

## Regulatory Story

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**AFI Development PLC** - AFRB  
Released 07:00 30-May-2017

RESULTS FOR THE THREE MONTHS TO 31 MARCH 2017

RNS Number : 4790G  
AFI Development PLC  
30 May 2017

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30 May 2017

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

**RESULTS FOR THE THREE MONTHS TO 31 MARCH 2017**

**Better performance supported by rouble appreciation**

AFI Development, a leading real estate company focused on developing property in Russia, has today announced its financial results for the three months ended 31 March 2017.

**Q1 2017 financial highlights**

- **Revenue** for Q1 2017 increased by 74% year-on-year to US\$47.5 million, including proceeds from the sale of trading properties:
  - Rental and hotel operating income increased by 27% year-on-year to US\$25.5 million
  - AFIMALL City contribution stood at US\$19.5 million (Q1 2016: US\$16.0 million), a 22% growth year-on-year
  - Sale of residential properties contributed US\$21.9 million to total revenue
- **Gross profit** increased by 7% year-on-year to US\$16.1 million (Q1 2016: US\$15.1 million)
- **Net profit** for Q1 2017 amounted to US\$1.0 million, compared to a loss of US\$31.9 million in Q1 2016
- **Total gross value of portfolio of properties** increased to US\$1.49 billion (vs. US\$1.44 billion at end-2016) mainly due to purchase of 50% share in the Plaza Spa Kislovodsk project
- **Cash, cash equivalents and marketable securities** as of 31 March 2017 grew to US\$29.6 million (vs. US\$16.7 million at end-2016)

**Q1 2017 operational highlights**

- The construction and pre-sales of two additional residential projects in Moscow were launched in Q1 2017: Bolshaya Pochtovaya and Botanic Garden
- At **Odinburg**, marketing activities were focused on Building 2, where the delivery of apartments started in March 2017. The number of sale contracts signed amounted to 716 (99% of total) in Building 1 and 534 (76% of total) in Building 2 as of 26 May 2017

- At the **AFI Residence Paveletskaya** residential development, construction works and pre-sale of apartments continue to plan; 210 residential units have been pre-sold to date
- **AFIMALL City** has demonstrated strong NOI, reflecting macroeconomic stabilisation and a stronger rouble:
  - NOI grew to US\$14.3 million in Q1 2017, from US\$13.6 million in Q1 2016

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

"The first quarter of 2017 saw a marked improvement on the previous year, supported by strong performance at AFIMALL City and a positive effect of rouble appreciation during the period. In line with our strategy, we continued to deliver our development pipeline with construction and sales of our key projects progressing to plan. We are particularly pleased to have launched active construction of two important projects, Bolshaya Pochtovaya and Botanic Garden, which will further strengthen our position in the market and support our performance going forward."

#### **Q1 2017 Results Conference Call:**

AFI Development will hold a conference call for analysts and investors to discuss its Q1 2017 financial results on Wednesday, 31 May 2017.

Details for the conference call are as follows:

|                     |                               |                            |  |
|---------------------|-------------------------------|----------------------------|--|
| <b>Date:</b>        | <b>Wednesday, 31 May 2017</b> |                            |  |
| <b>Time:</b>        | <b>3pm BST (5pm Moscow)</b>   |                            |  |
| <b>Dial-in Tel:</b> | <b>International:</b>         | <b>+44 (0)20 3003 2666</b> |  |
|                     | <b>UK toll free:</b>          | <b>0808 109 0700</b>       |  |
|                     | <b>US toll-free:</b>          | <b>1 866 966 5335</b>      |  |
|                     | <b>Russia toll-free:</b>      | <b>8 10 8002 4902044</b>   |  |
| <b>Password:</b>    | <b>AFI</b>                    |                            |  |

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

Prior to the conference call, the Q1 2017 Investor Presentation of AFI Development will be published on the Company website at <http://www.afi-development.com/en/investor-relations/reports-presentations> on 31 May 2017 by 11am BST (1pm Moscow time).

- ends -

For further information, please contact:

#### **AFI Development, +7 495 796 9988**

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

#### **Citigate Dewe Rogerson, London +44 20 7638 9571**

David Westover  
Isabelle Andrews

This announcement contains inside information.

#### **About AFI Development**

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

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

AFI Development focuses on developing and redeveloping high quality commercial and residential real estate assets across Russia, with Moscow being its main market. The Company's existing portfolio comprises commercial projects focused on offices, shopping centres, hotels and mixed-use properties, and

residential projects. AFI Development's strategy is to sell the residential properties it develops and to either lease the commercial properties or sell them for a favourable return.

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

### **Legal disclaimer**

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

### **Executive Chairman's statement**

Increased oil prices and appreciation of the rouble helped to support continuing macroeconomic stabilisation in Russia in the first three months of the year. This positively impacted Company performance and AFIMALL City, in particular.

Our gross profit for the quarter increased by 7%, positively impacted by a growth in revenue to US\$47.5 million, as well as our continued focus on efficiency and cost control. The active management of our yielding properties, namely AFIMALL City, office properties in Moscow and our hotels, played a key role in achieving this result. Net profit was US\$1.0 million for the first three months of the year.

Our focus in the residential segment remains on construction and marketing of existing projects, as well as on the progression of the Bolshaya Pochtovaya and Botanic Garden projects, launched in the first quarter of this year. These business-class residential projects are expected to support our performance going forward, through residential real estate sales.

### **Projects update**

#### **AFIMALL City**

AFIMALL City's performance continues to improve, reflected in increased revenue (US\$19.5 million for the quarter) and NOI (US\$14.3 million for the quarter). Occupancy at the end of Q1 2017 was at 83%, virtually unchanged compared to the end of 2016.

Recent new openings at AFIMALL City include the Gulliver children goods outlet, Osteria Mario restaurant and Otto Berg fashion shop. As part of ongoing marketing efforts, in February 2017, AFIMALL hosted a casting session for the national beauty contest "Miss Russia 2017".

#### **Odinburg**

In the first quarter of 2017, the Company successfully commissioned Building 2 and started the delivery of apartments to customers. Construction work continues at the kindergarten of Phase 1, while Building 3 and Building 6 are being prepared for construction launch.

As of the date of publication of this report, 716 apartments (99% of total) in Building 1 and 534 (76% of total) in Building 2 have been sold.

#### **AFI Residence Paveletskaya (Paveletskaya II)**

Construction work and marketing of the development continue to plan. As of the date of publication of this report, 210 contracts for pre-sales of both "flats" and "apartments" have been signed.

**Aquamarine III (Ozerkovskaya III)**

AFI Development continues to market office space in the complex to potential buyers and tenants.

**Bolshaya Pochtovaya**

The main construction phase and pre-sale of apartments were launched in Q1 2017.

**Botanic Garden**

The main construction phase and pre-sale of apartments were launched in Q1 2017.

**Plaza Spa Kislovodsk**

In Q1 2017 the Company consolidated 100% of Plaza Spa Kislovodsk by acquiring a 50% stake from its partner in the project.

**Key Events Subsequent to 31 March 2017**

After the end of Q1 2017, the following key events occurred:

In May 2017, AFI Development Plc completed a series of transactions to become 100% owner of the Berezhkovskaya project, an operating office complex in Moscow, following an agreement with its partners in the project. According to the transactions, the partner received a title to office premises totalling 3,468.5 sq.m in the project, while AFI Development received the partner's 26% share in the project company, Bizar LLC. The new total area of the premises at the Berezhkovskaya project is 7,909.8 sq.m.

**Lev Leviev****Executive Chairman of the Board****CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS**

For the period from 1 January 2017 to 31 March 2017

**C O N T E N T S**

Independent auditors' report on review of condensed consolidated interim financial information

Condensed consolidated income statement

Condensed consolidated statement of comprehensive income

Condensed consolidated statement of changes in equity

Condensed consolidated statement of financial position

Condensed consolidated statement of cash flows

Notes to the condensed consolidated interim financial statements

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

We have reviewed the accompanying condensed consolidated statement of financial position of AFI Development PLC as at 31 March 2017, the condensed consolidated statements of income, comprehensive income, changes in equity and cash flows for the three-month period then ended, and notes to the interim financial statements ('the condensed consolidated interim financial statements'). The Company's Board of Directors is responsible for the preparation and presentation of this condensed consolidated interim financial statements in accordance with IAS 34 "Interim Financial Reporting". Our responsibility is to express a conclusion on this condensed consolidated interim financial statements based on our review.

*Scope of Review*

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

*Conclusion*

Based on our review, nothing has come to our attention that causes us to believe that the accompanying condensed consolidated interim financial statements as at 31 March 2017 are not prepared, in all material respects, in accordance with IAS 34 "Interim Financial Reporting".

*Emphasis of Matter*

Without qualifying our conclusion, we draw attention to note 2(i) to the condensed consolidated interim financial statements which describes that despite that the Group has recognised a net profit after tax of US\$1 million for the three month period ended 31 March 2017 and its cash and cash equivalents and marketable securities improved to US\$30 million, its current liabilities increased to US\$293 million due to the reclassification of the Ozerkovskaya loan as its maturity is due in January 2018. In combination with the maturity of the AFIMALL loan in April 2018, the Group will be required to make a lump sum payment of the principal of the loans with a current balance of \$640 million. These conditions along with other matters as set forth in note 2(i), indicate the existence of a material uncertainty that may cast significant doubt about the Group's ability to continue as a going concern.

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

For and on behalf of  
KPMG Limited  
Certified Public Accountants and Registered Auditors  
14 Esperidon Street  
1087 Nicosia, Cyprus

29 May 2017

**CONDENSED CONSOLIDATED INCOME STATEMENT**

For the period from 1 January 2017 to 31 March 2017

|   | Note      | 1/1/17-<br>31/3/17<br>US\$ '000 | 1/1/16-<br>31/3/16<br>US\$ '000 |
|---|-----------|---------------------------------|---------------------------------|
| Revenue   | 6         | <u>47,498</u>                   | <u>27,365</u>                   |
| Other income  |           | <u>155</u>                      | <u>2,184</u>                    |
| Operating expenses  | 8         | (12,262)                        | (7,693)                         |
| Carrying value of trading properties sold                               | 14        | (20,331)                        | (6,182)                         |
| Administrative expenses   | 7         | (546)                           | (1,664)                         |
| Other expenses  |           | <u>(385)</u>                    | <u>(13)</u>                     |
| <b>Total expenses</b>   |           | <b><u>(33,524)</u></b>          | <b><u>(15,552)</u></b>          |
| Share of the after tax profit of joint ventures                         |           | <u>1,957</u>                    | <u>1,058</u>                    |
| <b>Gross Profit</b>   |           | <b><u>16,086</u></b>            | <b><u>15,055</u></b>            |
| Gain on 100% acquisition of previously held interest in a joint venture | 22        | <u>7,532</u>                    | <u>-</u>                        |
| Decrease in fair value of properties                                    | 11,<br>12 | <u>(43,613)</u>                 | <u>(60,275)</u>                 |
| <b>Results from operating activities</b>                                |           | <b><u>(19,995)</u></b>          | <b><u>(45,220)</u></b>          |
| Finance income  |           | 24,470                          | 21,195                          |
| Finance costs   |           | <u>(11,863)</u>                 | <u>(10,669)</u>                 |
| <b>Net finance income</b>   | 9         | <b><u>12,607</u></b>            | <b><u>10,526</u></b>            |

|   |    |              |                 |
|---|----|--------------|-----------------|
| <b>Loss before tax</b>                      |    | (7,388)      | (34,694)        |
| Tax benefit                                 | 10 | <u>8,419</u> | <u>2,833</u>    |
| <b>Profit/(loss) for the period</b>         |    | <u>1,031</u> | <u>(31,861)</u> |
| <b>Profit/(loss) attributable to:</b>       |    |              |                 |
| Owners of the Company                       |    | 1,091        | (31,787)        |
| Non-controlling interests                   |    | <u>(60)</u>  | <u>(74)</u>     |
|   |    | <u>1,031</u> | <u>(31,861)</u> |
| <b>Earnings per share</b>                   |    |              |                 |
| Basic and diluted earnings per share (cent) |    | <u>0.10</u>  | <u>(3.03)</u>   |

The notes form an integral part of the condensed consolidated interim financial statements.

### CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the period from 1 January 2017 to 31 March 2017

|  | 1/1/17-<br>31/3/17<br>US\$ '000 | 1/1/16-<br>31/3/16<br>US\$ '000 |
|--|---------------------------------|---------------------------------|
| <b>Profit/(loss) for the period</b>  | <u>1,031</u>                    | <u>(31,861)</u>                 |
| <b>Other comprehensive income</b>  |                                 |                                 |
| <b>Items that are or may be reclassified subsequently to profit or loss</b>  |                                 |                                 |
| Realised translation difference on 100% acquisition of previously held interest in a joint venture transferred to income statement | (4,271)                         | -                               |
| Foreign currency translation differences for foreign operations  | <u>19,375</u>                   | <u>14,396</u>                   |
| <b>Other comprehensive income for the period</b>   | <u>15,104</u>                   | <u>14,396</u>                   |
| <b>Total comprehensive income for the period</b>   | <u>16,135</u>                   | <u>(17,465)</u>                 |
| <b>Total comprehensive income attributable to:</b>   |                                 |                                 |
| Owners of the Company  | 16,201                          | (17,490)                        |
| Non-controlling interests  | <u>(66)</u>                     | <u>25</u>                       |
|  | <u>16,135</u>                   | <u>(17,465)</u>                 |

The notes form an integral part of the condensed consolidated interim financial statements.

### CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the period from 1 January 2017 to 31 March 2017

|   | <u>Attributable to the owners of the Company</u> |                            |                              |                                  |                                | <u>Non-controlling interests</u> | <u>Total equity</u> |
|---|--|----------------------------|------------------------------|----------------------------------|--------------------------------|----------------------------------|---------------------|
|   | Share Capital<br>US\$ '000                       | Share Premium<br>US\$ '000 | Capital reserve<br>US\$ '000 | Translation Reserve<br>US\$ '000 | Retained Earnings<br>US\$ '000 | Total<br>US\$ '000               | US\$ '000           |
| <b>Balance at 1 January 2017</b>  | <u>1,048</u>                                     | <u>1,763,409</u>           | <u>(9,201)</u>               | <u>(311,331)</u>                 | <u>(667,801)</u>               | <u>776,124</u>                   | <u>(3,827)</u>      |
| <b>Total comprehensive income for the period</b>                              |  |                            |                              |                                  |                                |                                  |                     |
| Profit/(loss) for the period  | -  | -                          | -                            | -                                | 1,091                          | 1,091                            | (60)                |
| Other comprehensive income  | -  | -                          | -                            | 15,110                           | -                              | 15,110                           | (6)                 |
| <b>Total comprehensive income for the period</b>                              | -  | -                          | -                            | 15,110                           | 1,091                          | 16,201                           | (66)                |
| <b>Transactions with owners of the Company Changes in ownership interests</b> |  |                            |                              |                                  |                                |                                  |                     |

|  |              |                  |                 |                  |                  |                |                |                |
|--|--------------|------------------|-----------------|------------------|------------------|----------------|----------------|----------------|
| Acquisition of non-controlling interests (note 23)                             | -            | -                | (4,533)         | -                | -                | (4,533)        | 3,033          | (1,500)        |
| <b>Balance at 31 March 2017</b>  | <u>1,048</u> | <u>1,763,409</u> | <u>(13,734)</u> | <u>(296,221)</u> | <u>(666,710)</u> | <u>787,792</u> | <u>(860)</u>   | <u>786,932</u> |
| <b>Balance at 1 January 2016</b>   | <u>1,048</u> | <u>1,763,409</u> | <u>(9,201)</u>  | <u>(338,951)</u> | <u>(620,786)</u> | <u>795,519</u> | <u>(3,919)</u> | <u>791,600</u> |
| <b>Total comprehensive income for the period</b>                               |              |                  |                 |                  |                  |                |                |                |
| Loss for the period  | -            | -                | -               | -                | (31,787)         | (31,787)       | (74)           | (31,861)       |
| Other comprehensive income   | -            | -                | -               | 14,297           | -                | 14,297         | 99             | 14,396         |
| <b>Total comprehensive income for the period</b>                               | -            | -                | -               | 14,297           | (31,787)         | (17,490)       | 25             | (17,465)       |
| <b>Transactions with owners of the Company Contributions and distributions</b> |              |                  |                 |                  |                  |                |                |                |
| Share option expense   | -            | -                | -               | -                | 282              | 282            | -              | 282            |
| <b>Balance at 31 March 2016</b>  | <u>1,048</u> | <u>1,763,409</u> | <u>(9,201)</u>  | <u>(324,654)</u> | <u>(652,291)</u> | <u>778,311</u> | <u>(3,894)</u> | <u>774,417</u> |

The notes form an integral part of the condensed consolidated interim financial statements.

### CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

#### AS AT 31 MARCH 2017

|   | Note | 31/3/17<br>US\$ '000 | 31/12/16<br>US\$ '000 |
|---|------|----------------------|-----------------------|
| <b>Assets</b>                                       |      |                      |                       |
| Investment property                                 | 11   | 915,350              | 915,350               |
| Investment property under development               | 12   | 158,800              | 232,900               |
| Property, plant and equipment                       | 13   | 79,072               | 31,215                |
| Long-term loans receivable                          |      | 20                   | 15,763                |
| VAT recoverable                                     |      | 45                   | 9                     |
| <b>Non-current assets</b>                           |      | <u>1,153,287</u>     | <u>1,195,237</u>      |
| Trading properties                                  | 14   | 50,010               | 6,854                 |
| Trading properties under construction               | 15   | 292,110              | 243,327               |
| Other investments                                   |      | 6,204                | 6,088                 |
| Inventories   |      | 1,085                | 665                   |
| Short-term loans receivable                         |      | 444                  | 7                     |
| Trade and other receivables                         | 16   | 51,181               | 42,427                |
| Current tax assets                                  |      | 2,544                | 2,542                 |
| Cash and cash equivalents                           | 17   | <u>23,447</u>        | <u>10,619</u>         |
| <b>Current assets</b>                               |      | <u>427,025</u>       | <u>312,529</u>        |
| <b>Total assets</b>                                 |      | <u>1,580,312</u>     | <u>1,507,766</u>      |
| <b>Equity</b>                                       |      |                      |                       |
| Share capital                                       |      | 1,048                | 1,048                 |
| Share premium                                       |      | 1,763,409            | 1,763,409             |
| Translation reserve                                 |      | (296,221)            | (311,331)             |
| Capital reserve                                     |      | (13,734)             | (9,201)               |
| Retained earnings                                   |      | <u>(666,710)</u>     | <u>(667,801)</u>      |
| <b>Equity attributable to owners of the Company</b> | 18   | 787,792              | 776,124               |
| <b>Non-controlling interests</b>                    |      | <u>(860)</u>         | <u>(3,827)</u>        |
| <b>Total equity</b>                                 |      | <u>786,932</u>       | <u>772,297</u>        |
| <b>Liabilities</b>                                  |      |                      |                       |
| Long-term loans and borrowings                      | 19   | 469,017              | 627,074               |
| Deferred tax liabilities                            |      | 11,642               | 14,934                |
| Deferred income                                     |      | <u>11,552</u>        | <u>10,455</u>         |
| <b>Non-current liabilities</b>                      |      | <u>492,211</u>       | <u>652,463</u>        |
| Short-term loans and borrowings                     | 19   | 193,427              | 748                   |
| Trade and other payables                            | 20   | 54,040               | 30,957                |
| Advances from customers                             |      | <u>53,702</u>        | <u>51,301</u>         |
| <b>Current liabilities</b>                          |      | <u>301,169</u>       | <u>83,006</u>         |
| <b>Total liabilities</b>                            |      | <u>793,380</u>       | <u>735,469</u>        |

**Total equity and liabilities** 1,580,312 1,507,766

The condensed consolidated interim financial statements were approved by the Board of Directors on 29 May 2017.

The notes form an integral part of the condensed consolidated interim financial statements.

### CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

For the period from 1 January 2017 to 31 March 2017

|   | Note  | 1/1/17-<br>31/3/17<br>US\$ '000 | 1/1/16-<br>31/3/16<br>US\$ '000 |
|---|-------|---------------------------------|---------------------------------|
| <b>Cash flows from operating activities</b>   |       |                                 |                                 |
| (Profit)/loss for the period  |       | 1,031                           | (31,861)                        |
| <i>Adjustments for:</i>   |       |                                 |                                 |
| Depreciation  | 13    | 197                             | 184                             |
| Net finance income  | 9     | (12,728)                        | (10,619)                        |
| Share option expense  |       | -                               | 282                             |
| Decrease in fair value of properties  |       | 43,613                          | 60,275                          |
| Share of profit in joint ventures   |       | (1,957)                         | (1,058)                         |
| Gain on 100% acquisition of previously held interest in a joint venture                     |       | (7,532)                         | -                               |
| Profit on sale of property, plant and equipment   |       | -                               | (24)                            |
| Tax benefit   | 10    | <u>(8,419)</u>                  | <u>(2,833)</u>                  |
|   |       | 14,205                          | 14,346                          |
| Change in trade and other receivables   |       | (2,264)                         | (537)                           |
| Change in inventories   |       | 33                              | (1)                             |
| Change in trading properties and trading properties under construction                      |       | (3,318)                         | (1,419)                         |
| Change in advances and amounts payable to builders of trading properties under construction |       | 2,725                           | 2,542                           |
| Change in advances from customers   |       | (1,430)                         | (1,001)                         |
| Change in trade and other payables  |       | 9,962                           | (1,507)                         |
| Change in VAT recoverable   |       | (663)                           | (252)                           |
| Change in deferred income   |       | <u>291</u>                      | <u>(82)</u>                     |
| Cash generated from operating activities  |       | 19,541                          | 12,089                          |
| Taxes paid  |       | <u>(500)</u>                    | <u>(133)</u>                    |
| <b>Net cash from operating activities</b>   |       | <u>19,041</u>                   | <u>11,956</u>                   |
| <b>Cash flows from investing activities</b>   |       |                                 |                                 |
| Acquisition of subsidiary net of cash acquired  | 22    | (786)                           | -                               |
| Proceeds from sale of other investments   |       | 2,621                           | 12,242                          |
| Proceeds from sale of property, plant and equipment   |       | -                               | 87                              |
| Interest received   |       | 159                             | 1,859                           |
| Change in advances and amounts payable to builders  | 16,20 | 1,836                           | 8                               |
| Payments for construction of investment property under development                          | 12    | (796)                           | (339)                           |
| Payments for the acquisition/renovation of investment property                              | 11    | (97)                            | (36)                            |
| Change in VAT recoverable   |       | 614                             | 63                              |
| Acquisition of property, plant and equipment  | 13    | (11)                            | (150)                           |
| Dividends received from joint ventures  |       | -                               | 201                             |
| Acquisition of other investments  |       | (2,612)                         | (4,643)                         |
| Proceeds from repayment of loans receivable   |       | 4,178                           | -                               |
| Payments for loans receivable   |       | <u>(1,429)</u>                  | <u>(3)</u>                      |
| <b>Net cash from investing activities</b>   |       | <u>3,677</u>                    | <u>9,289</u>                    |
| <b>Cash flows from financing activities</b>   |       |                                 |                                 |
| Acquisition of non-controlling interests  | 23    | (1,500)                         | -                               |
| Proceeds from loans and borrowings  |       | 5,632                           | -                               |
| Repayment of loans and borrowings   |       | -                               | (11,540)                        |
| Interest paid   |       | <u>(11,978)</u>                 | <u>(10,986)</u>                 |
| <b>Net cash used in financing activities</b>  |       | <u>(7,846)</u>                  | <u>(22,526)</u>                 |
| Effect of exchange rate fluctuations  | -     | <u>(2,044)</u>                  | <u>(1,132)</u>                  |
| <b>Net increase/(decrease) in cash and cash equivalents</b>                                 |       | 12,828                          | (2,413)                         |
| Cash and cash equivalents at 1 January  |       | <u>10,619</u>                   | <u>26,545</u>                   |
| <b>Cash and cash equivalents at 31 March</b>  | 17    | <u>23,447</u>                   | <u>24,132</u>                   |

The notes form an integral part of the condensed consolidated interim financial statements.



For the period from 1 January 2017 to 31 March 2017

## 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, 5<sup>th</sup> floor, Flat/office 505, 3035 Limassol, Cyprus. As of 7 September 2016 the Company is a 64.88% subsidiary of Flotonic Limited, a private holding company registered in Cyprus, 100% owned by Mr Lev Leviev. Prior to that, the Company was a 64.88% subsidiary of Africa Israel Investments Ltd ("Africa-Israel"), which is listed in the Tel Aviv Stock Exchange ("TASE"). The remaining shareholding of "A" shares is held by a custodian bank in exchange for the GDRs issued and listed in the London Stock Exchange ("LSE"). On 5 July 2010 the Company issued by way of a bonus issue 523,847,027 "B" shares, which were admitted to a premium listing on the Official List of the UK Listing Authority and to trading on the main market of LSE. On the same date, the ordinary shares of the Company were designated as "A" shares.

These condensed consolidated interim financial statements ("interim financial statements") as at and for the three months ended 31 March 2017 comprise the Company and its subsidiaries (together referred to as the "Group") and the Group's interest in jointly controlled entities.

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

## 2. BASIS OF ACCOUNTING

### **i. Going concern basis of accounting**

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

The Group has recognised a net profit after tax of US\$1 million for the three month period ended 31 March 2017, its cash and cash equivalents and marketable securities improved to US\$30 million and its current liabilities increased to US\$293 million due to the reclassification of the Ozerkovskaya loan as its maturity is due in January 2018. In combination with the maturity of the AFIMALL loan in April 2018, will require the Group to make a lump sum payment of the principal of the loans with a current balance of \$640 million. These conditions, along with other matters set forth below, indicate the existence of material uncertainty which may cast significant doubt about the Group's ability to continue as a going concern.

As described in more detail in the Company's announcements and its year end consolidated financial statements for the year ended 31 December 2016, a series of events, negotiations and signed addendums with VTB bank for the Ozerkovskaya III and AFIMALL City loan facilities took place during 2016. Management explores all options in relation to repaying the Loan Facilities when they fall due in 2018, which may or may not include the disposal of certain assets or projects or refinance of AFIMALL City loan. Management considers its available options and is developing a plan on how to approach the loans at maturity and secure further financing to continue in operational existence for the foreseeable future.

### **i. Going concern basis of accounting (continued)**

Management estimates that the Group will generate sufficient operating cash flows so as to meet the Loan Facilities interest payments and continue the construction of projects classified as "Trading properties under construction" as described in Note 15, which are "Odinburg", "Paveleskaya phase II", "Pochtovaya" and "Botanic Garden".

Considering all the above conditions and assumptions, the interim consolidated financial statements have been prepared on a going concern basis, which assumes that the Group will be in a position to refinance or negotiate the loans at maturity, secure further financing for its project under construction and development and achieve the sales volumes and prices as budgeted to generate enough cash to cover its working capital requirements in order for the Group to be in a position to continue its operations in the foreseeable future. It is noted that no reclassifications or adjustments were included with reference to the values of the Group's assets and liabilities, which may be required if the Group is not able to continue operating as a "going concern".

### **ii. Statement of compliance**

These interim financial statements have been prepared in accordance with IAS 34 "Interim Financial Reporting" and should be read in conjunction with the Group's last annual consolidated financial statements as at and for the year ended 31 December 2016 ('last annual financial statements'). They do not include all of the information required for a complete set of IFRS financial statements. However, selected explanatory notes are included to explain events and transactions that are significant to an understanding of the changes in the Group's financial position and performance since the last annual financial statements.

### **iii. Functional and presentation currency**

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

### *Foreign operations*

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

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

| As of:                                 | Exchange rate<br>Russian Roubles<br>for US\$1 | Change<br>% |
|--|---|-------------|
| 31 March 2017                          | 56.3779                                       | (7.1)       |
| 31 December 2016                       | 60.6569                                       | (16.8)      |
| 31 March 2016                          | 67.6076                                       | (7.2)       |
| Average rate during:                   |   |             |
| Three-month period ended 31 March 2017 | 58.8366                                       | (21.2)      |
| Three-month period ended 31 March 2016 | 74.6283                                       | 20.0        |

### 3. USE OF JUDGEMENTS AND ESTIMATES

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

The significant judgments made by management in applying the Group's accounting policies and the key sources of estimation uncertainty were the same as those that applied to the consolidated financial statements as at and for the year ended 31 December 2016.

#### **Measurement of fair values**

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

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

Significant valuation issues are reported to the Group Audit Committee.

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

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

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

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

### 4. SIGNIFICANT ACCOUNTING POLICIES

The accounting policies applied in these interim financial statements are the same as those applied in the Group's consolidated financial statements as at and for the year ended 31 December 2016.

#### **Standards issued but not yet effective**

A number of new standards and amendments to standards are effective for annual periods beginning after 1 January 2017 and earlier application is permitted; however, the Group has not early adopted any new or amended standards in preparing these condensed consolidated interim financial statements.

The Group has no updates to information provided in the consolidated financial statements as at and for the year ended 31 December 2016 about the standards issued but not yet effective that may have a significant impact on the Group's consolidated financial statements.

### 5. OPERATING SEGMENTS

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

- Development Projects - Residential projects: Include construction and selling of residential properties.
- Asset Management: Includes the operation of investment property for lease.
- Hotel Operation: Includes the operation of Hotels.
- Land bank: Includes the investment 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.

|                                  | Development projects<br>Residential projects |                      | Asset management    |                      | Hotel Operation     |                      | Land bank           |                      | Other               |                      | Total               |                      |
|----------------------------------|--|----------------------|---------------------|----------------------|---------------------|----------------------|---------------------|----------------------|---------------------|----------------------|---------------------|----------------------|
|                                  | 31/3/17<br>US\$'000                          | 31/3/16<br>US\$'000  | 31/3/17<br>US\$'000 | 31/3/16<br>US\$'000  | 31/3/17<br>US\$'000 | 31/3/16<br>US\$'000  | 31/3/17<br>US\$'000 | 31/3/16<br>US\$'000  | 31/3/17<br>US\$'000 | 31/3/16<br>US\$'000  | 31/3/17<br>US\$'000 | 31/3/16<br>US\$'000  |
| External revenues                | 22,132                                       | 8,005                | 19,930              | 16,451               | 4,546               | 2,362                | 785                 | 503                  | 105                 | 44                   | 47,498              | 27,365               |
| Inter-segment revenue            | -  | -                    | -                   | 254                  | -                   | -                    | -                   | 19                   | -                   | -                    | -                   | 273                  |
| Segment (loss)/profit before tax | (1,060)                                      | (1,550)              | 2,379               | (21,044)             | 839                 | 433                  | (12,204)            | (13,780)             | (1,944)             | (1,463)              | (11,990)            | (37,404)             |
|                                  | 31/3/17<br>US\$'000                          | 31/12/16<br>US\$'000 | 31/3/17<br>US\$'000 | 31/12/16<br>US\$'000 | 31/3/17<br>US\$'000 | 31/12/16<br>US\$'000 | 31/3/17<br>US\$'000 | 31/12/16<br>US\$'000 | 31/3/17<br>US\$'000 | 31/12/16<br>US\$'000 | 31/3/17<br>US\$'000 | 31/12/16<br>US\$'000 |
| Segment assets                   | 381,621                                      | 355,567              | 913,642             | 912,240              | 81,051              | 27,158               | 184,481             | 185,693              | 812                 | 624                  | 1,561,607           | 1,481,282            |
| Segment liabilities              | 89,463                                       | 66,971               | 676,948             | 667,779              | 32,530              | -                    | -                   | -                    | 1,030               | 387                  | 799,971             | 735,137              |

#### Reconciliation of reportable segment profit or loss:

|   | 1/1/17-<br>31/3/17<br>US\$ '000 | 1/1/16-<br>31/3/16<br>US\$ '000 |
|---|---------------------------------|---------------------------------|
| Total profit before tax for reportable segments                         | (11,990)                        | (37,404)                        |
| Unallocated amounts:  |                                 |                                 |
| Other profit or loss  | (4,887)                         | 1,652                           |
| Gain on 100% acquisition of previously held interest in a joint venture | 7,532                           | -                               |
| Share of profit of joint ventures, net of tax                           | <u>1,957</u>                    | <u>1,058</u>                    |
| <b>Loss before tax</b>  | <b><u>(7,388)</u></b>           | <b><u>(34,694)</u></b>          |

#### 6. REVENUE

|   | 1/1/17-<br>31/3/17<br>US\$ '000 | 1/1/16-<br>31/3/16<br>US\$ '000 |
|---|---------------------------------|---------------------------------|
| Investment property rental income       | 20,975                          | 17,662                          |
| Sales of trading properties (note 14)   | 21,865                          | 7,297                           |
| Hotel operation income                  | 4,546                           | 2,362                           |
| Construction consulting/management fees | <u>112</u>                      | <u>44</u>                       |
|   | <b><u>47,498</u></b>            | <b><u>27,365</u></b>            |

7. ADMINISTRATIVE EXPENSES

|                               | 1/1/17-<br>31/3/17<br>US\$ '000 | 1/1/16-<br>31/3/16<br>US\$ '000 |
|-------------------------------|---------------------------------|---------------------------------|
| Consultancy fees              | 91                              | 136                             |
| Legal fees                    | 576                             | 89                              |
| Auditors' remuneration        | 77                              | 68                              |
| Valuation expenses            | 36                              | -                               |
| Directors' remuneration       | 325                             | 340                             |
| Depreciation                  | 35                              | 30                              |
| Insurance                     | 37                              | 46                              |
| Provision for Doubtful Debts  | (986)                           | -                               |
| Share option expense          | -                               | 282                             |
| Donations                     | 3                               | 300                             |
| Other administrative expenses | <u>352</u>                      | <u>373</u>                      |
|                               | <u>546</u>                      | <u>1,664</u>                    |
|                               |                                 | -                               |

8. OPERATING EXPENSES

|  | 1/1/17-<br>31/3/17<br>US\$ '000 | 1/1/16-<br>31/3/16<br>US\$ '000 |
|--|---------------------------------|---------------------------------|
| Maintenance, utility and security expenses | 4,318                           | 2,910                           |
| Agency and brokerage fees                  | 234                             | 134                             |
| Advertising expenses                       | 916                             | 924                             |
| Salaries and wages                         | 3,438                           | 2,392                           |
| Consultancy fees                           | 161                             | 100                             |
| Depreciation                               | 163                             | 154                             |
| Insurance                                  | 148                             | 234                             |
| Rent                                       | 452                             | 322                             |
| Property and other taxes                   | 2,418                           | 513                             |
| Other operating expenses                   | <u>14</u>                       | <u>10</u>                       |
|  | <u>12,262</u>                   | <u>7,693</u>                    |

9. FINANCE COST AND FINANCE INCOME

|  | 1/1/17-<br>31/3/17<br>US\$ '000 | 1/1/16-<br>31/3/16<br>US\$ '000 |
|--|---------------------------------|---------------------------------|
| Interest income                              | 315                             | 744                             |
| Net foreign exchange gain                    | 24,104                          | 20,451                          |
| Net change in fair value of financial assets | <u>51</u>                       | <u>-</u>                        |
| Finance income                               | <u>24,470</u>                   | <u>21,195</u>                   |
| Interest expense on loans and borrowings     | (11,742)                        | (10,462)                        |
| Net change in fair value of financial assets | -                               | (114)                           |
| Other finance costs                          | (121)                           | (93)                            |
| Finance costs                                | <u>(11,863)</u>                 | <u>(10,669)</u>                 |
| Net finance income                           | <u>12,607</u>                   | <u>10,526</u>                   |

10. TAX BENEFIT

|   | 1/1/17-<br>31/3/17<br>US\$ '000 | 1/1/16-<br>31/3/16<br>US\$ '000 |
|---|---------------------------------|---------------------------------|
| <b>Current tax expense</b>                        |                                 |                                 |
| Current year                                      | <u>481</u>                      | <u>57</u>                       |
| <b>Deferred tax benefit</b>                       |                                 |                                 |
| Origination and reversal of temporary differences | <u>(8,900)</u>                  | <u>(2,890)</u>                  |
| Total income tax benefit                          | <u>(8,419)</u>                  | <u>(2,833)</u>                  |

11. INVESTMENT PROPERTY

## Reconciliation of carrying amount

|  | 31/3/17<br>US\$ '000 | 31/12/16<br>US\$ '000 |
|--|----------------------|-----------------------|
| Balance 1 January                            | 915,350              | 933,700               |
| Renovations/additional cost                  | 97                   | 370                   |
| Disposals                                    |                      | (500)                 |
| Fair value adjustment                        | (33,597)             | (92,801)              |
| Effect of movement in foreign exchange rates | <u>33,500</u>        | <u>74,581</u>         |
| Balance 31 March / 31 December               | <u>915,350</u>       | <u>915,350</u>        |

The increase due to the effect of the foreign exchange fluctuation is a result of the Rouble strengthening compared to the US Dollar by 7.1% during the first quarter of 2017. The fair value adjustment in investments property was a result of this rouble strengthening. The Company assessed that the fair value of the properties has not materially changed since 31 December 2016 as there were no significant changes in the macro-economic conditions in Russia. The same applies for investment property under development. See note 12 below.

12. INVESTMENT PROPERTY UNDER DEVELOPMENT

|   | 31/3/17<br>US\$ '000 | 31/12/16<br>US\$ '000 |
|---|----------------------|-----------------------|
| Balance 1 January   | 232,900              | 238,925               |
| Construction costs  | 796                  | 4,554                 |
| Transfer to trading properties under construction (note 15) | (74,100)             | -                     |
| Fair value adjustment                                       | (10,016)             | (30,244)              |
| Effect of movements in foreign exchange rates               | <u>9,220</u>         | <u>19,665</u>         |
| Balance 31 March / 31 December                              | <u>158,800</u>       | <u>232,900</u>        |

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 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 increase due to the effect of the foreign exchange fluctuation is a result of the rouble strengthening compared to the US Dollar by 7.1% during the first quarter of 2017, as described in note 11 above.

13. PROPERTY, PLANT AND EQUIPMENT

| -   | 31/3/17<br>US\$ '000 | 31/12/16<br>US\$ '000 |
|---|----------------------|-----------------------|
| Balance 1 January                             | 31,215               | 26,280                |
| Effect of acquisition of subsidiary (note 22) | 45,580               | -                     |
| Additions                                     | 11                   | 262                   |
| Depreciation for the period/year              | (197)                | (696)                 |
| Disposals                                     | -                    | (85)                  |
| Effect of movements in foreign exchange rates | <u>2,463</u>         | <u>5,454</u>          |
| Balance 31 March / 31 December                | <u>79,072</u>        | <u>31,215</u>         |

14. TRADING PROPERTIES

| -   | 31/3/17<br>US\$ '000 | 31/12/16<br>US\$ '000 |
|---|----------------------|-----------------------|
| Balance 1 January   | 6,854                | 2,062                 |
| Transfer from trading properties under construction (note 15) | 61,994               | 53,480                |
| Disposals   | (20,331)             | (49,475)              |
| Effect of movements in exchange rates                         | <u>1,493</u>         | <u>787</u>            |
| Balance 31 March / 31 December                                | <u>50,010</u>        | <u>6,854</u>          |

Trading properties comprise of unsold apartments and parking places.

Trading properties comprise unsold apartments and parking spaces. The transfer from trading properties under construction represents the completion of the construction of a number of flats, offices and parking places of "Odinburg" project. During the period the sale of 251 flats, 3 offices and 5 parking places were recognised, upon transferring of the rights to the buyers according to the signed acts of transfer, in the income statement.

15. TRADING PROPERTIES UNDER CONSTRUCTION

|   | 31/3/17<br>US\$ '000 | 31/12/16<br>US\$ '000 |
|---|----------------------|-----------------------|
| Balance 1 January                                   | 243,327              | 204,392               |
| Transfer from investment property under development | 74,100               | -                     |
| Transfer from inventory of real estate              | -                    | 21,543                |
| Transfer to trading properties (note 14)            | (61,994)             | (53,480)              |
| Construction costs                                  | 23,649               | 54,428                |
| Effect of movements in exchange rates               | <u>13,028</u>        | <u>16,444</u>         |
| Balance 31 March / 31 December                      | <u>292,110</u>       | <u>243,327</u>        |

Trading properties under construction comprise "Odinburg", "Paveletskaya Phase II", "AFI Residence Botanic Garden" and "Bolshaya Pochtovaya" projects which involve primarily the construction of residential properties. For further details on the transfer of the "Bolshaya Pochtovaya" project refer to note 14.

#### 16. TRADE AND OTHER RECEIVABLES

|   | 31/3/17<br>US\$ '000 | 31/12/16<br>US\$ '000 |
|---|----------------------|-----------------------|
| Advances to builders                              | 31,243               | 27,019                |
| Amounts receivable from related parties (note 26) | 245                  | 267                   |
| Trade receivables, net                            | 7,373                | 3,427                 |
| Other receivables                                 | 3,907                | 3,955                 |
| VAT recoverable                                   | 4,425                | 4,067                 |
| Tax receivable                                    | <u>3,988</u>         | <u>3,692</u>          |
|   | <u>51,181</u>        | <u>42,427</u>         |

##### **Trade receivables, net**

Trade receivables are presented net of an accumulated provision for doubtful debts of US\$5,872 thousand (2016: US\$8,285 thousand).

#### 17. CASH AND CASH EQUIVALENTS

|  | 31/3/17<br>US\$ '000 | 31/12/16<br>US\$ '000 |
|--|----------------------|-----------------------|
| Cash at banks  | 23,232               | 10,356                |
| Cash in hand   | <u>215</u>           | <u>263</u>            |
| Cash and cash equivalents in the statement of cash flows | <u>23,447</u>        | <u>10,619</u>         |

#### 18. SHARE CAPITAL AND RESERVES

|  | 31/3/17<br>US\$ '000 | 31/12/16<br>US\$ '000 |
|--|----------------------|-----------------------|
| <b>(i) Share capital</b>               |                      |                       |
| <b>Authorised</b>                      |                      |                       |
| 2,000,000,000 shares of US\$0.001 each | <u>2,000</u>         | <u>2,000</u>          |
| <b>Issued and fully paid</b>           |                      |                       |
| 523,847,027 A shares of US\$0.001 each | 524                  | 524                   |
| 523,847,027 B shares of US\$0.001 each | <u>524</u>           | <u>524</u>            |
|  | <u>1,048</u>         | <u>1,048</u>          |

##### **(ii) Employee share option plan**

There were no changes as to the employee share option plan during the three-month period ended 31 March 2017, all options have already vested during the year 2016.

##### **(iii) 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.

##### **(iv) Retained earnings**

Retained earnings are available for distribution at each reporting date. No dividends were proposed, declared or paid during the three-month period ended 31 March 2017.

##### **(v) 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 acquisition during the period of the 5% non-controlling interests in Beslaville Management Limited and its subsidiary Zheldoruslugi LLC previously held at 95%, refer to note 23 for further details.

**19. LOANS AND BORROWINGS**

|  | 31/3/17<br>US\$ '000 | 31/12/16<br>US\$ '000 |
|--|----------------------|-----------------------|
| <b>Non-current liabilities</b>                   |                      |                       |
| Secured bank loans                               | <u>469,017</u>       | <u>627,074</u>        |
| <b>Current liabilities</b>                       |                      |                       |
| Secured bank loans                               | 193,115              | 459                   |
| Unsecured loans from other non-related companies | <u>312</u>           | <u>289</u>            |
|  | <u>193,427</u>       | <u>748</u>            |

The following changes to the loans took place during the quarter ended 31 March 2017:

- (i) On 28 February 2017 the Group received a loan from VTB Bank PJSC ("VTB") to finance the acquisition of the additional 50% stake in the "Plaza Spa Kislovodsk" project. The loan, in the amount of US\$22.5 million, is provided in US dollars for 5 years (the term can be extended for an additional 5 years subject to agreement between the parties), it bears an annual interest rate of 3 months Libor + 4.5%, has quarterly principal payments (ranging from US\$363 thousand in Q2 2017 to US\$786 thousand in Q4 2021), and a balloon payment of US\$11,254 thousand at maturity. The interest is to be paid quarterly.
- (ii) Ozerkovskaya III loan facility a secured loan received by subsidiary Krown Investments LLC from VTB on 25 January 2013 was reclassified to current liabilities as based on loan agreement, its maturity fall due within the next twelve months, on 26 January 2018.

**20. TRADE AND OTHER PAYABLES**

|                                       | 31/3/17<br>US\$ '000 | 31/12/16<br>US\$ '000 |
|---------------------------------------|----------------------|-----------------------|
| Trade payables                        | 9,312                | 8,490                 |
| Payables to related parties (note 26) | 311                  | 427                   |
| Amount payable to builders            | 9,975                | 5,962                 |
| Provision                             | 19,951               | 7,833                 |
| VAT and other taxes payable           | 6,224                | 5,681                 |
| Other payables                        | <u>8,267</u>         | <u>2,564</u>          |
|                                       | <u>54,040</u>        | <u>30,957</u>         |

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

**21. FINANCIAL INSTRUMENTS****Carrying amounts and fair values**

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

|  | Carrying amount  |                             |  |                           |                  |          | Fair value |          |          |          |
|--|------------------|-----------------------------|--|---------------------------|------------------|----------|------------|----------|----------|----------|
|  | Current assets   |                             |  |                           |                  |          |            |          |          |          |
|  | Loans Receivable | Trade and other receivables | Other investments, Including derivatives | Cash and cash equivalents | Loans receivable | Total    | Level 1    | Level 2  | Level 3  | Total    |
| 31 March 2017                                  | US\$'000         | US\$'000                    | US\$'000                                 | US\$'000                  | US\$'000         | US\$'000 | US\$'000   | US\$'000 | US\$'000 | US\$'000 |
| <b>Financial assets measured at fair value</b> |                  |                             |  |                           |                  |          |            |          |          |          |
| Investment in listed debt securities           | -                | -                           | 6,183                                    | -                         | -                | 6,183    | 6,183      | -        | -        | 6,183    |

**Financial  
assets not  
measured  
at fair  
value**

|                             |    |        |       |        |     |        |  |  |  |
|-----------------------------|----|--------|-------|--------|-----|--------|--|--|--|
| Loans receivable            | 20 | -      | -     | -      | 444 | 464    |  |  |  |
| Trade and other receivables | -  | 11,525 | -     | -      | -   | 11,525 |  |  |  |
| Cash and cash equivalents   | -  | -      | -     | 23,447 | -   | 23,447 |  |  |  |
|                             | 20 | 11,525 | 6,183 | 23,447 | 444 | 41,619 |  |  |  |

31

**December  
2016**
**Financial  
assets  
measured  
at fair  
value**

|                                      |   |   |       |   |   |       |       |   |   |       |
|--------------------------------------|---|---|-------|---|---|-------|-------|---|---|-------|
| Investment in listed debt securities | - | - | 6,068 | - | - | 6,068 | 6,068 | - | - | 6,068 |
|--------------------------------------|---|---|-------|---|---|-------|-------|---|---|-------|

**Financial  
assets not  
measured  
at fair  
value**

|                             |        |       |       |        |   |        |  |  |  |
|-----------------------------|--------|-------|-------|--------|---|--------|--|--|--|
| Loans receivable            | 15,770 | -     | -     | -      | - | 15,770 |  |  |  |
| Trade and other receivables | -      | 7,649 | -     | -      | - | 7,649  |  |  |  |
| Cash and cash equivalents   | -      | -     | -     | 10,619 | - | 10,619 |  |  |  |
|                             | 15,770 | 7,649 | 6,068 | 10,619 | - | 40,106 |  |  |  |

|   | Carrying amount                       |                          |                                       |           | Fair value |          |          |          |           |
|---|---------------------------------------|--------------------------|---------------------------------------|-----------|------------|----------|----------|----------|-----------|
|   | Non-current liabilities               | Current liabilities      |                                       |           |            |          |          |          |           |
|   | Interest bearing loans and borrowings | Trade and other payables | Interest bearing loans and borrowings | Total     | Level 1    | Level 2  | Level 3  | Total    |           |
| <b>31 March 2017</b>                                    | US\$'000                              | US\$'000                 | US\$'000                              | US\$'000  | US\$'000   | US\$'000 | US\$'000 | US\$'000 |           |
| <b>Financial liabilities not measured at fair value</b> |                                       |                          |                                       |           |            |          |          |          |           |
| Interest bearing loans and borrowings                   | (469,017)                             | -                        | (193,427)                             | (662,444) |            |          |          |          | (655,695) |
| Trade and other payables                                | -                                     | (47,816)                 | -                                     | (47,816)  |            |          |          |          |           |
|   | (469,017)                             | (47,816)                 | (193,427)                             | (710,260) |            |          |          |          |           |
| <b>31 December 2016</b>                                 |                                       |                          |                                       |           |            |          |          |          |           |
| <b>Financial liabilities not measured at fair value</b> |                                       |                          |                                       |           |            |          |          |          |           |
| Interest bearing loans and borrowings                   | (627,074)                             | -                        | (748)                                 | (627,822) |            |          |          |          | (614,771) |
| Trade and other payables                                | -                                     | (25,276)                 | -                                     | (25,276)  |            |          |          |          |           |
|   | (627,074)                             | (25,276)                 | (748)                                 | (653,098) |            |          |          |          |           |

## 22. ACQUISITION OF SUBSIDIARIES

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 Sanatoriya 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 Sanatoriya Plaza LLC is the owner of "Plaza Spa Kislovodsk" project. The Project is an operating spa resort hotel in the Caucasian mineral waters region, in the town of Kislovodsk. It has 275 guest rooms and a gross buildable area of 25,000 sq.m.

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

**a. Consideration transferred**

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

|   | US\$ '000      |
|---|----------------|
| Cash  | 5,632          |
| Cash and cash equivalents acquired (note b) | <u>(4,846)</u> |
| Net consideration                           | <u>786</u>     |

**b. Identifiable assets acquired and liabilities assumed**

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

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

**c. Goodwill**

Goodwill arising from the acquisition has been recognised as follows:

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

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 \$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.

## 23. ACQUISITION OF NON-CONTROLLING INTERESTS (NCI)

In March 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%. The carrying amount of Beslaville Management Limited's and its subsidiary's net assets in the Group's financial statements on the date of acquisition was negative (US\$60,660) thousand.

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

|   | US\$ '000             |
|---|-----------------------|
| Carrying amount of NCI acquired ((60,660) thousand * 5%)          | (3,033)               |
| Consideration paid to NCI in cash                                 | <u>(1,500)</u>        |
| <b>A decrease in equity attributable to owners of the Company</b> | <u><b>(4,533)</b></u> |

The decrease in equity attributable to owners of the Company comprised of:

- a decrease in equity of US\$4,533 thousand which is presented as a negative capital reserve.

## 24. CONTINGENCIES

There weren't any contingent liabilities as at 31 March 2017.

## 25. FINANCIAL RISK MANAGEMENT

The Group's financial risk management objectives and policies are consistent with that disclosed in the consolidated financial statements as at and for the year ended 31 December 2016.

### Russian business and economic environment

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

The Russian economy continues to stabilize, supported by oil price growth and rouble appreciation. A preliminary estimate released by the Federal Statistics Service (Rosstat) on 17 May showed that GDP increased 0.5% YoY in Q1. The growth is expected to resume in 2017, according to Oxford Economics forecast of 1.2% growth in 2017.

Standard & Poor's credit rating for Russia stands at BB+ with positive outlook, while Moody's and Fitch's credit ratings for Russia were set with stable outlook.

The Central Bank of Russia continued its path of interest rate cuts, decreasing the key rate from 10% in two steps to 9.25% by May 2017. The consumer prices inflation in March 2017 was at 4.3% (annualised) (with CBR target at 4%).

Retail turnover continued declining in Q1, although showing improvements since April 2017. Real wages indicate potential gains in consumer activity, however, consumer debt repayments will likely delay the recovery of retail activity.

The real estate investors see the market bottoming out and further rouble strengthening. As a result, there was improved investor sentiment in all commercial real estate sectors. There was an increased number of investment deals, although the total volume transacted decline in Q1 by 22% YoY to USD788m. Retail was the most active sector accounting for more than half of the total volume.

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

## 26. RELATED PARTIES

|  | 31/3/17<br>US\$ '000 | 31/12/16<br>US\$ '000 |
|--|----------------------|-----------------------|
| <b>(i) Outstanding balances with related parties</b> |                      |                       |
| <u>Assets</u>  |                      |                       |
| Amounts receivable from joint ventures               | -                    | 11                    |
| Amounts receivable from other related companies      | 245                  | 256                   |
| Long term loans receivable from joint ventures       | <u>-</u>             | <u>15,745</u>         |
| <u>Liabilities</u>                                   |                      |                       |
| Amounts payable to joint ventures                    | -                    | 102                   |
| Amounts payable to other related companies           | 311                  | 325                   |
| Deferred income from related company                 | <u>155</u>           | <u>145</u>            |

### (ii) Transactions with key management personnel

|  | 1/1/17-<br>31/3/17<br>US\$ '000 | 1/1/16-<br>31/3/16<br>US\$ '000 |
|--|---------------------------------|---------------------------------|
| Key management personnel compensation Short-term |                                 |                                 |
| employee benefits                                | 663                             | 656                             |
| Share option scheme expense                      | <u>-</u>                        | <u>282</u>                      |

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

|   | 1/1/17-<br>31/3/17<br>US\$ '000 | 1/1/16-<br>31/3/16<br>US\$ '000 |
|---|---------------------------------|---------------------------------|
| <b>(iii) Other related party transactions</b> |                                 |                                 |
| <u>Revenue</u>                                |                                 |                                 |
| Related companies - rental income             | 137                             | 143                             |
| Related companies - other income              | 1                               | -                               |

|   |            |            |
|---|------------|------------|
| Joint venture - consulting services           | 31         | 39         |
| Joint venture - interest income               | <u>211</u> | <u>311</u> |
| <b>Expenses</b>                               |            |            |
| Ultimate Holding Company - operating expenses | -          | 38         |
| Joint venture - operating expenses            | <u>10</u>  | <u>12</u>  |

**27. SUBSEQUENT EVENTS**

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

In May 2017, AFI Development Plc completed the series of transactions to become 100% owner of the Berezhkovskaya project, previously held at 74%, an operating office complex in Moscow, following an agreement with its partners in the project. According to the transactions, the partner received a title to office premises totalling 3,468.5 sqm in the project, while AFI Development Plc received the partner's 26% share in the project company, Bizar LLC. The new total area of the premises at the Berezhkovskaya project is 7,909.8 sqm.

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