AFI DEVELOPMENT

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21 November 2017

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

RESULTS FOR THE NINE MONTHS TO 30 SEPTEMBER 2017

Sustained turnaround in financial performance, residential development continues to plan

AFI Development, a leading real estate company focused on developing property in Russia, today announces its financial results for the nine months ended 30 September 2017.

9M 2017 financial highlights

- **Revenue** for 9M 2017 increased by 25% year-on-year to US$142.7 million, including proceeds from the sale of trading properties:
  - Rental and hotel operating income increased by 39% year-on-year to US$85.5 million
  - Revenue generated from AFIMALL City increased by 23% year-on-year to US$59.2 million (9M 2016: US$48.2 million)
  - Sale of residential properties contributed US$57.0 million to total revenue, up 8% year-on-year
- **Gross profit** increased by 15% year-on-year to US$44.2 million (9M 2016: US$38.6 million)
- **Net profit** for 9M 2017 amounted to US$0.6 million, compared to a loss of US$55.7 million in 9M 2016
- **Total gross value of portfolio of properties** stood at US$1.50 billion at 30 September 2017 (a 1% increase compared to 30 June 2017)
- **Cash, cash equivalents and marketable securities** amounted to US$67.7 million as of 30 September 2017 (vs. US$25.5 million at 30 June 2017)

9M 2017 operational highlights

- All four of the Company's major residential projects, namely Odinburg, AFI Residence Paveletskaya, Bolshaya Pochtovaya and Botanic Garden, have progressed to the active construction and sales stages
- Construction and pre-sales at two recently launched projects, **Bolshaya Pochtovaya** and **Botanic Garden**, are progressing to plan. As of 14 November

2017, 48 apartments (26% of Phase I) are pre-sold at Bolshaya Pochtovaya and 78 apartments (10% of Phase I) at Botanic Garden.

- At **Odinburg**, construction and marketing of Building 3 started during Q3 2017. All pre-sold apartments in Building 2 have been delivered to customers. As of 14 November 2017, there were 715 (99% of total) signed sale contracts for Building 1, 641 (91% of total) for Building 2, 45 (20% of total) for Building 6 and 29 (3% of total) for Building 3.
- At **AFI Residence Paveletskaya**, construction works and pre-sale of apartments continue to plan; 325 (51% of Phases I and II) residential units were pre-sold as of 14 November 2017.
- **AFIMALL City** continues to demonstrate NOI growth, reaching US$44.4 million in 9M 2017 vs US$37.8 million in 9M 2016.

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

"We are pleased to announce that the positive trends in our business established in the first half of this year were sustained in the third quarter. Substantial improvements in revenue and gross profit were observed in the first 9 months of the year, supported largely by AFIMALL City as well as rental and hotel operating income. Meanwhile, our residential sector projects are developing on schedule and as construction progresses, we expect residential sales to provide an increasing contribution to overall revenue generation for the Company."

9M 2017 Results Conference Call:

AFI Development will hold a conference call for analysts and investors to discuss its 9M 2017 financial results on Wednesday, 22 November 2017.

Details for the conference call are as follows:

Date:	**Wednesday, 22 November 2017**	
Time:	**2pm GMT (5pm Moscow)**	
Dial-in Tel:	**International:**	**+44 (0)20 3003 2666**
	UK toll free:	**0808 109 0700**
	US toll-free:	**1 866 966 5335**
	Russia toll-free:	**8 10 8002 4902044**
Password:	**AFI**	

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 9M 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 22 November 2017 by 11am GMT (2pm Moscow time).

- ends -

For further information, please contact:

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This announcement contains inside information.

About AFI Development

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

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

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

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

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

Executive Chairman's statement

Our financial and operational performance for the first nine months of the year has improved substantially compared to the same period a year ago, supported by a steady and more favourable macroenvironment.

9M 2017 gross profit was up 15% year-on-year to US$44.2 million, supported by a 25% increase in overall revenues as well as our commitment to drive efficiency and cost optimisation throughout our operations. Improvement in overall revenue was supported by a 39% year-on-year increase in rental and hotel operating income, as well as a 23% increase in AFIMALL City revenue.

In terms of macroeconomic indicators, the rouble remained relatively stable during the third quarter, and inflation figures and GDP predictions remain encouraging.

On the residential side, all four projects have now reached the construction and pre-sale stages. Continued development of these sites according to schedule should result in increased revenue contribution from the residential segment and improved overall performance; in particular, newly launched business-class Moscow based projects, Bolshaya Pochtovaya and Botanic Garden, are expected to drive enhanced profitability going forward.

Projects update

AFIMALL City

AFIMALL City's performance continues to improve; revenue grew 23% year-on-year (US$59.2 million for 9M 2017) and NOI increased 17% year-on-year (US$44.4 for 9M 2017). Occupancy at the end of 9M 2017 remained at 87%.

Recent new openings at AFIMALL City include a Tumi travel accessories shop (first in Russia), Antony Morato Italian fashion outlet and BiotechUSA sports nutrition and fitness goods unit.

Odinburg

At Odinburg, the third quarter saw completion of pre-sold apartment delivery for Building 2, as well as construction launch at Building 3. Construction at Building 6, which began in Q2, continues to plan. As of 14 November 2017, the number of signed sale contracts amounted to 715 (99% of total) in Building 1, 641 (91% of total) in Building 2, 45 (20% of total) in Building 6 and 29 (3% of total) in Building 3.

AFI Residence Paveletskaya (Paveletskaya II)

Construction work and marketing at AFI Residence Paveletskaya continue to plan. As of the publication date of this report, 325 residential unit pre-sale contracts were signed.

Bolshaya Pochtovaya

The main construction phase and pre-sale of apartments was launched in Q1 2017 at Bolshaya Pochtovaya. As of 14 November 2017, 48 apartments (26% of Phase I) were pre-sold to customers.

The Bolshaya Pochtovaya project is a business class residential development in the Central Administrative District of Moscow, which is planned to have 136.6 thousand sq.m of gross buildable area (84.9 sq.m of gross sellable area).

Botanic Garden

The main construction phase and pre-sale of apartments was launched in Q1 2017 at Botanic Garden. As of 14 November 2017, 78 (10% of Phase I) apartments have been presold to customers.

The Botanic Garden project is a business class residential development in the Northern Administrative District of Moscow. It is planned to have 200.6 thousand sq.m of gross buildable area and 116 thousand sq.m of gross sellable area.

Lev Leviev
Executive Chairman of the Board

AFI DEVELOPMENT

AFI DEVELOPMENT PLC

CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

For the period from 1 January 2017 to 30 September 2017

AFI DEVELOPMENT PLC

CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

For the period from 1 January 2017 to 30 September 2017

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

Introduction

We have reviewed the accompanying condensed consolidated statement of financial position of AFI Development PLC as at 30 September 2017, the condensed consolidated statements of income, comprehensive income, changes in equity and cash flows for the nine-month period then ended, and notes to the interim financial statements ('the condensed consolidated interim financial statements'). The Company's Board of Directors is responsible for the preparation and presentation of this condensed consolidated interim financial statements in accordance with IAS 34 "Interim Financial Reporting". Our responsibility is to express a conclusion on this condensed consolidated interim financial statements based on our review.

Scope of Review

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

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the accompanying condensed consolidated interim financial statements as at 30 September 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 the Group has recognised a net profit after tax of US$563 thousand for the nine-month period ended 30 September 2017, its cash and cash equivalents and marketable securities improved to US$67,294 thousand. However, its current liabilities increased to US$769,025 thousand due to the reclassification of the Ozerkovskaya III and AFIMALL City loans as their maturity is due in January and April 2018 respectively. Unless renegotiated, the Group will be required to make a lump sum payment of the principal of the loans with a current balance of US$643,085 thousand. 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

20 November 2017

AFI DEVELOPMENT PLC

CONDENSED CONSOLIDATED INCOME STATEMENT

For the period from 1 January 2017 to 30 September 2017

	Note	For the three months ended 1/7/17-30/9/17 US$ '000	For the three months ended 1/7/16-30/9/16 US$ '000	For the nine months ended 1/1/17-30/9/17 US$ '000	For the nine months ended 1/1/16-30/9/16 US$ '000
Revenue	6	36,623	24,706	142,692	114,413
Other income		92	349	634	2,833
Operating expenses	8	(14,113)	(9,339)	(40,535)	(27,064)
Carrying value of trading properties sold		(6,859)	(2,732)	(54,162)	(48,298)
Administrative expenses	7	(1,213)	(1,908)	(4,335)	(5,319)
Other expenses		50	(357)	(2,013)	(964)
Total expenses		(22,135)	(14,336)	(101,045)	(81,645)
Share of the after tax profit of joint ventures		-	735	1,957	3,034
Gross Profit		14,580	11,454	44,238	38,635
Gain on 100% acquisition of previously held interest in a joint venture	22	-	-	7,532	-
Profit on disposal of investment property		-	30	-	1,768
Decrease in fair value of properties	11,12	(12,564)	(10,541)	(13,491)	(111,401)
Results from operating activities		2,016	943	38,279	(70,998)
Finance income		6,775	7,814	12,484	45,798
Finance costs		(13,210)	(11,321)	(37,980)	(33,067)
Net finance (costs)/income	9	(6,435)	(3,507)	(25,496)	12,731
(Loss)/profit before tax		(4,419)	(2,564)	12,783	(58,267)
Tax (expense)/benefit	10	(2,950)	167	(12,220)	2,578
(Loss)/profit for the period		(7,369)	(2,397)	563	(55,689)
(Loss)/profit attributable to:					
Owners of the Company		(7,352)	(2,432)	285	(55,565)
Non-controlling interests		(17)	35	278	(124)
		(7,369)	(2,397)	563	(55,689)
Earnings per share					
Basic and diluted earnings per share (cent)		(0.70)	(0.23)	0.03	(5.30)

The notes on pages 8 to 26 form an integral part of the condensed consolidated interim financial statements.

AFI DEVELOPMENT PLC

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the period from 1 January 2017 to 30 September 2017

	For the three months ended		For the nine months ended	
	1/7/17-30/9/17 US$ '000	1/7/16-30/9/16 US$ '000	1/1/17-30/9/17 US$ '000	1/1/16-30/9/16 US$ '000
(Loss)/profit for the period	(7,369)	(2,397)	563	(55,689)
Other comprehensive income				
Items that are or may be reclassified subsequently to profit or loss				
Realised translation differences on 100% acquisition of previously held interest in a joint venture transferred to income statement	-	-	(4,271)	-
Foreign currency translation differences for foreign operations	3,914	1,921	10,451	25,878
Other comprehensive income for the period	3,914	1,921	6,180	25,878
Total comprehensive income for the period	(3,455)	(476)	6,743	(29,811)
Total comprehensive income attributable to:				
Owners of the parent	(3,449)	(521)	6,489	(29,824)
Non-controlling interests	(6)	45	254	13
	(3,455)	(476)	6,743	(29,811)

The notes on pages 8 to 26 form an integral part of the condensed consolidated interim financial statements.

AFI DEVELOPMENT PLC

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the period from 1 January 2017 to 30 September 2017

	Attributable to the owners of the Company						Non-controlling interests	Total equity
	Share Capital US$ '000	Share Premium US$ '000	Capital Reserve US$ '000	Translation Reserve US$ '000	Retained Earnings 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 for the period								
Profit for the period	-	-	-	-	285	285	278	563
Other comprehensive income	-	-	-	6,204	-	6,204	(24)	6,180
Total comprehensive income for the period	-	-	-	6,204	285	6,489	254	6,743
Transactions with owners of the Company								
Changes in ownership interests								
Acquisition of non-controlling interests (note 23)	-	-	(10,136)	-	-	(10,136)	3,426	(6,710)
Balance at 30 September 2017	1,048	1,763,409	(19,337)	(305,127)	(667,516)	772,477	(147)	772,330
Balance at 1 January 2016	1,048	1,763,409	(9,201)	(338,951)	(620,786)	795,519	(3,919)	791,600
Total comprehensive income for the period								
Loss for the period	-	-	-	-	(55,565)	(55,565)	(124)	(55,689)
Other comprehensive income	-	-	-	25,741	-	25,741	137	25,878
Total comprehensive income for the period	-	-	-	25,741	(55,565)	(29,824)	13	(29,811)
Transactions with owners of the Company								
Contributions and distributions								
Share option expense	-	-	-	-	738	738	-	738
Balance at 30 September 2016	1,048	1,763,409	(9,201)	(313,210)	(675,613)	766,433	(3,906)	762,527

The notes on pages 8 to 26 form an integral part of the condensed consolidated interim financial statements.

AFI DEVELOPMENT PLC

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AS AT 30 SEPTEMBER 2017

	Note	30/9/17 US$ '000	31/12/16 US$ '000
Assets			
Investment property	11	926,110	915,350
Investment property under development	12	159,900	232,900
Property, plant and equipment	13	77,352	31,215
Long-term loans receivable		29	15,763
VAT recoverable		39	9
Non-current assets		1,163,430	1,195,237
Trading properties	14	14,973	6,854
Trading properties under construction	15	327,555	243,327
Other investments		4,646	6,088
Inventories		1,016	665
Short-term loans receivable		822	7
Trade and other receivables	16	53,850	42,427
Current tax assets		3,505	2,542
Cash and cash equivalents	17	63,069	10,619
Current assets		469,436	312,529
Total assets		1,632,866	1,507,766
Equity			
Share capital		1,048	1,048
Share premium		1,763,409	1,763,409
Translation reserve		(305,127)	(311,331)
Capital reserve		(19,337)	(9,201)
Retained earnings		(667,516)	(667,801)
Equity attributable to owners of the Company	18	772,477	776,124
Non-controlling interests		(147)	(3,827)
Total equity		772,330	772,297
Liabilities			
Long-term loans and borrowings	19	48,270	627,074
Deferred tax liabilities		31,138	14,934
Deferred income		12,103	10,455
Non-current liabilities		91,511	652,463
Short-term loans and borrowings	19	647,037	748
Trade and other payables	20	40,860	30,957
Advances from customers		81,128	51,301
Current liabilities		769,025	83,006
Total liabilities		860,536	735,469
Total equity and liabilities		1,632,866	1,507,766

The condensed consolidated interim financial statements were approved by the Board of Directors on 20 November 2017.

The notes on pages 8 to 26 form an integral part of the condensed consolidated interim financial statements.

AFI DEVELOPMENT PLC

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

For the period from 1 January 2017 to 30 September 2017

	Note	1/1/17-30/9/17 US$ '000	1/1/16-30/9/16 US$ '000
Cash flows from operating activities			
Profit/(loss) for the period		563	(55,689)
Adjustments for:			
Depreciation	13	626	532
Net finance costs/(income)	9	24,953	(13,017)
Share option expense		-	738
Decrease in fair value of properties	11,12	13,491	111,401
Share of profit in joint ventures		(1,957)	(3,034)
Gain on 100% acquisition of previously held interest in a joint venture		(7,532)	-
Profit on disposal of investment property		-	(1,768)
Profit on sale of property, plant and equipment		-	(22)
Tax expense/(benefit)	10	12,220	(2,578)
		42,364	36,563
Change in trade and other receivables		1,435	436
Change in inventories		73	(7)
Change in trading properties and trading properties under construction		(10,890)	6,081
Change in advances and amounts payable to builders of trading properties under construction		(3,621)	9,901
Change in advances from customers		27,343	(24,427)
Change in trade and other payables		(4,211)	(2,114)
Change in VAT recoverable		(2,550)	(2,799)
Change in deferred income		1,166	(61)
Cash generated from operating activities		51,109	23,573
Taxes paid		(3,749)	(285)
Net cash from operating activities		47,360	23,288
Cash flows from investing activities			
Acquisition of subsidiary net of cash acquired	22	(786)	-
Proceeds from sale of other investments		7,206	18,526
Proceeds from disposal of investment property		-	1,099
Proceeds from sale of property, plant and equipment		89	100
Interest received		378	4,317
Change in advances and amounts payable to builders	16,20	3,239	(2,008)
Payments for construction of investment property under development	12	(3,823)	(2,838)
Payments for the acquisition/renovation of investment property	11	(967)	(117)
Dividends received from joint ventures		-	219
Change in VAT recoverable		(588)	(315)
Acquisition of property, plant and equipment	13	(223)	(243)
Acquisition of other investments		(6,051)	(9,506)
Proceeds from repayments of loans receivable		4,178	141
Payments for loans receivable		(1,803)	(6)
Net cash from investing activities		849	9,369

The notes on pages 8 to 26 form an integral part of the condensed consolidated interim financial statements.

AFI DEVELOPMENT PLC

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS (CONTINUED)

For the period from 1 January 2017 to 30 September 2017

	Note	1/1/17-30/9/17 US$ '000	1/1/16-30/9/16 US$ '000
Cash flows from financing activities			
Acquisition of non-controlling interests	23	(1,369)	-
Proceeds from loans and borrowings		43,527	-
Repayment of loans and borrowings		(8,685)	(13,090)
Interest paid		(28,910)	(33,312)
Net cash from/(used in) financing activities		4,563	(46,402)
Effect of exchange rate fluctuations		(322)	847
Net increase/(decrease) in cash and cash equivalents		52,450	(12,898)
Cash and cash equivalents at 1 January		10,619	26,545
Cash and cash equivalents at 30 September	18	63,069	13,647

The notes on pages 8 to 26 form an integral part of the condensed consolidated interim financial statements.

AFI DEVELOPMENT PLC

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

For the period from 1 January 2017 to 30 September 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, 5th floor, Flat/office 505, 3035 Limassol, Cyprus. As of 7 September 2016 the Company is a 64.88% subsidiary of Flotonic Limited, a private holding company registered in Cyprus, 100% owned by Mr Lev Leviev. Prior to that, the Company was a 64.88% subsidiary of Africa Israel Investments Ltd ("Africa-Israel"), which is listed in the Tel Aviv Stock Exchange ("TASE"). The remaining shareholding of "A" shares is held by a custodian bank in exchange for the GDRs issued and listed in the London Stock Exchange ("LSE"). On 5 July 2010 the Company issued by way of a bonus issue 523,847,027 "B" shares, which were admitted to a premium listing on the Official List of the UK Listing Authority and to trading on the main market of LSE. On the same date, the ordinary shares of the Company were designated as "A" shares.

These condensed consolidated interim financial statements ("interim financial statements") as at and for the nine months ended 30 September 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 nine-months 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$563 thousand for the nine month period ended 30 September 2017, its cash and cash equivalents and marketable securities improved to US$67,694 thousand. However, its current liabilities increased to US$769,025 thousand due to the reclassification of the Ozerkovskaya III and AFIMALL City loans as their maturity is due in January and April 2018 respectively. Unless renegotiated, the Group will require to make a lump sum payment of the principal of the loans with a current balance of US$643,085 thousand. 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 include the disposal of certain assets or projects or refinance of the loans. The Group is in advance negotiation with banks for the refinancing of the loans. Management considers its available options on how to approach the loans at maturity and secure further financing to continue in operational existence for the foreseeable future.

2. BASIS OF ACCOUNTING (continued)

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 financial statements.

iii. Functional and presentation currency

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

Foreign operations

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

2. BASIS OF ACCOUNTING (continued)

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

Exchange rate	Russian Rubles for US$1	% change quarter	% change year to date
As of:			
30 September 2017	58.0169	(1.8)	(4.4)
31 December 2016	60.6569		(16.8)
30 September 2016	63.1581		(13.3)
Average rate during:			
Nine-month period ended 30 September 2017	58.3344		(14.7)
Nine-month period ended 30 September 2016	68.3667		15.3

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.

a. Measurement of fair values

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

Significant valuation issues are reported to the Group Audit Committee.

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

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

3. USE OF JUDGEMENTS AND ESTIMATES (continued)

a. Measurement of fair values (continued)

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

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

4. SIGNIFICANT ACCOUNTING POLICIES

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

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5. OPERATING SEGMENTS (continued)

	Development projects Residential projects		Asset management		Hotel Operation		Land bank		Other		Total	
	30/9/17 US$'000	30/9/16 US$'000	30/9/17 US$'000	30/9/16 US$'000	30/9/17 US$'000	30/9/16 US$'000	30/9/17 US$'000	30/9/16 US$'000	30/9/17 US$'000	30/9/16 US$'000	30/9/17 US$'000	30/9/16 US$'000
External revenues	57,818	53,762	61,163	50,477	21,374	8,272	2,205	1,774	131	127	142,691	114,412
Inter-segment revenue	24,235	-	4,373	9,060	3	2	1,538	1,399	5,971	4,711	36,120	15,172
Segment (loss)/profit before tax	(2,104)	(2,612)	10,285	(23,739)	7,700	2,179	1,437	(27,632)	(5,736)	(4,532)	11,582	(56,336)
	30/9/17 US$'000	31/12/16 US$'000	30/9/17 US$'000	31/12/16 US$'000	30/9/17 US$'000	31/12/16 US$'000	30/9/17 US$'000	31/12/16 US$'000	30/9/17 US$'000	31/12/16 US$'000	30/9/17 US$'000	31/12/16 US$'000
Segment assets	398,392	355,567	915,900	912,240	80,412	27,158	223,851	185,693	742	624	1,619,297	1,481,282
Segment liabilities	110,210	66,971	686,130	667,779	61,575	-	1,289	-	744	387	859,948	735,137

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5. OPERATING SEGMENTS (continued)

Reconciliation of reportable segment profit or loss

	1/1/17- 30/9/17 US$ '000	1/1/16- 30/9/16 US$ '000
Total profit/(loss) before tax for reportable segments	11,582	(56,336)
Unallocated amounts:		
Other profit or loss	(8,288)	(4,965)
Gain on 100% acquisition of previously held interest in a joint venture	7,532	-
Share of profit of joint ventures, net of tax	1,957	3,034
Profit/(loss) before tax	12,783	(58,267)

6. REVENUE

	For the three months ended		For the nine months ended	
	1/7/17- 30/9/17 US$ '000	1/7/16- 30/9/16 US$ '000	1/1/17- 30/9/17 US$ '000	1/1/16- 30/9/16 US$ '000
Investment property rental income	21,442	18,737	64,133	53,304
Sales of trading properties (note 14)	7,251	2,953	57,034	52,677
Hotel operation income	7,928	2,965	21,374	8,271
Construction consulting/management fees	2	51	151	161
	36,623	24,706	142,692	114,413

7. ADMINISTRATIVE EXPENSES

	For the three months ended		For the nine months ended	
	1/7/17- 30/9/17 US$ '000	1/7/16- 30/9/16 US$ '000	1/1/17- 30/9/17 US$ '000	1/1/16- 30/9/16 US$ '000
Consultancy fees	68	782	257	1,470
Legal fees	240	511	1,122	790
Auditors' remuneration	126	201	466	350
Valuation expenses	23	1	60	57
Directors' remuneration	327	340	993	1,032
Depreciation	25	27	82	89
Insurance	43	58	118	171
Provision for Doubtful Debts	-	(480)	40	(1,063)
Share option expense	-	208	-	738
Donations	52	3	67	644
Other administrative expense	309	257	1,130	1,041
	1,213	1,908	4,335	5,319

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8. OPERATING EXPENSES

	For the three months ended		For the nine months ended	
	1/7/17-30/9/17 US$ '000	1/7/16-30/9/16 US$ '000	1/1/17-30/9/17 US$ '000	1/1/16-30/9/16 US$ '000
Maintenance, utility and security expenses	4,337	2,998	13,653	8,580
Agency and brokerage fees	393	160	1,037	431
Advertising expenses	1,860	1,031	4,121	3,796
Salaries and wages	3,696	2,503	11,069	7,488
Consultancy fees	434	129	716	362
Depreciation	192	134	544	443
Insurance	117	(25)	395	464
Rent	445	381	1,405	1,091
Property and other taxes	2,619	2,001	7,545	4,360
Other operating expenses	20	27	50	49
	14,113	9,339	40,535	27,064

9. FINANCE COST AND FINANCE INCOME

	For the three months ended		For the nine months ended	
	1/7/17-30/9/17 US$ '000	1/7/16-30/9/16 US$ '000	1/1/17-30/9/17 US$ '000	1/1/16-30/9/16 US$ '000
Interest income	188	450	688	1,696
Net foreign exchange gain	6,587	7,364	11,796	44,102
Net change in fair value of financial assets	-	-	-	-
Finance income	6,775	7,814	12,484	45,798
Interest expense on loans and borrowings	(12,698)	(11,230)	(37,082)	(32,554)
Net change in fair value of financial assets	(359)	9	(355)	(227)
Other finance costs	(153)	(100)	(543)	(286)
Finance costs	(13,210)	(11,321)	(37,980)	(33,067)
Net finance (costs)/income	(6,435)	(3,507)	(25,496)	12,731

10. TAX EXPENSE / (BENEFIT)

	For the three months ended		For the nine months ended	
	1/7/17-30/9/17 US$ '000	1/7/16-30/9/16 US$ '000	1/1/17-30/9/17 US$ '000	1/1/16-30/9/16 US$ '000
Current tax expense				
Current year	675	77	2,919	205
Deferred tax expense/(benefit)				
Origination and reversal of temporary differences	2,275	(244)	9,301	(2,783)
Total income tax expense/(benefit)	2,950	(167)	12,220	(2,578)

11. INVESTMENT PROPERTY

Reconciliation of carrying amount

	30/9/17 US$ '000	31/12/16 US$ '000
Balance 1 January	915,350	933,700
Renovations/additional cost	967	370
Disposals	(5,341)	(500)
Fair value adjustment	(5,056)	(92,801)
Effect of movement in foreign exchange rates	20,190	74,581
Balance 30 September / 31 December	926,110	915,350

The disposal represents 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 refer to note 23 for further details on the acquisition of NCI.

The increase due to the effect of the foreign exchange fluctuation is a result of the Ruble strengthening compared to the US Dollar by 4.4% during the nine months period ended 30 September 2017.

The investment property was revalued by independent appraisers on 30 June 2017. The cumulative adjustments, for all projects, are shown in line "Fair value adjustment" in the table above. The fair value adjustment is mainly a result of the effect of the Russian economic conditions on the real estate market and partly relates to the Ruble strengthening offsetting the increase thereof.

Based on the management's assessment the fair value of the assets within the portfolio reported has not significantly changed since the valuation of 30 June 2017.

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12. INVESTMENT PROPERTY UNDER DEVELOPMENT

	30/9/17 US$ '000	31/12/16 US$ '000
Balance 1 January	232,900	238,925
Construction costs	3,823	4,554
Transfer to trading properties under construction (note 15)	(74,100)	-
Fair value adjustment	(8,435)	(30,244)
Effect of movements in foreign exchange rates	5,712	19,665
Balance 30 September / 31 December	159,900	232,900

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

The increase due to the effect of the foreign exchange rates is a result of the strengthening of the Ruble compared to the US Dollar by 4.4%, during the nine months period ended 30 September 2017.

The investment property under development was revalued by independent appraisers on 30 June 2017. The cumulative adjustments, for all projects, are shown in line "Fair value adjustment" in the table above. The fair value adjustment is mainly a result of the effect of the Russian economic conditions on the real estate market and partly relates to the Ruble strengthening offsetting the increase thereof.

Based on the management's assessment the fair value of the assets within the portfolio reported has not significantly changed since the valuation of 30 June 2017.

13. PROPERTY, PLANT AND EQUIPMENT

	30/9/17 US$ '000	31/12/16 US$ '000
Balance 1 January	31,215	26,280
Effect of acquisition of subsidiary (note 22)	45,580	-
Additions	223	262
Depreciation for the period / year	(626)	(696)
Disposals	(89)	(85)
Effect of movements in foreign exchange rates	1,049	5,454
Balance 30 September / 31 December	77,352	31,215

14. TRADING PROPERTIES

	30/9/17 US$ '000	31/12/16 US$ '000
Balance 1 January	6,854	2,062
Transfer from trading properties under construction (note 15)	63,202	53,480
Disposals	(55,504)	(49,475)
Effect of movements in exchange rates	421	787
Balance 30 September / 31 December	14,973	6,854

Trading properties comprise unsold apartments and parking spaces. The transfer from trading properties under construction represents the completion of the construction of a number of flats, offices and parking places of "Odinburg" project. During the period the sale of 613 flats, 6 offices and 62 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

	30/9/17 US$ '000	31/12/16 US$ '000
Balance 1 January	243,327	204,392
Transfer from investment property under development (note 12)	74,100	-
Transfer from inventory of real estate	-	21,543
Transfer to trading properties (note 14)	(63,202)	(53,480)
Construction costs	66,394	54,428
Effect of movements in exchange rates	6,936	16,444
Balance 30 September / 31 December	327,555	243,327

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 12.

16. TRADE AND OTHER RECEIVABLES

	30/9/17 US$ '000	31/12/16 US$ '000
Advances to builders	35,574	27,019
Amounts receivable from related parties (note 25)	102	267
Trade receivables, net	2,569	3,427
Other receivables	4,209	3,955
VAT recoverable	7,410	4,067
Tax receivables	3,986	3,692
	53,850	42,427

Trade receivables net

Trade receivables are presented net of an accumulated provision for doubtful debts of US$0 thousand (31/12/2016: US$8,285 thousand).

17. CASH AND CASH EQUIVALENTS

Cash and cash equivalents consist of:	30/9/17 US$ '000	31/12/16 US$ '000
Cash at banks	62,841	10,356
Cash in hand	228	263
	63,069	10,619

18. SHARE CAPITAL AND RESERVES

1. Share capital	30/9/17 US$ '000	31/12/16 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 shares of US$0.001 each	524	524
523,847,027 B shares of US$0.001 each	524	524
	1,048	1,048

2. Employee Share option plan

All options have vested during the year 2016. A significant number of options has expired during the year after the lapse of the ten years period with the remaining options expiring in November.

3. Translation reserve

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

4. Retained earnings

Retained earnings are available for distribution at each reporting date. No dividends were proposed, declared or paid during the nine-month period ended 30 September 2017.

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 23 for further details.

19. LOANS AND BORROWINGS

	30/9/17 US$ '000	31/12/16 US$ '000
Non-current liabilities		
Secured bank loans	48,270	627,074
Current liabilities		
Secured bank loans	646,732	459
Unsecured loans from other non-related companies	305	289
	647,037	748

The following changes to the loans took place during the nine month period ended 30 September 2017:

(i) A secured loan from Sberbank was signed on 20 March 2017 by one of the Group's subsidiary AFI RUS Management. This loan facility agreement offered a credit line totaling RUR 1.090 billion, which is drawn down in two tranches so as to finance the construction of Phase 2 of "Odinburg" project. During the period a drawdown of the first tranche of US$8,105 thousand (RUR 470 million) was effected. The loan was provided in RUR and carried an annual interest rate of 11.5% with a right to increase by 1-2%. As of 30 September 2017 the credit line was fully repaid and the loan agreement was terminated in October 2017.

(ii) 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.

(iii) On 21 September 2017 the Group received a loan from VTB to repay a loan owed to a related company. The loan, in the amount of US$11.6 million which is provided in US dollars is repayable in 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 5.5%, has quarterly principal payments (ranging from US$85 thousand in Q4 2017 to US$105 thousand in Q2 2022), and a balloon payment of US$9,850 thousand at maturity. The interest is to be paid quarterly.

(iv) On 21 September 2017 the Group received a loan from VTB to repay a loan owed to a related company. The loan, in the amount of US$18.4 million, which is provided in US dollars is repayable in 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 5.5%, has quarterly principal payments (ranging from US$230 thousand in Q4 2017 to US$379 thousand in Q2 2022), and a balloon payment of US$15,647 thousand at maturity. The interest is to be paid quarterly.

19. LOANS AND BORROWINGS (continued)

(v) Ozerkovskaya III loan facility a secured loan received by subsidiary Krown Investments LLC from VTB on 25 January 2013 and AFIMALL City loan facility a secured loan received by subsidiary Bellgate Constructions Ltd were reclassified to current liabilities as based on loan agreements, their maturity fall due within the next twelve months, on 26 January 2018 and 1 April 2018 respectively.

20. TRADE AND OTHER PAYABLES

	30/9/17 US$ '000	31/12/16 US$ '000
Trade payables	10,789	8,490
Payables to related parties (note 25)	204	427
Amount payable to builders	13,175	5,962
Provision	6,275	7,833
VAT and other taxes payable	6,881	5,681
Other payables	3,536	2,564
	40,860	30,957

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 by the residents.

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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			
	Non-current assets	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
30 September 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 listed debt securities	-	-	4,625	-	-	4,625	4,625			4,625
Financial assets not measured at fair value										
Loans receivable	29	-	-	-	822	851				
Trade and other receivables	-	6,880	-	-	-	6,880				
Cash and cash equivalents	-	-	-	63,069	-	63,069				
	29	6,880	4,625	63,069	822	75,425				
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				

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21. FINANCIAL INSTRUMENTS (continued)

Carrying amounts and fair values (continued)

	Carrying amount				Fair value			
	Non-current liabilities	Current liabilities						
	Interest bearing loans and borrowings	Trade and other payables	Interest bearing loans and borrowings	Total	Level 1	Level 2	Level 3	Total
	US$'000	US$'000	US$'000	US$'000	US$'000	US$'000	US$'000	US$'000
30 September 2017								
Financial liabilities not measured at fair value								
Interest bearing loans and borrowings	(48,270)	-	(647,037)	(695,307)				(695,600)
Trade and other payables	-	(33,979)	-	(33,979)				
	(48,270)	(33,979)	(647,037)	(729,286)				
31 December 2016								
Financial liabilities not measured at fair value								
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 Sanatoriy Plaza LLC. As a result, the Group's equity interest in the above mentioned entities increased from 50% to 100%, obtaining their control. Principal activity of Nouana Limited, Craespon Management Limited and Emvial Limited is that of holding of investments while Sanatoriy Plaza LLC is the owner of "Plaza Spa Kislovodsk" project. The Project is an operating spa resort hotel in the Caucasian mineral waters region, in the town of Kislovodsk. It has 275 guest rooms and a gross buildable area of 25,000 sq.m.

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

a. Consideration transferred

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

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

b. Identifiable assets acquired and liabilities assumed

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

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

22. ACQUISITION OF SUBSIDIARIES (continue)

c. Goodwill

Goodwill arising from the acquisition has been recognised as follows:

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

At acquisition the gain on the Group's previously held 50% interest in the joint venture was US$10,259 thousand, which comprised US$7,803 thousand fair value gain on net assets less the $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)

During the period, the Group acquired an additional 5% interest in Beslaville Management Limited and its Russian subsidiary Zheldoruslugi LLC, increasing its ownership from 95% to 100% and 26% interest in Bizar LLC increasing its ownership from 74% to 100%. The carrying amount of Beslaville Management Limited's together with its subsidiary and Bizar's net assets in the Group's financial statements on the date of acquisition was negative (US$60,660) thousand and (US$1,511) 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% & ($1,511) thousand $26%)	(3,426)
Consideration paid to NCI	(6,710)
A decrease in equity attributable to owners of the Company	(10,136)

The decrease in equity attributable to owners of the Company comprised of a negative capital reserve of US$10,136 thousand.

AFI DEVELOPMENT PLC

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

For the period from 1 January 2017 to 30 September 2017

24. FINANCIAL RISK MANAGEMENT

The Group's financial risk management objectives and policies are consistent with that disclosed in the consolidated financial statements as at and for the year ended 31 December 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 and the Ruble continued to recover. In Q2 2017, GDP increased by 2.5% YoY. A preliminary estimate released by the Federal Statistics Service (Rosstat) showed that GDP increased 1.5% year-on-year in Q3. The growth is expected to resume in 2017, according to Oxford Economics forecast of 1.5% growth in 2017.

Standard & Poor's credit rating for Russia stood at BB+ as well as Fitch's (BBB-) with positive outlook, while Moody's (Ba1) remained with stable outlook.
The Central Bank of Russia continued its path of interest rate cuts, decreasing the key rate in two steps from 9.00% to 8.25% in October 2017. The consumer prices inflation in September 2017 was at 3% (annualised) (with CBR target at 4%).

Retail turnover entered the recovery stage with a 3.1% growth in September YoY. 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 lower Ruble volatility compared to 2016. As a result, there was improved investor sentiment in all commercial real estate sectors and several deals from 2016 were closed in 2017, raising the overall number of completed transactions. In Q1-Q3 Russia's real estate investments reached USD2.7bn, according to JLL calculations. Retail assets remained the most demanded, accounting for 37% of the total volume of transactions. The office sector accounted for 31%.

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

25. RELATED PARTIES

(i) **Outstanding balances with related parties**	30/9/17 US$ '000	31/12/16 US$ '000
Assets		
Amounts receivable from joint ventures	-	11
Amounts receivable from other related companies (note 16)	102	256
Long term loans receivable from joint ventures	-	15,745

25. RELATED PARTIES (continued)

(i) **Outstanding balances with related parties (continued)**	30/9/17 US$ '000	31/12/16 US$ '000
Liabilities		
Amounts payable to joint ventures	-	102
Amounts payable to other related companies (note 20)	204	325
Deferred income from related company	108	145

(ii) **Transactions with the key management personnel**	1/1/17-30/9/17 US$ '000	1/1/16-30/9/16 US$ '000
Key management personnel compensation		
Short-term employee benefits	2,002	2,011
Share option scheme expense	-	738

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.

(iii) **Other related party transactions**	1/1/17-30/9/17 US$ '000	1/1/16-30/9/16 US$ '000
Revenue		
Related companies – rental income	324	478
Related companies – other income	1	-
Joint venture – consulting services	31	127
Joint venture – interest income	211	990
Expenses		
Related companies – administrative expenses	-	157
Joint venture – operating expenses	10	40