRS 15 Revenue from Contracts with Customers as from 1 January 2018. For more details please refer to Note 5.

Trading properties under construction comprise "Odinburg", "AFI Residence Paveletskaya", "Botanic Garden" and "Bolshaya Pochtovaya" projects which involve primarily the construction of residential properties. During 2018, 1,509 advance sale agreements (DDU) were signed. The incurred cost to fulfil signed DDU contracts as at 31 December 2018 were recognised in cost of sales in the income statement.

The properties are tested for impairment at the year-end based on internal assessment. No impairment loss was recognised in 2018. An impairment loss of US$9,548 thousand was recognised in the profit or loss in 2017 so as to present the properties at their lower of cost or net realisable value.

23. OTHER INVESTMENTS

	2018 US$ '000	2017 US$ '000
Equity securities	5,244	20
Investment in listed debt securities	2,022	5,255
Investment in funds	9,146	5,240
	16,412	10,515

Reconciliation from opening to closing balances:

	2018 US$ '000	2017 US$ '000
Balance 1 January	10,515	6,068
Coupon interest accrued	209	488
Interest received	(145)	(221)
Additions	20,995	16,408
Disposals/redemption of bonds	(12,997)	(11,825)
Fair value loss	(2,165)	(403)
Balance 31 December	16,412	10,515

During the year the Group had a net investment cash outflow into Other investments of US$8,018 thousand (acquisitions amounted to US$20,995 thousand and proceeds from sale amounted to US$12,977 thousand).

By the end of 2018 Other investments comprised US$16,412 thousand, whereas US$5,244 thousand were invested in long-term equity instruments and US$11,168 were invested in short-term easily convertible into cash instruments.

Investment in mutual funds, equity securities and listed debt securities are classified as financial assets at fair value through profit or loss based on the Group's business model (Note 6).

24. TRADE AND OTHER RECEIVABLES

	2018 US$ '000	2017 US$ '000
Advances to builders	35,919	29,313
Amounts receivable from related parties (note 38)	184	109
Trade receivables net	5,008	3,458
Other receivables	5,603	21,713
VAT recoverable (note 20)	5,755	9,889
Tax receivable	2,100	5,920
	54,569	70,402

Trade receivables net

Trade receivables are presented net of an accumulated provision for doubtful debts of US$7,686 thousand (2017: US$10,522 thousand).

Other receivables at 31 December 2017 included an amount of US$16 million representing the remaining 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 16. During 2018, this amount was collected.

25. CASH AND CASH EQUIVALENTS

Cash and cash equivalents consist of:	2018 US$ '000	2017 US$ '000
Cash at banks	88,798	95,102
Cash in hand	205	366
Cash and cash equivalents as per statement of cash flows	89,003	95,468

26. SHARE CAPITAL AND RESERVES

1. Share capital

	2018 US$ '000	2017 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 2018.

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.

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 35 for further details.

27. LOANS AND BORROWINGS

	2018 US$ '000	2017 US$ '000
Non-current liabilities		
Secured bank loans	487,348	492,484
Current liabilities		
Secured bank loans	16,176	86,468
Unsecured loans from other non-related companies	257	307
	16,433	86,775

A. THE LOANS ON 31 DECEMBER 2018 WERE AS FOLLOWS:

(i) A secured loan from VTB Bank JSC («VTB») acquired by one of the Group's subsidiaries, Bellgate Constructions Ltd («Bellgate»), based on a loan agreement signed on the 28 December 2017. This loan was used to refinance previous loan from VTB. Bellgate received the loan in five tranches, during January and February 2018, in Euros and Russian Rubles. The blended interest rate on the loan is circa 5.4% per annum (assuming EUR/RUR exchange rate and Russian Central Bank key lending rate as at 31.12.2018). The interest and the principal of the loan are to be paid quarterly, while the term of the loan is 5 years.

(ii) Secured loans from VTB acquired by Group's subsidiaries, Sanatorium Plaza Kislovodsk and Sanatorium PlazaSPA Zheleznovodsk (Sanatoriums), based on loan agreements signed on the 12 October 2018. The loans were used to refinance the previous loans of Sanatoriums from VTB (which were received to finance the acquisition of the additional 50% stake in the Sanatorium Plaza Kislovodsk and to repay intra group loans). Sanatoriums received the loans in Euros. The interest rate on the loans is 4.2% per annum. The interest and the principal of the loans are to be paid quarterly with a balloon payment of circa 60% at maturity, while the terms of the loans are up to 4 years.

During 2018, the Group's subsidiary MKPK PJSC (the owner of the AFI Residence Paveletskaya Project) received a loan from VTB in the amount of RUR711 million to refinance the previously incurred costs for the construction of the project. The loan carried floating interest rate of the Russian Central Bank key lending rate + 1.5%. The loan was fully repaid in June 2018.

There are the following financial covenants in the loan agreements to be met:

- LTV (Loan-to-Value)
- NAV (Net assets value)
- DSCR
- Forecast DSCR
- EBITDA/ (Interest Itm + Debt)
- CAPEX /EBITDA

The Group has complied with loan covenants during 2018 and as at 31 December 2018.

The Group has complied with loan covenants during 2018 and as at 31 December 2018.

B. TERMS AND DEBT REPAYMENT SCHEDULE

Terms and conditions of outstanding loans at 31.12.2018 were as follows:

	Currency	Nominal interest rate	Year of maturity	2018 US$ '000
Secured loan from VTB Bank to Bellgate	RUR	key rate +0.75%	2018-2022	135,785
Secured loan from VTB Bank to Bellgate	EUR	4.2%	2018-2022	323,953
Secured loan s from VTB Bank to Sanatorium Plaza	EUR	4.2%	2018-2022	25,758
Secured loan from VTB Bank to Sanatorium Plaza SPA	EUR	4.2%	2018-2022	18,028
Other	RUR	3-12%	on demand	257
				503,781

Terms and conditions of outstanding loans at 31.12.2017 were as follows:

	Currency	Nominal interest rate	Year of maturity	2017 US$ '000
Secured loan from VTB Bank to Bellgate	RUR	9.5%	2018-2022	167,545
Secured loan from VTB Bank to Bellgate	USD	3m USD LIBOR+ 5.02%	2018-2022	276,887
Secured loan from VTB Bank to Krown	USD	3m USD LIBOR+ 7%	2017-2018	83,404
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
				579,259

The loans and borr owings are payable as follows:	2018 US$ '000	2017 US$ '000
Less than one year	16,433	86,775
Between one and five years	487,348	492,484
More than five years	-	-
	503,781	579,259

C. SECURITIES:

The secured bank loans are secured over investment property and hotels with carrying amounts of US$637,300 thousand (2017: US$696,000 thousand), US$50,332 thousand (2017: US$56,706 thousand) respectively.

28. DEFERRED TAX ASSETS AND LIABILITIES

Deferred tax (assets) and liabilities are attributable to the following:	2018 US$ '000	2017 US$ '000
Investment property	77,663	69,885
Investment property under development	9,345	9,890
Property, plant and equipment	9,940	10,376
Trading properties	(537)	(1,476)
Trading properties under construction	18,405	25,478
Trade and other receivables	(3,687)	(3,702)
Trade and other payables	1,829	1,193
Other items	105	(29)
Tax losses carried forward	(58,291)	(68,963)
Deferred tax liability	54,772	42,652

29. TRADE AND OTHER PAYABLES

	2018 US$ '000	2017 US$ '000
Trade payables	10,742	13,756
Payables to related parties (note 38)	192	183
Amount payable to builders	18,056	15,340
VAT and other taxes payable	4,800	28,982
Other payables	3,588	6,845
	37,378	65,106

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

VAT and other taxes payable

Balance at 31 December 2017 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 16.

30. 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 signed 1,509 advance sale contracts with customers ("DDU") for flats, parking places and offices and received additional down payments from customers. Reconciliation from opening to closing balance is presented below:

	31/12/18 US$ '000	31/12/17 US$ '000
Balance 1 January as previously reported	123,766	51,301
Effect of adoption of IFRS 15 as at 1 January 2018*	(77,877)	-
Restated balance at 1 January	45,889	51,301
Customer advances during year	174,514	110,490
Effect of recognition of revenue	(144,204)	(41,647)
Effect of movements in exchange rates	(10,792)	3,622
Balance 31 December	65,407	123,766

*The Group has initially adopted IFRS 15 Revenue from Contracts with Customers as from 1 January 2018. For more details please refer to Note 5.

31. DEFERRED INCOME

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

32. FINANCIAL INSTRUMENTS – FAIR VALUES AND RISK MANAGEMENT

A. ACCOUNTING CLASSIFICATIONS AND FAIR VALUES

The following table shows the carrying amounts and fair values of financial assets and financial liabilities, including their levels 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 2018	US$'000	US$'000	US$'000	US$'000	US$'000	US$'000	US$'000	US$'000	US$'000	US$'000
Financial assets measu red at fair value										
Investment in equity securities	-	-	5,244	-	-	5,244	-	-	5,244	5,244
Investment in fund	-	-	9,146	-	-	9,146	-	-	9,146	9,146
Investment in listed debt securities	-	-	2,022	-	-	2,022	2,022	-	-	2,022
	-	-	16,412	-	-	16,412				
Financial assets not measured at fair value										
Loans receivable	3,389	-	-	-	-	3,389				
Trade and other receivables	-	10,832	-	-	-	10,832				
Cash and cash equivalents	-	-	-	89,003	-	89,003				
	3,389	10,832	-	89,003	-	103,224				
Financial liabilities not measured at fair value										
Interest bearing loans and borrowings	-	-	-	-	(503,781)	(503,781)	-	-	(506,854)	(506,854)
Trade and other payables	-	-	-	-	(22,334)	(22,334)				
	-	-	-	-	(526,115)	(526,115)				

	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 l oans and borrowings	-	-	-	-	(579,259)	(579,259)	-	-	(579,415)	(579,415)
Trade and other payables	-	-	-	-	(25,230)	(25,230)				
	-	-	-	-	(604,489)	(604,489)				

B. MEASUREMENT OF FAIR VALUES

Valuation technics and significant unobservable inputs

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

Type	Valuation technique	Significant unobservable inputs	Inter -relationship between key unobservable inputs and fair value measurement
Investment in fund	The s ecurities and other assets of each Segregated Portfolio are valued by the Fund based on market quotations. If market quotations are not readily available, or if the Investment manager determines that special circumstances exist which effect the value of a security, the valuation of those securities and other assets will be determined in good faith by the Investment manager, whose determination will be final, conclusive and binding on all parties.	Not applicable	Not applicable
Investment in equity securiti es	Investment in private non -listed equity securities is valued by the Group using discounted cash flows method based on the nature and specific terms of investment share purchase agreement, which includes a 'down side protection'.	Not applicable	Not appli cable

C. 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 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 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 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 and contract assets represents the maximum credit exposure.

Trade and other receivables, including contract assets

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.

Impairment

At 31 December 2018, the ageing of trade and other receivable that were not impaired was as follows:

	2018 US$ '000	2017 US$ '000
Neither past due nor impaired	1,606	315
Past due 1-30 days	2,595	20,460
Past due 31-90 days	876	1,078
Past due 91-120 days	310	2,022
Past due 121 days	1,513	1,405
	6,900	25,280

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.

Expected credit losses assessment for individual customers as at 1 January and 31 December 2018

The Group uses an allowance matrix to measure the ECLs of trade receivables and other receivables from individual customers, which comprise a large number of small balances.

Loss rates are estimated based on actual credit loss experience as well as current conditions and the Group's view of economic conditions over the expected lives of receivables.

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 31 December 2016	24	8,261
Impairment loss/(reversal) recognised	38	-
Amounts written-off	-	(8,699)
Exchange difference effect	20	438
Balance at 31 December 2017	82	-
Impairment loss/(reversal) recognised	90	-
Amounts written-off	(56)	-
Exchange difference effect	(19)	-
Balance at 31 December 2018	97	-

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$88,798 thousand at 31 December 2018 (2017: US$95,102). 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.

Impairment on cash and cash equivalents has been measured on a 12-month expected credit loss basis and reflects the short maturities of the exposures. The Group monitors changes in credit risk by tracking published external credit ratings to assess whether there has been a significant increase in credit risk at the reporting date. The Group considers that its cash and cash equivalents at 31 December 2018 have overall low credit risk based on external credit ratings of the counterparties.

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.

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 2018:

- A secured bank loan facility from VTB Bank JSC for RUR 9.65 billion and EUR 290 million, which was obtained to refinance previous Bellgate loan and remaining liability of Krown loan. All the tranches were drawn during January-February 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, subsequently converted to Euro currency during 2018.
- 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, which was subsequently converted to Euro currency during 2018.

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 2018	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	503,524	(604,479)	(20,404)	(22,437)	(44,700)	(516,939)
Unsecured loans	257	(257)	(257)	-	-	-
Trade and other payables	22,334	(22,334)	(22,334)	-	-	-

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)	-	-	-

As disclosed in note 27 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.

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 2018			
Cash and cash equivalents	72	22,825	5,967
Loans receivable	-	-	1,163
Trade receivables	6	2,193	549
Loans and borrowings	(5,800)	-	(367,740)
Trade payables	(72)	(4,960)	(335)
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)

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 2017.

	Profit for the year	Equity
31 December 2018	US$ '000	US$ '000
Russian Roubles	(644)	-
US dollar	2,006	-
Euro	(36,040)	-

	Profit for the year US$ '000	Equity US$ '000
31 December 2017		
Russian Roubles	(775)	-
US dollar	(36,493)	-
Euro	28	-

A 10% weakening of the Russian Rubble, US dollar or Euro against all other currencies at 31 December 2018 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	
	2018 US$ '000	2017 US$ '000
Fixed rate instruments		
Financi al assets	82,721	95,821
Financial liabilities	(367,997)	(197,564)
	(285,276)	(101,743)
Variable rate instruments		
Financial assets	1,163	-
Financial liabilities	(135,785)	(381,695)
	(134,622)	(381,695)

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 2018.

	Equity US$ '000	Profit for the year US$ '000
31 December 201 8		
Variable rate instruments	-	(1,346)
31 December 2017		
Variable rate instruments	-	(3,817)

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

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.

The conflict in Ukraine, US elections and related events 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 the 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.

2019 will see a rise in VAT to 20% and a further increase of property tax from 1.6% in 2019 by 0.1% a year up to 2%.

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.

33. GROUP COMPOSITION

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

Significant Subsidiaries	Ownership interest 2018	2017	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	99.18	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	Russian Federation
15. OOO Bizar	100	100	Russian Federation
16. AFI D Finance SA	100	100	British Virgin Islands

* During 2018 OOO Zheldoruslugi was merged with OOO Avtostoyanka Tverskaya Zastava.

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.

34. 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.

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.

	2018 US$ '000	2017 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

	2018 US$ '000	2017 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

C. GOODWILL

Goodwill arising from the acquisition has been recognised as follows:

	2018 US$ '000	2017 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.

35. NON-CONTROLLING INTERESTS

During 2017, 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.

36. OPERATING LEASES

LEASES AS LESSEE

Non-cancellable operating lease rentals are payable as follows:

	2018 US$ '000	2017 US$ '000
Less than a year	5,556	6,165
Between one and five years	11,351	13,688
More than five years	31,634	45,716
	48,541	65,569
Amount recognised as an expense during the year	1,518	1,897

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 six 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 16. The future minimum lease payments under non-cancellable leases are as follows:

	2018 US$ '000	2017 US$ '000
Less than a year	68,235	75,827
Between one and five years	164,150	181,910
More than five years	48,335	48,500
	280,720	306,237
Amount recognised as income during the year	93,507	87,852

37. CAPITAL COMMITMENTS

Up to 31 December 2018 the Group has entered into a number of contracts for the construction of investment or trading properties:

Project name	Commitment	
	2018 US$ '000	2017 US$ '000
Odinburg	89,521	51,724
Kosinskaya	-	337
TVZ Plaza IC	1,575	116
Serebryakova	42,664	104,625
Pavaletskaya II	8,988	10,180
TVZ Plaza IV	2,476	624
TVZ Plaza II	208	343
Bolshaya Pochtovaya	35,710	52,908
Starokaluzhskoye shosse	49	27
	181,191	220,884

38. RELATED PARTIES

Outstanding balances with related parties	2018 US$ '000	2017 US$ '000
Assets		
Amounts receivable from other related companies	184	109
Secured loan receivable from related company	1,163	-
Loans receivable from key management personnel	-	427

The loan receivable from related company is secured by personal guarantee of the controlling ultimate beneficial owner, whereby the guarantor undertakes to pay on demand all the amounts due under the respective loan agreement in case of the borrower's default.

On 12 April 2019, the Group received full repayment of the secured loan from related company.

	20 18 US$ '000	2017 US$ '000
Liabilities		
Amounts payable to other related companies	156	183
Amounts payable to key management personnel	32	30
Deferred income from related company	66	101

Transactions with the key management personnel	2018 US$ '000	2017 US$ '000
Key management personnel compensation comprised:		
Short-term employee benefits	1,678	1,328
Short-term directors' benefits	923	1,334
	2,601	2,662

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	2018 US$ '000	2017 US$ '000
Revenue		
Joint venture – consulting services	-	31
Joint venture – interest income	-	211
Related company – other income	-	1
Related company – rental and hotel income	348	408
Related company – interest income	21	-
Key management personnel – interest income	3	2
Expenses		
Joint venture – operating expenses	-	10

Other related party transactions	2018 US$ '000	2017 US$ '000
Construction services capitalised		
Related company – construction services	-	-

39. SUBSEQUENT EVENTS

There were no material events after the reporting period, which have a bearing on the understanding of the financial statements.

9.5 SEPARATE FINANCIAL STATEMENTS OF THE PARENT COMPANY

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 2018, the names of which are listed below, confirm that, to the best of our knowledge:

a) The separate financial statements on pages 161 to 179:

(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 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

Non-executive independent directors
Elias Ebrahimpour ....
Panayiotis Demetriou ....
Avraham Noach Novogrocki ....

Company officers
Chief executive officer
Mark Groysman ....

Chief financial officer
Alexei Miroshnikov ....

15 April 2019

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

For the year ended 31 December 2018

	Note	2018 US$ '000	2017 US$ '000
Revenue	4	36,995	17,347
Other income		947	-
Other expenses		(2,282)	(31)
Administrative expenses	5	(3,677)	(4,505)
Impairment of investment in subsidiaries	8	(249,889)	(899,156)
Reversal of impairment of investment in subsidiaries	8	27,002	-
		(228,846)	(903,692)
Results from operating activities		(190,904)	(886,345)
Finance income		190	-
Finance costs		(11,525)	(5,957)
Net finance costs	6	(11,335)	(5,957)
Loss before tax		(202,239)	(892,302)
Tax expense	7	(224)	-
Loss for the year		(202,463)	(892,302)
Other comprehensive income		-	-
Total comprehensive expense for the year		(202,463)	(892,302)

SEPARATE STATEMENT OF CHANGES IN EQUITY OF THE PARENT COMPANY

For the year ended 31 December 2018

	Share capital US$ '000	Share premium US$ '000	Accumulated losses US$ '000	Total US$ '000
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
Balance at 1 January 2018	1,048	1,763,409	(1,408,213)	356,244
Total comprehensive expense for the year	-	-	(202,463)	(202,463)
Balance at 31 December 2018	1,048	1,763,409	(1,610,676)	153,781

The notes on pages 164 to 179 are an integral part of these separate financial statements of the parent company.

SEPARATE STATEMENT OF FINANCIAL POSITION OF THE PARENT COMPANY

As at 31 December 2018

	Note	2018 US$ '000	2017 US$ '000
Assets			
Investment in subsidiaries	8	254,815	371,778
Other investments	9	5,244	-
Total non-current assets		260,059	371,778
Trade and other receivables	10	532	8,433
Refundable tax		-	2,215
Cash and cash equivalents	111	1,148	897
Total current assets		1,680	11,545
Total assets		261,739	383,323
Equity			
Share capital		1,048	1,048
Share premium		1,763,409	1,763,409
Accumulated losses		(1,610,676)	(1,408,213)
Total equity	12	153,781	356,244
Liabilities			
Loans and borrowings	13	19,615	22,182
Total non-current liabilities		19,615	22,182
Trade and other payables	14	88,343	4,897
Total current liabilities		88,343	4,897
Total liabilities		107,958	27,079
Total equity and liabilities		261,739	383,323

The financial statements were approved by the Board of Directors on 15 April 2019.

Elias Ebrahimpour
Chairman

The notes on pages 164 to 179 are an integral part of these separate financial statements of the parent company.

SEPARATE STATEMENT OF CASH FLOWS OF THE PARENT COMPANY

For the year ended 31 December 2018

	Note	2018 US$ '000	2017 US$ '000
Cash flows from operating activities			
Loss for the year		(202,463)	(892,302)
Adjustments for:			
Net foreign exchange loss	6	22	16
Fair value (gains) on other investments	9	(190)	-
Impairment of investment in subsidiaries	8	249,889	899,156
Reversal of impairment of investment in subsidiaries	8	(27,002)	-
Dividend income	4	(36,995)	(17,347)
Interest expense	6	10,855	5,924
Interest income		(756)	-
Write off of tax refundable		818	-
Tax expense	7	224	-
Cash used in operations before working capital changes		(5,598)	(4,553)
Changes in working capital:			
Change in trade and other receivables		703	564
Change in trade and other payables		1,684	518
Cash generated from/ (used in) operations		(3,211)	(3,471)
Cash flows from investing activities			
Additional contribution of capital to existing subsidiaries	8	-	(33,906)
Acquisition of other investments	9	(5,054)	-
Additional shareholding in subsidiaries	8	(14,191)	(1,500)
Receipts from loans receivable	14	83,130	-
Proceeds from disposal of investments in subsidiaries	4	-	24,001
Dividends received	4	36,995	-
Net cash generated from/ (used in) investing activities		100,880	(11,405)
Cash flows from financing activities			
Repayment of loans and borrowings	13	(119,630)	-
Proceeds from loans and borrowings	13	22,250	13,735
Net cash (used in)/ generated from financing activities		(97,380)	13,735
Effect of exchange rate fluctuations on cash held		(38)	(19)
Net increase/ (decrease) in cash and cash equivalents		251	(1,160)
Cash and cash equivalents at beginning of the year		897	2,057
Cash and cash equivalents at end of the year	11	1,148	897
The cash and cash equivalents consists of:			
Cash at banks		1,148	897

The notes on pages 164 to 179 are an integral part of these separate financial statements of the parent company.

NOTES TO THE SEPARATE FINANCIAL STATEMENTS OF THE PARENT COMPANY

For the year ended 31 December 2018

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 2018 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 2018, 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.

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 2018. 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 (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 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.

- 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.

Standards and Interpretations not adopted by the EU

- "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 Board of Directors expects that the adoption of these standards or interpretations in future periods will not have a material effect on the financial statements of the Company.

(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.

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

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.

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.

CASH AND CASH EQUIVALENTS

For the purpose of the statement of cash flows, cash and cash equivalents comprise cash at bank.

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.

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

	2018 US$ '000	2017 US$ '000
Dividend income	36,995	17,347

During the current year, the Company received from its subsidiary Vardia Limited dividend in the amount of US$36,995.
During the prior 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.

5. ADMINISTRATIVE EXPENSES

	2018 US$ '000	2017 US$ '000
Consultancy and brokerage fees	188	193
Legal fees	1,009	1,118
Directors' remuneration	923	1,334
Auditors' remuneration	359	559
Valuation expenses	40	52
Insurance	112	106
Other administrative expenses	1,046	1,143
	3,677	4,505

6. NET FINANCE COSTS

	2018 US$ '000	2017 US$ '000
Fair value gain from investment in equity securities	190	-
Finance income	190	-
Interest expense on loans and borrowings	(10,855)	(5,924)
Provision for impairment of financial assets	(634)	-
Other finance costs	(14)	(17)
Net foreign exchange loss	(22)	(16)
Finance costs	(11,525)	(5,957)
Net finance costs	(11,335)	(5,957)

7. TAXATION

	2018 US$ '000	2017 US$ '000
Under provision of prior year tax	224	-

Reconciliation of tax based on the taxable income and tax based on accounting losses:

	2018	2018 US$ '000	2017	2017 US$ '000
Accounting profit before tax		(202,239)		(892,302)
Tax calculated at the applicable tax rates	12.50 %	(25,280)	12.50 %	(111,538)
Tax effect of expenses not de ductible for tax purposes	(13.99)%	28,284	(12.60)%	112,449
Tax effect of allowances and income not subject to tax	2.52 %	(5,078)	0.24 %	(2,168)
Tax effect of group tax relief	(1.03)%	2,074	(0.14)%	1,257
Prior year tax	(0.11)%	224	- %	-
Tax as per statement of profit or loss and other comprehensive income - charge	(0.11)%	224	- %	-

The corporation tax rate is 12.5%. Under certain conditions interest income may be subject to defence contribution at the rate of 30%. In such cases this interest will be exempt from corporation tax. In certain cases, dividends received from abroad may be subject to defence contribution at the rate of 17%.

8. INVESTMENT IN SUBSIDIARIES

	2018 US$ '000	2017 US$ '000
Balance at 1 January	371,778	1,242,182
Additional investment in existing subsidiaries	105,924	35,406
Disposal of investment in subsidiaries	-	(6,654)
Impairment charge	(249,889)	(899,156)
Reversal of impairment charge	27,002	-
Balance at 31 December	254,815	371,778

The details of the subsidiaries are as follows:

Investment	Country of incorporati on	Principal activities	2018 US$ '000	2017 US$ '000
Investment in holding companies	Cyprus	Holding of investments/Financing	151,151	211,225
Investment in financing companies	BVI	Financing	558	558
Invest ment in real estate companies	Russian Federation	Real estate development	103,106	159,995
			254,815	371,778

During the current year, the Company increased twice its investment in Cypriot subsidiary Monosol Ltd with the issuance of 1,000 ordinary shares for a nominal value of €1 and share premium of €5,876 per share and with the issuance of 1,000 ordinary shares for a nominal value of €1 and share premium of €5,699 per share for a total amount of €11,577 thousand (US$14,191 thousand).

During the current year, the Company made capital contributions for a total amount of US$91,577 thousand to its Russian subsidiary Krown Investment LLC and increased its investment in Cypriot subsidiary Larue Ltd by a total amount of US$155 thousand.

At 31 December 2018 the Company recognised an impairment loss of US$249,889 thousand (31/12/2017: US$899,156 thousand) due to a decrease in the fair value of net assets of subsidiaries of the properties held by its subsidiaries as at that date. 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.

At 31 December 2018 the Company recognised reversal of impairment loss of US$27,002 thousand due to indicators that impairment loss recognised in prior periods for some investments in subsidiaries no longer exist or may have decreased.

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

During the prior 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 prior 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.

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 16 of these financial statements.

9. OTHER INVESTMENTS

	2018 US$ '000	2017 US$ '000
Balance at 1 January	-	-
Investment in equity securities	5,054	-
Fair value gain	190	-
Balance at 31 December	5,244	-

During the current year, the Company acquired 746 equity securities for a total amount of US$5,054 thousand to a non-related company registered in Luxemburg. Investment represents 0.5% of the share capital of the investee company and is classified at fair value through profit or loss (FVTPL). The principal activities of the investee company is the innovation in production of nano technology materials. At 31 December 2018 the Company recognised fair value gain of US$190 thousand.

10. TRADE AND OTHER RECEIVABLES

	2018 US$ '000	2017 US$ '000
Receivables from related parties (Note 15)	136	8,344
Other receivables	396	89
	532	8,433

During the current year, the receivable balance from subsidiary Krown Investment LLC for US$7,618 was capitalised in the investment in subsidiaries as it related to payment of construction expenses by the Company on behalf of Krown Investment LLC.

At 31 December 2018 the Company recognised impairment loss of US$559 thousand based on expected credit losses model of IFRS 9.

During the prior 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 trade payable amount of US$95,139 thousand, refer to note 14, and part of the loan payable to AFI D Finance S.A for US$106,814 thousand, refer to note 13.

The exposure of the Company to credit risk and impairment losses in relation to trade and other receivables is reported in note 16 of the financial statements.

11. CASH AND CASH EQUIVALENTS

	2018 US$ '000	2017 US$ '000
Cash and cash equivalents consists of:		
Cash at banks	1,148	897

At 31 December 2018 the Company recognised impairment loss of US$75 thousand based on expected credit losses model of IFRS 9.

12. SHARE CAPITAL AND RESERVES

Share capital

	2018 US$ '000	2017 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.

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.

13. LOANS AND BORROWINGS

	2018 US$ '000	2017 US$ '000
Long-term liabilities		
Loans from AFI D Finance S.A. (Note 15)	10,181	22,182
Loans from Krown Investment LLC (Note 15)	9,434	-
	19,615	22,182
Maturity of non-current borrowings:		
Within one year	-	-
Between one and five years	19,615	22,182
	19,615	22,182

AFI D Finance S.A. loan

During the current year, the Company withdraw additional tranches of US$22,250 thousand and repaid in cash an amount of US$36,500 thousand. The loan from AFI D Finance S.A. is unsecured, bears interest of 6% per annum and is repayable on 31 December 2021.

Krown Investment LLC loan

During the current year, the Company re-established a loan payable from Krown Investment LLC of US$83,959 thousand, previously settled by way of set off, and repaid part of the loan of US$83,130 thousand in cash. The remaining balance including interest is still outstanding. The loan from Krown Investment LLC is unsecured, bears interest of 6.6% per annum and is repayable on 31 December 2020.

During the prior 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 10.

The exposure of the Company to interest rate risk in relation to financial instruments is reported in note 16 of the financial statements.

14. TRADE AND OTHER PAYABLES

	2018 US$ '000	2017 US$ '000
Payables to related parties (Note15)	88,004	4,428
Other payables	339	469
	88,343	4,897

During the current year, AFI D Finance S.A. assigned to the Company loan receivable from subsidiary Vardia Limited of US$83,130 thousand for an assignment price equal to this amount. During the current year, Company assigned the loan receivable from Vardia to related company Bellgate Construction Ltd. The loan receivable from Bellgate Constructions Ltd was received in full during the current year. As at 31 December 2018 the Company has a payable balance to AFI D Finance S.A. for US$83,127 thousand.

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 prior 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 10.

15. RELATED PARTIES

The transactions with related parties are as follows:

(i) Transactions with the Key Management Personnel

	2018 US$ '000	2017 US$ '000
Key management personnel compensation comprised:		
Short-term directors benefits	923	1,334

(ii) Other related party transactions

	2018 US$ '000	2017 US$ '000
Interest expense charged from subsidiaries	(10,855)	(5, 924)
Management fees charged from subsidiaries	(709)	(773)
Other administrative expenses charged by related company	(4)	(32)

(iii) Receivables from related parties (Note 10)

	2018 US$ '000	2017 US$ '000
Receivables from subsidiaries	136	8,344

(iv) Payables to related parties (Note 14)

	2018 US$ '000	2017 US$ '000
Payables to subsidiaries	87,640	4,096
Payables to related parties	364	332
	88,004	4,428

(v) Loan from related parties (Note 13)

Name	2018 US$ '000	2017 US$ '000
AFI D Finance S.A.	10,181	22,182
Krown Investment LLC	9,434	-
	19,615	22,182

16. 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.

A. ACCOUNTING CLASSIFICATIONS AND FAIR VALUES

The following table shows the carrying amounts and fair values of financial assets and financial liabilities, including their levels 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			
	Trade and other receivables	Other investments	Cash and cash equivalents	Other financial liabilities	Total	Level 1	Level 2	Level 3	Total
31 December 2018	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 equity securities	-	5,244	-	-	5,244	-	-	5,244	5,244
	-	5,244	-	-	5,244				
Financial assets not measured at fair value									
Trade and other receivables	532	-	-	-	532	-	-	-	-
Cash and cash equivalents	-	-	1,148	-	1,148	-	-	-	-
	532	-	1,148	-	1,680	-	-	-	-
Financial liabilities not measured at fair value									
Interest bearing loans and borrowings	-	-	-	(19,615)	(19,615)	-	-	-	-
Trade and other payables	-	-	-	(88,343)	(88,343)	-	-	-	-
	-	-	-	(107,958)	(107,958)				

	Carrying amount					Fair value			
	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
Financial assets not measured at fair value									
Trade and other receivables	8,433		-		8,433	-	-	-	-
Cash and cash equivalents	-		897	-	897	-	-	-	-
	8,433		897	-	9,330	-	-	-	-
Financial liabilities not measured at fair value									
Interest bearing loans and borrowings	-	-	-	(22,182)	(22,182)	-	-	-	-
Trade and other payables	-	-	-	(4,897)	(4,897)	-	-	-	-
	-	-	-	(27,079)	(27,079)				

B. MEASUREMENT OF FAIR VALUES

Valuation technics and significant unobservable inputs

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

Type	Valuation technique	Significant unobservable inputs	Inter-relationship between key unobservable inputs and fair value measurement
Investment in equity securities	Investment in private non-listed equity securities is valued by the Company using discounted cash flows method based on the nature and specific terms of investment share purchase agreement, which includes a 'down side protection'.	Not applicable	Not applicable

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.

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.

Expected credit losses assessment for trade and other receivables as at 1 January and 31 December 2018

The Company uses an allowance matrix to measure the ECLs of trade and other receivables which comprise a number of small balances.

Loss rates are estimated based on actual credit loss experience as well as current conditions and the Company's view of economic conditions over the expected lives of receivables.

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 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.

All of AFI Development guarantees under a loan facility agreement of Bellgate Constructions Limited (AFIMALL City), Krown Investment LLC (Ozerkovskaya III) and OJSC MKPK (AFI Residence Paveletskaya) were terminated in 2018 due to repayment of debt. As at 31 December 2018, there were no outstanding guarantees.

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.

The following are the contractual maturities of financial liabilities at the reporting date. The amounts are gross and undiscounted, and include contractual interest payments and exclude the impact of netting agreements.

31 December 2018	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
Unsecured loans to related parties	19,615	(19,615)	-	-	(9,434)	(10,181)
Trade and other payables	88,343	(88,343)	(88,343)	-	-	-

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
Unsecured loans to related parties	22,182	(22,182)	(307)	-	-	-
Trade and other payables	4,897	(4,897)	(4,897)	-	-	-

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.

Profile

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

	2018 US$ '000	2017 US$ '000
Fixed rate instruments		
Financial assets		-
Financial liabilities	(19,615)	(22,182)
	(19,615)	(22,182)
Variable rate instruments		
Financial assets	-	-
Financial liabilities	-	-

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. The following significant exchange rates have been applied during the year.

The following significant exchange rates have been applied during the year.

	Average rate		Year-end spot rate	
	2018 US$'000	2017 US$'000	2018 US$'000	2017 US$'000
Russian Rouble	62,7078	58,3529	69,4706	57,6002
Euro	1,1810	1,1298	1,1450	1,1993

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, US elections and related events 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 the implemented sanctions, as well as the threat of additional future sanctions, are difficult to determine.

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

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 Russian Rouble 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.

17. FAIR VALUES

The fair values of the Company's financial assets and liabilities approximate their carrying amounts at the reporting date.

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