

22 August 2017

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

RESULTS FOR THE SIX MONTHS TO 30 JUNE 2017

Strong performance supported by growing contribution from residential segment

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

H1 2017 financial highlights

- **Revenue** for H1 2017 increased by 18% year-on-year to US\$106.1 million, including proceeds from the sale of trading properties:
 - Rental and hotel operating income increased by 41% year-on-year to US\$56.1 million
 - AFIMALL City contribution grew by 27% year-on-year to US\$39.8 million (H1 2016: US\$31.3 million)
 - Sale of residential properties contributed US\$49.8 million to total revenue
- **Gross profit** increased by 9% year-on-year to US\$29.7 million (H1 2016: US\$27.2 million)
- **Net profit** for H1 2017 amounted to US\$7.9 million, compared to a loss of US\$53.3 million in H1 2016
- **Total gross value of portfolio of properties** stood at US\$1.49 billion (no change compared to end-Q1 2017)
- **Cash, cash equivalents and marketable securities** as of 30 June 2017 amounted to US\$25.5 million (vs. US\$29.6 million at end-Q1 2017)

H1 2017 operational highlights

- Construction and pre-sales at **Bolshaya Pochtovaya** and **Botanic Garden**, launched in late Q1 2017, are progressing well. As of 16 August 2017, 13 apartments have been pre-sold at Bolshaya Pochtovaya and 40 at Botanic Garden
- At **Odinburg**, construction and marketing of Building 6 started during Q2 2017. Delivery of apartments in Building 2 continued throughout the quarter. As of 16 August 2017, the number of sale contracts signed amounted to 717 (99% of total) in Building 1, 594 (84% of total) in Building 2 and 7 (3% of total) in Building 6

- At the **AFI Residence Paveletskaya** residential development, construction works and pre-sale of apartments continue to plan; 270 residential units have been pre-sold as of 16 August 2017
- **AFIMALL City** continues to demonstrate NOI growth, from US\$24.6 million in H1 2016 to US\$29.4 million in H1 2017
- At the **Aquamarine III** office complex, a multi-year lease of circa 8,200 sq.m of office space was signed with Deutsche Bank in July 2017

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

“We are delighted with the continued turnaround across our business, which is reflected in improvement in all key performance indicators during the first half of this year. A more favourable macroeconomic environment in Russia has supported continued successful execution of our strategy and we are particularly pleased with the marked improvement in our residential operations and the sustained improvement in overall efficiency levels. We expect income from residential sales to play an important role in providing future revenue growth and steady cash flow as we continue to deliver our development pipeline.”

H1 2017 Results Conference Call:

AFI Development will hold a conference call for analysts and investors to discuss its H1 2017 financial results on Wednesday, 23 August 2017.

Details for the conference call are as follows:

Date:	Wednesday, 23 August 2017		
Time:	3pm BST (5pm Moscow)		
Dial-in Tel:	International:	+44 (0)20 3003 2666	
	UK toll free:	0808 109 0700	
	US toll-free:	1 866 966 5335	
	Russia toll-free:	8 10 8002 4902044	
Password:	AFI		

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 H1 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 23 August 2017 by 11am BST (1pm Moscow time).

- ends -

For further information, please contact:

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

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David Westover
Sandra Novakov
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

Relative macroeconomic stability coupled with our continuous efforts to streamline our operations have resulted in virtually all financial indicators demonstrating solid improvement during the first half of the year. While our commercial and hotel properties delivered 41% revenue growth relative to H1 2016, total revenue grew by 18% to US\$106.1 million.

The residential segment of our operations generated almost 47% of our total revenue. With four residential projects currently in active development, income from residential sales and their profitability have become increasingly important drivers of our financial performance.

Our gross profit for the quarter grew by 9% to US\$29.7 million relative to H1 2016, reflecting a strong revenue increase and our continued focus on efficiency optimisation and cost control. Net profit was US\$7.9 million for the first six months of the year, compared to a loss of US\$53.3 million in H1 2016.

We believe that our residential portfolio under development will provide steady cash flow from ongoing residential sales in the future, while the high quality of our recently launched business-class projects in Moscow, namely Bolshaya Pochtovaya and Botanic Garden, are expected to further improve profitability and overall performance.

Projects update

AFIMALL City

AFIMALL City's performance continues to improve, reflected in increased revenue (US\$39.8 million) and NOI (US\$29.4) for H1 2017. Occupancy at the end of H1 2017 was at 87%, a 5% increase since the end of Q1 2017.

Recent new openings at AFIMALL City include a 1,300 sqm "Golden Apple" luxury fragrance and beauty store, a Levon's Highlands Cuisine café and Finish childrenswear retailer, Reima.

Odinburg

During Q2 2017, the Company started construction of Building 6 and continued to deliver apartments in Building 2. As of 22 August 2017, the number of apartments sold in Building 1 is 717 (99% of total), 594 (84% of total) in Building 2 and 7 (3% of total) in Building 6.

Construction of the kindergarten (Phase 1) continues, while the start of construction of Building 3 is planned for Q3 2017.

AFI Residence Paveletskaya (Paveletskaya II)

Construction work and marketing of the AFI Residence Paveletskaya development continue to plan. As of the date of publication of this report, 210 contracts for pre-sales of residential units have been signed.

Aquamarine III (Ozerkovskaya III)

In July 2017, Deutsche Bank leased circa 8,200 sq.m in the complex, having selected Aquamarine III for its IT unit.

AFI Development continues to market available 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. As of 16 August 2017, 13 apartments have been 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 were launched in Q1 2017. As of 16 August 2017, 40 apartments have been pre-sold 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.

Tverskaya Plaza II

In Q2 2017, the Company obtained development rights for the project, which has been approved for development by the Moscow constructions authorities as a “recreational centre” with gross buildable area of 21 thousand sq.m. This change in the project status led to a change in the valuation approach (the project was previously valued as premises for lease) and a respective valuation gain of US\$10.9 million.

Market overview – general Moscow real estate

Macroeconomic environment

OECD has raised the 2017 GDP forecast for Russia to +1.4%, quoting improving consumption and investment levels.

The rouble was relatively stable during Q2 2017, supported by steady oil prices. The RUR/USD spot rate during Q2 2017 fluctuated between 56 and 60. The rate at 30.06.2017 was RUR59.09 (vs. RUR56.38 on 31.03.2017).

Following the reduction in the key lending rate to 9.0% by the Central Bank of Russia (“CBR”) in June 2017, this rate was left unchanged in July, reflecting further stabilisation in the macroeconomy.

Annualised consumer price inflation reached 4.4% in June 2017, against a CBR target of 4%.

(Source: OECD, the Bank of Russia, RBC)

Moscow office market

A 50% increase in take up in H1 2017 to 947 thousand sq.m relative to H1 2016 was driven mainly by the financial sector. However, Cushman & Wakefield reports negative net absorption of 263 thousand sq.m for the period. No new office space was delivered in Q2 2017 with delivery for H1 2017 amounting to just 21 thousand sq.m, a record low in recent years.

Vacancy rates in class A and B offices remain high. According to CBRE, in Class A properties the average vacancy rate recorded in Q2 2017 was 18.4% (vs 19.0 % in Q1 2017) with Class B properties at 14.3% (versus 14.7% in Q1 2017).

However, rents remained relatively stable throughout H1 2017. Asking rents for non-prime central Class A premises were at US\$600-750 per sq.m p.a. Asking rents for Class A office buildings outside the city centre were at US\$400-600 per sq.m p.a and \$200-400 per sq.m p.a. for Class B buildings. Although rouble-denominated leases continue to dominate on the market, their share has actually decreased to 77% in Q2 2017 from 97% in Q1 2017.

(Source: CBRE, JLL, C&W)

Moscow retail market

Whilst no shopping centres were opened in Moscow in H1 2017, 23 new international brands entered the market during the period. These included the Italian fur retailer Ahimsa, which opened its first shop in Russia in AFIMALL.

The vacancy rate across Moscow shopping centres as of the end of H1 2017 was at 8.8%.

The most common lease structure continues to include a combination of a low minimum rent coupled with turnover rent, with fixed exchange rates commonly offered to tenants.

(Source: CBRE, JLL, C&W)

Moscow and Moscow Region residential market

Moscow

At the end of Q2 2017, supply to the “Old Moscow” primary residential market (excluding “apartments”) was about 2.84 million sq.m (c. 44,700 residential units), a 6% increase vs Q1 2017. Supply to the “New Moscow” market was about 523.2 thousand sq.m, a 9% decrease vs Q1 2017.

By the end of Q2 2017, the weighted average asking price in the newly built business class residential market in Moscow amounted to RUR244,700 per sq.m p.a. (circa US\$4,147). This represents a 1% decrease vs Q1 2017 in rouble terms. In the comfort class, the weighted average asking price was RUR151.4 per sq.m p.a. (circa US\$2,566).

The Moscow region

The primary market supply (newly built residential units) in the Moscow region amounted to 3.1 million sq.m in Q2 2017, a decrease of 2% vs Q1 2017.

The weighted average price per sq.m in the Moscow region for the quarter remained stable vs Q1 2017 in rouble terms at RUR85,000 (circa US\$1,440).

(Source: Miel Real Estate)

Lev Leviev
Executive Chairman of the Board



AFI DEVELOPMENT PLC

CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

For the period from 1 January 2017 to 30 June 2017

AFI DEVELOPMENT PLC

CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

For the period from 1 January 2017 to 30 June 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 June 2017, the condensed consolidated statements of income, comprehensive income, changes in equity and cash flows for the six-month period then ended, and notes to the interim financial statements ('the condensed consolidated interim financial statements'). The Company's Board of Directors is responsible for the preparation and presentation of this condensed consolidated interim financial statements in accordance with IAS 34 "Interim Financial Reporting". Our responsibility is to express a conclusion on this condensed consolidated interim financial statements based on our review.

Scope of Review

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

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the accompanying condensed consolidated interim financial statements as at 30 June 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\$7,932 thousand for the six-month period ended 30 June 2017, its cash and cash equivalents and marketable securities improved to US\$25,475 thousand. However, its current liabilities increased to US\$726,588 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\$631,738 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

21 August 2017

Board Members:

N.G. Syrimis, A.K. Christofides, P.G. Loizou, A.M. Gregoriades, D.S. Vakis, A.A. Apostolou, S.A. Loizides, M.A. Loizides, S.G. Sofocleous, M.M. Antoniadis, C.V. Vasiliou, P.E. Antoniadis, M.J. Helios, M.P. Michael, P.A. Peleties, G.V. Merkides, M.A. Papacosta, K.A. Papanicolaou, A.I. Shimmoutis, G.N. Tziortzis, H.S. Charalambous, C.P. Aneyiotos, I.P. Ghalanos, M.G. Gregoriades, H.A. Kakoullis, G.P. Savva, C.A. Kalis, C.N. Kallis, M.H. Zavrou, P.S. Elia, M.G. Lazarou, Z.E. Hadjizacharias, P.S. Theophanous, M.A. Karantoni, C.A. Merkides, G.V. Andreou, J.C. Nicolaou, G.S. Prodromou, A.S. Sofocleous, G.N. Syrimis, T.J. Yiasemides, A.A. Bargilly, K.A. Christofides, P.P. Vanezis

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AFI DEVELOPMENT PLC

CONDENSED CONSOLIDATED INCOME STATEMENT

For the period from 1 January 2017 to 30 June 2017

	Note	For the		For the	
		three months ended 1/4/17- 30/6/17 US\$ '000	1/4/16- 30/6/16 US\$ '000	six months ended 1/1/17- 30/6/17 US\$ '000	1/1/16- 30/6/16 US\$ '000
Revenue	6	<u>58,571</u>	<u>62,342</u>	<u>106,069</u>	<u>89,707</u>
Other income		<u>387</u>	<u>300</u>	<u>542</u>	<u>2,484</u>
Operating expenses	8	(14,160)	(10,032)	(26,422)	(17,725)
Carrying value of trading properties sold		(26,972)	(39,384)	(47,303)	(45,566)
Administrative expenses	7	(2,576)	(1,747)	(3,122)	(3,411)
Other expenses		<u>(1,678)</u>	<u>(594)</u>	<u>(2,063)</u>	<u>(607)</u>
Total expenses		<u>(45,386)</u>	<u>(51,757)</u>	<u>(78,910)</u>	<u>(67,309)</u>
Share of the after tax profit of joint ventures		<u>-</u>	<u>1,241</u>	<u>1,957</u>	<u>2,299</u>
Gross Profit		13,572	12,126	29,658	27,181
Gain on 100% acquisition of previously held interest in a joint venture	22	-	-	7,532	-
Profit on disposal of investment property		-	1,738	-	1,738
Increase/(decrease) in fair value of properties	11,12	<u>42,686</u>	<u>(40,585)</u>	<u>(927)</u>	<u>(100,860)</u>
Results from operating activities		<u>56,258</u>	<u>(2,671)</u>	<u>36,263</u>	<u>(71,941)</u>
Finance income		185	16,789	5,713	37,984
Finance costs		(31,853)	(11,077)	(24,774)	(21,746)
Net finance (costs)/income	9	<u>(31,668)</u>	<u>5,712</u>	<u>(19,061)</u>	<u>16,238</u>
Profit/(loss) before tax		24,590	(2109)	17,202	(55,703)
Tax (expense)/benefit	10	<u>(17,689)</u>	<u>(422)</u>	<u>(9,270)</u>	<u>2,411</u>
Profit/(loss) for the period		<u>6,901</u>	<u>(2,431)</u>	<u>7,932</u>	<u>(53,292)</u>
Profit/(loss) attributable to:					
Owners of the Company		6,546	(21,346)	7,637	(53,133)
Non-controlling interests		<u>355</u>	<u>(85)</u>	<u>295</u>	<u>(159)</u>
		<u>6,901</u>	<u>(21,431)</u>	<u>7,932</u>	<u>(53,292)</u>
Earnings per share					
Basic and diluted earnings per share (cent)		<u>0.63</u>	<u>(2.04)</u>	<u>0.73</u>	<u>(5.07)</u>

The notes on pages 8 to 25 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 June 2017

	For the		For the	
	three months ended		six months ended	
	1/4/17- 30/6/17	1/4/16- 30/6/16	1/1/17- 30/6/17	1/1/16- 30/6/16
	US\$ '000	US\$ '000	US\$ '000	US\$ '000
Profit/(loss) for the period	<u>6,901</u>	<u>(21,431)</u>	<u>7,932</u>	<u>(53,292)</u>
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	<u>(12,838)</u>	<u>9,561</u>	<u>6,537</u>	<u>23,957</u>
Other comprehensive income for the period	<u>(12,838)</u>	<u>9,561</u>	<u>2,266</u>	<u>23,957</u>
Total comprehensive income for the period	<u>(5,937)</u>	<u>(11,870)</u>	<u>10,198</u>	<u>(29,335)</u>
Total comprehensive income attributable to:				
Owners of the parent	(6,263)	(11,813)	9,938	(29,303)
Non-controlling interests	<u>326</u>	<u>(57)</u>	<u>260</u>	<u>(32)</u>
	<u>(5,937)</u>	<u>(11,870)</u>	<u>10,198</u>	<u>(29,335)</u>

The notes on pages 8 to 25 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 June 2017

	<u>Attributable to the owners of the Company</u>					Total US\$ '000	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		US\$ '000	US\$ '000
Balance at 1 January 2017	<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>	<u>772,297</u>
Total comprehensive income for the period								
Profit for the period	-	-	-	-	7,637	7,637	295	7,932
Other comprehensive income	-	-	-	2,301	-	2,301	(35)	2,266
Total comprehensive income for the period	-	-	-	<u>2,301</u>	<u>7,637</u>	<u>9,938</u>	<u>260</u>	<u>10,198</u>
Transactions with owners of the Company								
Changes in ownership interests								
Acquisition of non-controlling interests (note 23)	-	-	(10,145)	-	-	(10,145)	3,435	(6,710)
Balance at 30 June 2017	<u>1,048</u>	<u>1,763,409</u>	<u>(19,346)</u>	<u>(309,030)</u>	<u>(660,164)</u>	<u>775,917</u>	<u>(132)</u>	<u>775,785</u>
Balance at 1 January 2016	<u>1,048</u>	<u>1,763,409</u>	<u>(9,201)</u>	<u>(338,951)</u>	<u>(620,786)</u>	<u>795,519</u>	<u>(3,919)</u>	<u>791,600</u>
Total comprehensive income for the period								
Loss for the period	-	-	-	-	(53,133)	(53,133)	(159)	(53,292)
Other comprehensive income	-	-	-	23,830	-	23,830	127	23,957
Total comprehensive income for the period	-	-	-	<u>23,830</u>	<u>(53,133)</u>	<u>(29,303)</u>	<u>(32)</u>	<u>(29,335)</u>
Transactions with owners of the Company								
Contributions and distributions								
Share option expense	-	-	-	-	530	530	-	530
Balance at 30 June 2016	<u>1,048</u>	<u>1,763,409</u>	<u>(9,201)</u>	<u>(315,121)</u>	<u>(673,389)</u>	<u>766,746</u>	<u>(3,951)</u>	<u>762,795</u>

The notes on pages 8 to 25 form an integral part of the condensed consolidated interim financial statements.

AFI DEVELOPMENT PLC
CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AS AT 30 JUNE 2017

	Note	30/6/17 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	76,367	31,215
Long-term loans receivable		26	15,763
VAT recoverable		<u>40</u>	<u>9</u>
Non-current assets		<u>1,162,443</u>	<u>1,195,237</u>
Trading properties	14	21,428	6,854
Trading properties under construction	15	302,723	243,327
Other investments		6,265	6,088
Inventories		980	665
Short-term loans receivable		766	7
Trade and other receivables	16	51,562	42,427
Current tax assets		1,352	2,542
Cash and cash equivalents	17	<u>19,230</u>	<u>10,619</u>
Current assets		<u>404,306</u>	<u>312,529</u>
Total assets		<u>1,566,749</u>	<u>1,507,766</u>
Equity			
Share capital		1,048	1,048
Share premium		1,763,409	1,763,409
Translation reserve		(309,030)	(311,331)
Capital reserve		(19,346)	(9,201)
Retained earnings		<u>(660,164)</u>	<u>(667,801)</u>
Equity attributable to owners of the Company	18	<u>775,917</u>	<u>776,124</u>
Non-controlling interests		<u>(132)</u>	<u>(3,827)</u>
Total equity		<u>775,785</u>	<u>772,297</u>
Liabilities			
Long-term loans and borrowings	19	23,701	627,074
Deferred tax liabilities		29,397	14,934
Deferred income		<u>11,278</u>	<u>10,455</u>
Non-current liabilities		<u>64,376</u>	<u>652,463</u>
Short-term loans and borrowings	19	633,958	748
Trade and other payables	20	45,914	30,957
Advances from customers		<u>46,716</u>	<u>51,301</u>
Current liabilities		<u>726,588</u>	<u>83,006</u>
Total liabilities		<u>790,964</u>	<u>735,469</u>
Total equity and liabilities		<u>1,566,749</u>	<u>1,507,766</u>

The condensed consolidated interim financial statements were approved by the Board of Directors on 21 August 2017.

The notes on pages 8 to 25 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 June 2017

	Note	1/1/17- 30/6/17 US\$ '000	1/1/16- 30/6/16 US\$ '000
Cash flows from operating activities			
Profit/(loss) for the period		7,932	(53,292)
<i>Adjustments for:</i>			
Depreciation	13	409	370
Net finance costs	9	18,672	(16,424)
Share option expense		-	530
Decrease in fair value of properties	11,12	927	100,860
Share of profit in joint ventures		(1,957)	(2,299)
Gain on 100% acquisition of previously held interest in a joint venture		(7,532)	-
Profit on disposal of investment property		-	(1,738)
Profit on sale of property, plant and equipment		-	(25)
Tax expense/(benefit)	10	<u>9,270</u>	<u>(2,411)</u>
		27,721	25,571
Change in trade and other receivables		1,192	1,185
Change in inventories		98	(24)
Change in trading properties and trading properties under construction		3,854	25,013
Change in advances and amounts payable to builders of trading properties under construction		(5,157)	4,530
Change in advances from customers		(6,062)	(33,154)
Change in trade and other payables		3,208	566
Change in VAT recoverable		(1,661)	(2,003)
Change in deferred income		<u>555</u>	<u>(238)</u>
Cash generated from operating activities		23,748	21,446
Taxes paid		<u>(909)</u>	<u>(189)</u>
Net cash from operating activities		<u>22,839</u>	<u>21,257</u>
Cash flows from investing activities			
Acquisition of subsidiary net of cash acquired	22	(786)	-
Proceeds from sale of other investments		5,944	14,464
Proceeds from disposal of investment property		-	1,099
Proceeds from sale of property, plant and equipment		55	92
Interest received		314	2,891
Change in advances and amounts payable to builders	16,20	2,483	(1,457)
Payments for construction of investment property under development	12	(1,711)	(1,547)
Payments for the acquisition/renovation of investment property	11	(291)	(62)
Dividends received from joint ventures		-	213
Change in VAT recoverable		389	(134)
Acquisition of property, plant and equipment	13	(88)	(229)
Acquisition of other investments		(6,051)	(5,729)
Proceeds from repayments of loans receivable		4,178	132
Payments for loans receivable		<u>(1,784)</u>	<u>(3)</u>
Net cash from investing activities		<u>2,652</u>	<u>9,730</u>

The notes on pages 8 to 25 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 June 2017

	Note	1/1/17- 30/6/17 US\$ '000	1/1/16- 30/6/16 US\$ '000
Cash flows from financing activities			
Acquisition of non-controlling interests	23	(1,369)	-
Proceeds from loans and borrowings		13,737	-
Repayment of loans and borrowings		(4,944)	(11,550)
Interest paid		<u>(24,462)</u>	<u>(22,054)</u>
Net cash used in financing activities		<u>(17,038)</u>	<u>(33,604)</u>
Effect of exchange rate fluctuations		<u>158</u>	<u>(1,437)</u>
Net increase/(decrease) in cash and cash equivalents		8,611	(4,054)
Cash and cash equivalents at 1 January		<u>10,619</u>	<u>26,545</u>
Cash and cash equivalents at 30 June	18	<u>19,230</u>	<u>22,491</u>

The notes on pages 8 to 25 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 June 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 six months ended 30 June 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 half 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\$7,932 thousand for the six month period ended 30 June 2017, its cash and cash equivalents and marketable securities improved to US\$25,475 thousand. However, its current liabilities increased to US\$726,588 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\$631,738 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. Preliminary negotiations with the banks have started and the Company has received indicative terms of refinancing. 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.

AFI DEVELOPMENT PLC
NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

For the period from 1 January 2017 to 30 June 2017

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’.

AFI DEVELOPMENT PLC
NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

For the period from 1 January 2017 to 30 June 2017

2. BASIS OF ACCOUNTING (continued)

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

Exchange rate	Russian Roubles for US\$1	% change quarter	% change six months/ year
As of:			
30 June 2017	59.0855	4.8	(2.6)
31 March 2017	56.3779	(7.1)	
31 December 2016	60.6569		(16.8)
30 June 2016	64.2575		(11.8)
Average rate during:			
Six-month period ended 30 June 2017	57.9862		(17.5)
Three-month period ended 31 March 2017	58.8366	(21.2)	
Six-month period ended 30 June 2016	70.2583		22.4

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).

AFI DEVELOPMENT PLC
NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

For the period from 1 January 2017 to 30 June 2017

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.

AFI DEVELOPMENT PLC

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTSFor the period from 1 January 2017 to 30 June 20175. OPERATING SEGMENTS (continued)

	Development projects		Asset management		Hotel Operation		Land bank		Other		Total	
	Residential projects											
	30/6/17	30/6/16	30/6/17	30/6/16	30/6/17	30/6/16	30/6/17	30/6/16	30/6/17	30/6/16	30/6/17	30/6/16
	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000
External revenues	50,323	51,074	40,633	32,078	13,447	5,306	1,531	1,139	135	110	106,069	89,707
Inter-segment revenue	-	-	9,976	2,412	2	29	3,512	426	3,958	-	17,448	2,867
Segment (loss)/profit before tax	(294)	78	11,170	(27,263)	4,869	1,271	2,228	(30,639)	(3,847)	(2,999)	14,126	(59,552)
	30/6/17	31/12/16	30/6/17	31/12/16	30/6/17	31/12/16	30/6/17	31/12/16	30/6/17	31/12/16	30/6/17	31/12/16
	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000
Segment assets	367,611	355,567	910,419	912,240	78,210	27,158	196,081	185,693	1,084	624	1,553,405	1,481,282
Segment liabilities	86,553	66,971	673,014	667,779	31,979	-	-	-	713	387	792,259	735,137

AFI DEVELOPMENT PLC

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTSFor the period from 1 January 2017 to 30 June 20175. OPERATING SEGMENTS (continued)

Reconciliation of reportable segment profit or loss

	1/1/17- 30/6/17 US\$ '000	1/1/16- 30/6/16 US\$ '000
Total profit/(loss) before tax for reportable segments	14,126	(59,552)
Unallocated amounts:		
Other profit or loss	(6,413)	1,550
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>2,299</u>
Profit/(loss) before tax	<u><u>17,202</u></u>	<u><u>(55,703)</u></u>

6. REVENUE

	For the three months ended		For the six months ended	
	1/4/17- 30/6/17 US\$ '000	1/4/16- 30/6/16 US\$ '000	1/1/17- 30/6/17 US\$ '000	1/1/16- 30/6/16 US\$ '000
Investment property rental income	21,716	16,905	42,691	34,567
Sales of trading properties (note 14)	27,918	42,427	49,783	49,724
Hotel operation income	8,900	2,944	13,446	5,306
Construction consulting/management fees	<u>37</u>	<u>66</u>	<u>149</u>	<u>110</u>
	<u><u>58,571</u></u>	<u><u>62,342</u></u>	<u><u>106,069</u></u>	<u><u>89,707</u></u>

7. ADMINISTRATIVE EXPENSES

	For the three months ended		For the six months ended	
	1/4/17- 30/6/17 US\$ '000	1/4/16- 30/6/16 US\$ '000	1/1/17- 30/6/17 US\$ '000	1/1/16- 30/6/16 US\$ '000
Consultancy fees	98	552	189	688
Legal fees	306	190	882	279
Auditors' remuneration	263	81	340	149
Valuation expenses	1	56	37	56
Directors' remuneration	341	352	666	692
Depreciation	22	32	57	62
Insurance	38	67	75	113
Provision for Doubtful Debts	1,026	(583)	40	(583)
Share option expense	-	248	-	530
Donations	12	341	15	641
Other administrative expense	<u>469</u>	<u>411</u>	<u>821</u>	<u>784</u>
	<u><u>2,576</u></u>	<u><u>1,747</u></u>	<u><u>3,122</u></u>	<u><u>3,411</u></u>

AFI DEVELOPMENT PLC
NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

For the period from 1 January 2017 to 30 June 2017

8. OPERATING EXPENSES

	For the		For the	
	three months ended		six months ended	
	1/4/17- 30/6/17	1/4/16- 30/6/16	1/1/17- 30/6/17	1/1/16- 30/6/16
	US\$ '000	US\$ '000	US\$ '000	US\$ '000
Maintenance, utility and security expenses	4,998	2,672	9,316	5,582
Agency and brokerage fees	410	137	644	271
Advertising expenses	1,345	1,841	2,261	2,765
Salaries and wages	3,935	2,593	7,373	4,985
Consultancy fees	121	132	282	233
Depreciation	189	155	352	309
Insurance	130	255	278	489
Rent	508	389	960	710
Property and other taxes	2,508	1,846	4,926	2,359
Other operating expenses	<u>16</u>	<u>12</u>	<u>30</u>	<u>22</u>
	<u>14,160</u>	<u>10,032</u>	<u>26,422</u>	<u>17,725</u>

9. FINANCE COST AND FINANCE INCOME

	For the		For the	
	three months ended		six months ended	
	1/4/17- 30/6/17	1/4/16- 30/6/16	1/1/17- 30/6/17	1/1/16- 30/6/16
	US\$ '000	US\$ '000	US\$ '000	US\$ '000
Interest income	185	502	500	1,246
Net foreign exchange gain	-	16,287	5,209	36,738
Net change in fair value of financial assets	<u>-</u>	<u>-</u>	<u>4</u>	<u>-</u>
Finance income	<u>185</u>	<u>16,789</u>	<u>5,713</u>	<u>37,984</u>
Interest expense on loans and borrowings	(12,643)	(10,862)	(24,385)	(21,324)
Net foreign exchange loss	(18,895)	-	-	-
Net change in fair value of financial assets	(47)	(122)	-	(236)
Other finance costs	<u>(268)</u>	<u>(93)</u>	<u>(389)</u>	<u>(186)</u>
Finance costs	<u>(31,853)</u>	<u>(11,077)</u>	<u>(24,774)</u>	<u>(21,746)</u>
Net finance (costs)/income	<u>(31,668)</u>	<u>5,712</u>	<u>(19,061)</u>	<u>16,238</u>

AFI DEVELOPMENT PLC
NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

For the period from 1 January 2017 to 30 June 2017

10. TAX EXPENSE / (BENEFIT)

	For the		For the	
	three months ended		six months ended	
	1/4/17- 30/6/17 US\$ '000	1/4/16- 30/6/16 US\$ '000	1/1/17- 30/6/17 US\$ '000	1/1/16- 30/6/16 US\$ '000
Current tax expense				
Current year	<u>1,763</u>	<u>71</u>	<u>2,244</u>	<u>128</u>
Deferred tax expense/(benefit)				
Origination and reversal of temporary differences	<u>15,926</u>	<u>351</u>	<u>7,026</u>	<u>(2,539)</u>
Total income tax expense/(benefit)	<u>17,689</u>	<u>422</u>	<u>9,270</u>	<u>(2,411)</u>

11. INVESTMENT PROPERTY

Reconciliation of carrying amount

	30/6/17 US\$ '000	31/12/16 US\$ '000
Balance 1 January	915,350	933,700
Renovations/additional cost	291	370
Disposals	(5,341)	(500)
Fair value adjustment	3,912	(92,801)
Effect of movement in foreign exchange rates	<u>11,898</u>	<u>74,581</u>
Balance 30 June / 31 December	<u>926,110</u>	<u>915,350</u>

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 Rouble strengthening compared to the US Dollar by 2.6% during the first half of 2017.

The investment property was revalued by independent appraisers on 30 June 2017 resulting in an increase of the fair value of the properties of US\$16,101 thousand. The increase was recognised mainly to "Tverskaya Plaza II" project which received a construction permit and hence revalued and of "AFIMALL" project as a result of increase in occupancy rate, growing footfall and stabilizing retail turnover. The fair value adjustment above is presented net of the foreign exchange effect offsetting the increase thereof.

12. INVESTMENT PROPERTY UNDER DEVELOPMENT

	30/6/17 US\$ '000	31/12/16 US\$ '000
Balance 1 January	232,900	238,925
Construction costs	1,711	4,554
Transfer to trading properties under construction (note 15)	(74,100)	-
Fair value adjustment	(4,839)	(30,244)
Effect of movements in foreign exchange rates	<u>4,228</u>	<u>19,665</u>
Balance 30 June / 31 December	<u>159,900</u>	<u>232,900</u>

AFI DEVELOPMENT PLC
NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

For the period from 1 January 2017 to 30 June 2017

12. INVESTMENT PROPERTY UNDER DEVELOPMENT (continued)

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 investment property under development was revalued by independent appraisers on 30 June 2017. The fair value of the portfolio increased slightly by US\$1,100 thousand compared to 31 December 2016. However the fair value adjustment recorded above was negative due to the effect of the foreign exchange fluctuation as a result of the rouble strengthening compared to the US Dollar by 2.6% during the first half of 2017 offsetting the increase thereof.

13. PROPERTY, PLANT AND EQUIPMENT

	30/6/17 US\$ '000	31/12/16 US\$ '000
Balance 1 January	31,215	26,280
Effect of acquisition of subsidiary (note 22)	45,580	-
Additions	88	262
Depreciation for the period / year	(409)	(696)
Disposals	(55)	(85)
Effect of movements in foreign exchange rates	(52)	5,454
Balance 30 June / 31 December	76,367	31,215

14. TRADING PROPERTIES

	30/6/17 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	(48,653)	(49,475)
Effect of movements in exchange rates	25	787
Balance 30 June / 31 December	21,428	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 540 flats, 5 offices and 38 parking places were recognised, upon transferring of the rights to the buyers according to the signed acts of transfer, in the income statement.

AFI DEVELOPMENT PLC
NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

For the period from 1 January 2017 to 30 June 2017

15. TRADING PROPERTIES UNDER CONSTRUCTION

	30/6/17 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	44,799	54,428
Effect of movements in exchange rates	<u>3,699</u>	<u>16,444</u>
Balance 30 June / 31 December	<u>302,723</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 12.

16. TRADE AND OTHER RECEIVABLES

	30/6/17 US\$ '000	31/12/16 US\$ '000
Advances to builders	35,347	27,019
Amounts receivable from related parties (note 26)	115	267
Trade receivables, net	3,193	3,427
Other receivables	3,920	3,955
VAT recoverable	5,425	4,067
Tax receivables	<u>3,562</u>	<u>3,692</u>
	<u>51,562</u>	<u>42,427</u>

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

	30/6/17 US\$ '000	31/12/16 US\$ '000
Cash and cash equivalents consist of:		
Cash at banks	19,048	10,356
Cash in hand	<u>182</u>	<u>263</u>
	<u>19,230</u>	<u>10,619</u>

18. SHARE CAPITAL AND RESERVES

	30/6/17 US\$ '000	31/12/16 US\$ '000
1. Share capital		
Authorised 2,000,000,000 shares of US\$0.001 each	<u>2,000</u>	<u>2,000</u>
Issued and fully paid		
523,847,027 A shares of US\$0.001 each	524	524
523,847,027 B shares of US\$0.001 each	<u>524</u>	<u>524</u>
	<u>1,048</u>	<u>1,048</u>

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For the period from 1 January 2017 to 30 June 2017

18. SHARE CAPITAL AND RESERVES (continued)

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 six-month period ended 30 June 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

	30/6/17	31/12/16
	US\$ '000	US\$ '000
<u>Non-current liabilities</u>		
Secured bank loans	<u>23,701</u>	<u>627,074</u>
<u>Current liabilities</u>		
Secured bank loans	633,660	459
Unsecured loans from other non-related companies	<u>298</u>	<u>289</u>
	<u>633,958</u>	<u>748</u>

The following changes to the loans took place during the six month period ended 30 June 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 is provided in RUR and bears an annual interest rate of 11.5% with a right to increase by 1-2%. The loan facility has variable quarterly principal payments based on percentages of loan balance, commencing from 20 September 2017 to 19 March 2020.. In addition the interest is payable on a quarterly basis throughout the term of the facility.

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For the period from 1 January 2017 to 30 June 2017

19. LOANS AND BORROWINGS (continued)

- (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) 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

	30/6/17	31/12/16
	US\$ '000	US\$ '000
Trade payables	8,367	8,490
Payables to related parties (note 26)	284	427
Amount payable to builders	11,180	5,962
Provision	15,150	7,833
VAT and other taxes payable	6,219	5,681
Other payables	<u>4,714</u>	<u>2,564</u>
	<u>45,914</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 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	Total	Level 1	Level 2	Level 3
Loans Receivable	Trade and other receivables	Other investments, including derivatives	Cash and cash equivalents							
	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000
30 June 2017										
Financial assets measured at fair value										
Investment in listed debt securities	-	-	6,245	-	-	6,245	6,245			6,245
Financial assets not measured at fair value										
Loans receivable	26	-	-	-	766	792				
Trade and other receivables	-	7,228	-	-	-	7,228				
Cash and cash equivalents	-	-	-	19,230	-	19,230				
	26	7,228	6,245	19,230	766	33,495				
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				

AFI DEVELOPMENT PLC

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

For the period from 1 January 2017 to 30 June 2017

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

	Carrying amount				Fair value			
	Non-current liabilities	Current liabilities			Level 1	Level 2	Level 3	Total
Interest bearing loans and borrowings	Trade and other payables	Interest bearing loans and borrowings	Total					
	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000
30 June 2017								
Financial liabilities not measured at fair value								
Interest bearing loans and borrowings	(23,701)	-	(633,958)	(657,659)				(654,773)
Trade and other payables	-	(39,695)	-	(39,695)				
	(23,701)	(39,695)	(633,958)	(697,354)				
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)				

AFI DEVELOPMENT PLC

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTSFor the period from 1 January 2017 to 30 June 201722. 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>

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For the period from 1 January 2017 to 30 June 2017

22. ACQUISITION OF SUBSIDIARIES (continued)

c. Goodwill

Goodwill arising from the acquisition has been recognised as follows:

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

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\$1.546) 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% & (\$1,546) thousand \$26%)	(3,435)
Consideration paid to NCI	<u>(6,710)</u>
A decrease in equity attributable to owners of the Company	<u>(10,145)</u>

The decrease in equity attributable to owners of the Company comprised of a negative capital reserve of US\$10,145 thousand.

24. CONTINGENCIES

There weren't any contingent liabilities as at 30 June 2017.

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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 recover. In Q1 2017, GDP increased by 0.5% YoY. A preliminary estimate released by the Federal Statistics Service (Rosstat) on 11 August showed that GDP increased 2.5% year-on-year in Q2. The growth is expected to resume in 2017, according to Oxford Economics forecast of 1.3% growth in 2017.

Standard & Poor's credit rating for Russia stands at BB+ with positive outlook, while Moody's (Ba1) and Fitch's (BBB-) 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 9.25% to 9% in June 2017. The consumer prices inflation in June 2017 was at 4.4% (annualised) (with CBR target at 4%).

Retail turnover entered the recovery stage with a 1.2% growth in June. 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 rouble volatility compared to H1 2016. As a result, there was improved investor sentiment in all commercial real estate sectors and several deals from 2016 were closed in H1 2017, raising the overall number of completed transactions. In Q2 2017, Russia's real estate investments more than doubled vs Q2 2016 and reached USD1.4bn, according to JLL calculations. In H1 2017 total investment volume amounted to 2.2 bn with domination of retail transactions accounting for 41% of the total volume. The office sector accounted for 32%.

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**

	30/6/17	31/12/16
	US\$ '000	US\$ '000
(i) Outstanding balances with related parties		
<u>Assets</u>		
Amounts receivable from joint ventures	-	11
Amounts receivable from other related companies (note 16)	115	256
Long term loans receivable from joint ventures	<u>-</u>	<u>15,745</u>

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26. RELATED PARTIES (continued)

	30/6/17 US\$ '000	31/12/16 US\$ '000
(i) Outstanding balances with related parties (continued)		
<u>Liabilities</u>		
Amounts payable to joint ventures	-	102
Amounts payable to other related companies (note 20)	284	325
Deferred income from related company	<u>40</u>	<u>145</u>
(ii) Transactions with the key management personnel	1/1/17- 30/6/17 US\$ '000	1/1/16- 30/6/16 US\$ '000
Key management personnel compensation		
Short-term employee benefits	1,342	1,335
Share option scheme expense	=	<u>530</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.

	1/1/16- 30/6/16 US\$ '000	1/1/15- 30/6/15 US\$ '000
(iii) Other related party transactions		
Revenue		
Related companies – rental income	234	293
Related companies – other income	1	-
Joint venture – consulting services	31	83
Joint venture – interest income	<u>211</u>	<u>645</u>
Expenses		
Ultimate holding company – administrative expenses	-	117
Joint venture – operating expenses	<u>10</u>	<u>26</u>

27. SUBSEQUENT EVENTS

There were no material events that took place after the six month period and until the date of the approval of these interim financial statements by the Board of Directors on 21 August 2017.