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30 May 2017

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

RESULTS FOR THE THREE MONTHS TO 31 MARCH 2017

Better performance supported by rouble appreciation

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

Q1 2017 financial highlights

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

Q1 2017 operational highlights

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

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

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

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

Q1 2017 Results Conference Call:

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

Details for the conference call are as follows:

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

- ends -

For further information, please contact:

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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.

Executive Chairman’s statement

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

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

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

Projects update

AFIMALL City

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

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

Odinburg

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

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

AFI Residence Paveletskaya (Paveletskaya II)

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

Aquamarine III (Ozerkovskaya III)

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

Bolshaya Pochtovaya

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

Botanic Garden

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

Plaza Spa Kislovodsk

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

Key Events Subsequent to 31 March 2017

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

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

Lev Leviev
Executive Chairman of the Board

AFI DEVELOPMENT PLC

CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

For the period from 1 January 2017 to 31 March 2017

AFI DEVELOPMENT PLC

CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

For the period from 1 January 2017 to 31 March 2017

C O N T E N T S

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

Introduction

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

Scope of Review

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

Conclusion

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

Emphasis of Matter

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

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

For and on behalf of
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29 May 2017

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AFI DEVELOPMENT PLC

CONDENSED CONSOLIDATED INCOME STATEMENT

For the period from 1 January 2017 to 31 March 2017

	Note	1/1/17-31/3/17 US$ '000	1/1/16-31/3/16 US$ '000
Revenue	6	47,498	27,365
Other income		155	2,184
Operating expenses	8	(12,262)	(7,693)
Carrying value of trading properties sold	14	(20,331)	(6,182)
Administrative expenses	7	(546)	(1,664)
Other expenses		(385)	(13)
Total expenses		(33,524)	(15,552)
Share of the after tax profit of joint ventures		1,957	1,058
Gross Profit		16,086	15,055
Gain on 100% acquisition of previously held interest in a joint venture	22	7,532	-
Decrease in fair value of properties	11, 12	(43,613)	(60,275)
Results from operating activities		(19,995)	(45,220)
Finance income		24,470	21,195
Finance costs		(11,863)	(10,669)
Net finance income	9	12,607	10,526
Loss before tax		(7,388)	(34,694)
Tax benefit	10	8,419	2,833
Profit/(loss) for the period		1,031	(31,861)
Profit/(loss) attributable to:			
Owners of the Company		1,091	(31,787)
Non-controlling interests		(60)	(74)
		1,031	(31,861)
Earnings per share			
Basic and diluted earnings per share (cent)		0.10	(3.03)

The notes on pages 7 to 23 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 31 March 2017

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

The notes on pages 7 to 23 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 31 March 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/(loss) for the period	-	-	-	-	1,091	1,091	(60)	1,031
Other comprehensive income	-	-	-	15,110	-	15,110	(6)	15,104
Total comprehensive income for the period	-	-	-	15,110	1,091	16,201	(66)	16,135
Transactions with owners of the Company Changes in ownership interests								
Acquisition of non-controlling interests (note 23)	-	-	(4,533)	-	-	(4,533)	3,033	(1,500)
Balance at 31 March 2017	1,048	1,763,409	(13,734)	(296,221)	(666,710)	787,792	(860)	786,932
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	-	-	-	-	(31,787)	(31,787)	(74)	(31,861)
Other comprehensive income	-	-	-	14,297	-	14,297	99	14,396
Total comprehensive income for the period	-	-	-	14,297	(31,787)	(17,490)	25	(17,465)
Transactions with owners of the Company Contributions and distributions								
Share option expense	-	-	-	-	282	282	-	282
Balance at 31 March 2016	1,048	1,763,409	(9,201)	(324,654)	(652,291)	778,311	(3,894)	774,417

The notes on pages 7 to 23 form an integral part of the condensed consolidated interim financial statements.

AFI DEVELOPMENT PLC

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AS AT 31 MARCH 2017

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

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

The notes on pages 7 to 23 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 31 March 2017

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

The notes on pages 7 to 23 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 31 March 2017

1. INCORPORATION AND PRINCIPAL ACTIVITY

AFI Development PLC (the “Company”) was incorporated in Cyprus on 13 February 2001 as a limited liability company under the name Donkamill Holdings Limited. In April 2007 the Company was transformed into public company and changed its name to AFI Development PLC. The address of the Company’s registered office is 165 Spyrou Araouzou Street, Lordos Waterfront Building, 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 three months ended 31 March 2017 comprise the Company and its subsidiaries (together referred to as the “Group”) and the Group’s interest in jointly controlled entities.

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

2. BASIS OF ACCOUNTING

i. Going concern basis of accounting

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

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

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

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 annual financial statements.

iii. Functional and presentation currency

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

Foreign operations

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

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

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

3. USE OF JUDGEMENTS AND ESTIMATES

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

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

Measurement of fair values

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

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

Significant valuation issues are reported to the Group Audit Committee.

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

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

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

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

4. SIGNIFICANT ACCOUNTING POLICIES

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

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

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

5. OPERATING SEGMENTS

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

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

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

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5. OPERATING SEGMENTS (continued)

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

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5. OPERATING SEGMENTS (continued)

Reconciliation of reportable segment profit or loss:

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

6. REVENUE

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

7. ADMINISTRATIVE EXPENSES

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

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8. OPERATING EXPENSES

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

9. FINANCE COST AND FINANCE INCOME

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

10. TAX BENEFIT

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

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11. INVESTMENT PROPERTY

Reconciliation of carrying amount

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

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

12. INVESTMENT PROPERTY UNDER DEVELOPMENT

	31/3/17 US$ '000	31/12/16 US$ '000
Balance 1 January	232,900	238,925
Construction costs	796	4,554
Transfer to trading properties under construction (note 15)	(74,100)	-
Fair value adjustment	(10,016)	(30,244)
Effect of movements in foreign exchange rates	9,220	19,665
Balance 31 March / 31 December	158,800	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 with a view to sell. The amount of US$74,100 thousand represents the fair value of the project at the date of the transfer. The fair value was based on the valuation provided by the independent appraisers on 31 December 2016 which according to management assessment was not significantly different from the fair value at the date of change in use.

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

13. PROPERTY, PLANT AND EQUIPMENT

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

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14. TRADING PROPERTIES

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

Trading properties comprise of unsold apartments and parking places.

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

15. TRADING PROPERTIES UNDER CONSTRUCTION

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

16. TRADE AND OTHER RECEIVABLES

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

Trade receivables, net

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

17. CASH AND CASH EQUIVALENTS

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

18. SHARE CAPITAL AND RESERVES

(i) Share capital

	31/3/17 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

(ii) Employee share option plan

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

(iii) Translation reserve

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

(iv) Retained earnings

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

(v) Capital reserve

Represents the effect of the acquisition, in 2015, of the 10% non-controlling interests in Bioka Investments Ltd and its subsidiary Nordservice LLC previously held at 90% and the effect of the acquisition during the period of the 5% non-controlling interests in Beslaville Management Limited and its subsidiary Zheldoruslugi LLC previously held at 95%, refer to note 23 for further details.

19. LOANS AND BORROWINGS

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

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

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

(ii) Ozerkovskaya III loan facility a secured loan received by subsidiary Krown Investments LLC from VTB on 25 January 2013 was reclassified to current liabilities as based on loan agreement, its maturity fall due within the next twelve months, on 26 January 2018.

20. TRADE AND OTHER PAYABLES

	31/3/17 US$ '000	31/12/16 US$ '000
Trade payables	9,312	8,490
Payables to related parties (note 26)	311	427
Amount payable to builders	9,975	5,962
Provision	19,951	7,833
VAT and other taxes payable	6,224	5,681
Other payables	8,267	2,564
	54,040	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 for 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
31 March 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	-	-	6,183	-	-	6,183	6,183	-	-	6,183
Financial assets not measured at fair value										
Loans receivable	20	-	-	-	444	464				
Trade and other receivables	-	11,525	-	-	-	11,525				
Cash and cash equivalents	-	-	-	23,447	-	23,447				
	20	11,525	6,183	23,447	444	41,619				
31 December 2016										
Financial assets measured at fair value										
Investment in listed debt securities	-	-	6,068	-	-	6,068	6,068	-	-	6,068
Financial assets not measured at fair value										
Loans receivable	15,770	-	-	-	-	15,770				
Trade and other receivables	-	7,649	-	-	-	7,649				
Cash and cash equivalents	-	-	-	10,619	-	10,619				
	15,770	7,649	6,068	10,619	-	40,106				

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For the period from 1 January 2017 to 31 March 2017

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
31 March 2017	US$'000	US$'000	US$'000	US$'000	US$'000	US$'000	US$'000	US$'000
Financial liabilities not measured at fair value								
Interest bearing loans and borrowings	(469,017)	-	(193,427)	(662,444)				(655,695)
Trade and other payables	-	(47,816)	-	(47,816)				
	(469,017)	(47,816)	(193,427)	(710,260)				
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 (continued)

c. Goodwill

Goodwill arising from the acquisition has been recognised as follows:

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

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

23. ACQUISITION OF NON-CONTROLLING INTERESTS (NCI)

In March 2017, the Group acquired an additional 5% interest in Beslaville Management Limited and its Russian subsidiary Zheldoruslugi LLC, increasing its ownership from 95% to 100%. The carrying amount of Beslaville Management Limited's and its subsidiary's net assets in the Group's financial statements on the date of acquisition was negative (US$60,660) thousand.

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

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

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

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

24. CONTINGENCIES

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

25. FINANCIAL RISK MANAGEMENT

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

Russian business and economic environment

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

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

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

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

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

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

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

26. RELATED PARTIES

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

26. RELATED PARTIES (continued)

(ii) **Transactions with key management personnel**

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

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**	1/1/17-31/3/17 US$ '000	1/1/16-31/3/16 US$ '000
Revenue		
Related companies – rental income	137	143
Related companies – other income	1	-
Joint venture – consulting services	31	39
Joint venture – interest income	211	311
Expenses		
Ultimate Holding Company – operating expenses	-	38
Joint venture – operating expenses	10	12

27. SUBSEQUENT EVENTS

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

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