

AFI DEVELOPMENT PLC

ANNUAL REPORT 2014





Annual Report 2014

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

AFI Development is a publicly traded subsidiary of Africa Israel Investments Ltd, an international real estate investment and development group based in Israel with over 70 years of experience in real estate development. Incorporated in Cyprus in 2001, AFI Development builds large scale, integrated and high profile commercial and residential properties to international standards.

AFI Development has been listed on the Main Market of the London Stock Exchange since 2007. It 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.

In 2010, AFI Development obtained a premium listing on the London Stock Exchange, becoming the only public development company operating in Russia to attain this distinctive listing status.

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 centers, hotels, residential projects and mixed-use properties. 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.

This document may contain "forward-looking statements" with respect to the Company's financial condition, results of operations and business and certain of the Company's plans and objectives.

Forward-looking Statements

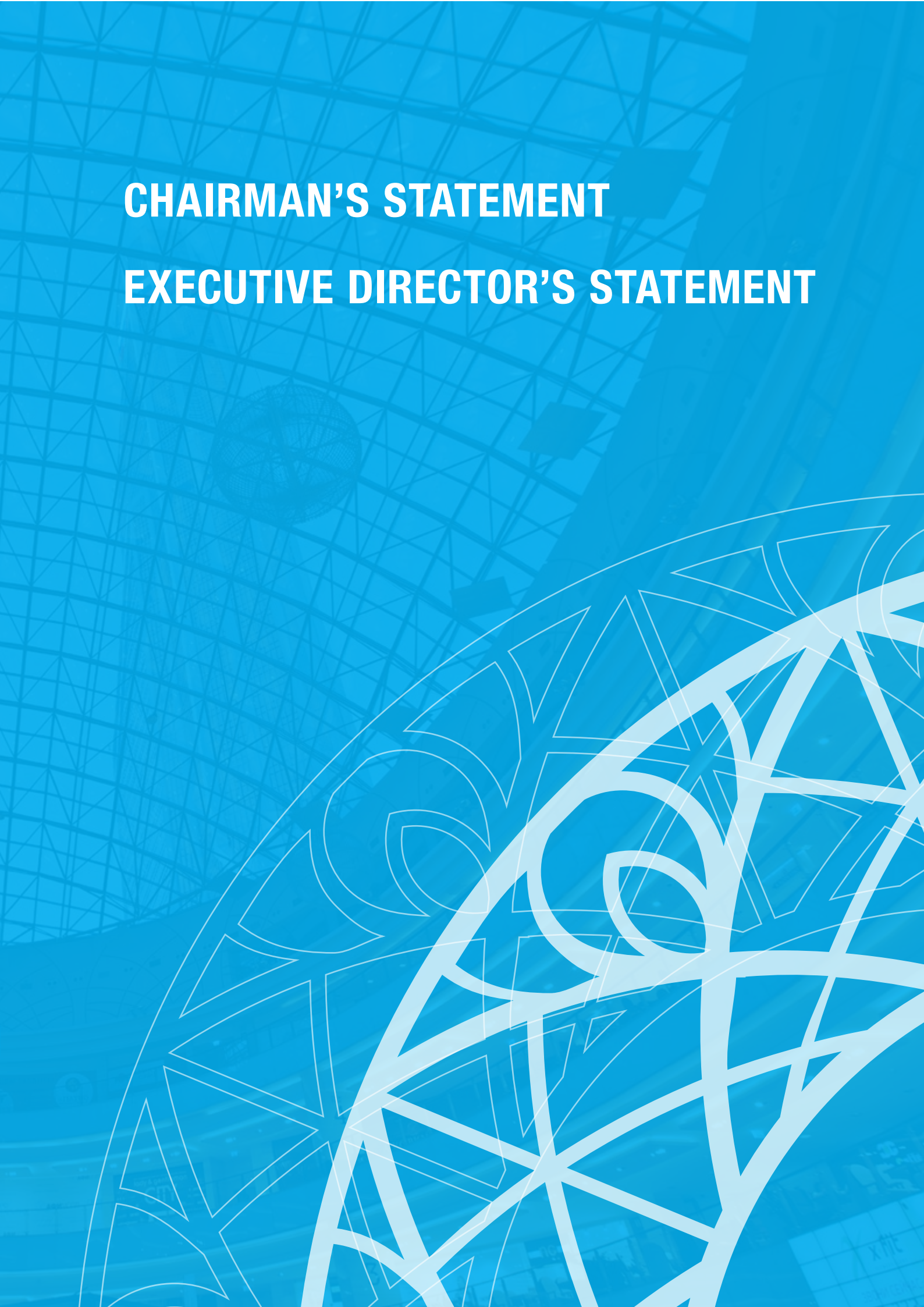
Forward-looking statements are sometimes, but not always, identified by their use of a date in the future or such words as "will", "anticipates", "aims", "due", "could", "may", "should", "expects", "believes", "intends", "plans", "targets", "goal" or "estimates." By their nature, forward-looking statements are inherently unpredictable, speculative and involve risk and uncertainty because they relate to events and depend on circumstances that will occur in the future. There are a number of factors that could cause actual results and developments to differ materially from those expressed or implied by these forward-looking statements. These factors include, but are not limited to, the following:

- general economic and political conditions in the jurisdictions in which the Company operates and changes to the associated legal, regulatory, competition and tax environments;
- changes in the economies and markets in which the Company operates;
- changes in the markets from which the Company raises finance;
- the impact of legal or other proceedings against, or which may affect, the Company; and
- changes in interest rates and foreign exchange rates.

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

CHAIRMAN'S STATEMENT

EXECUTIVE DIRECTOR'S STATEMENT





Chairman's Statement

Lev Leviev

Executive Chairman of the Board of Directors

The year 2014 was quite challenging for the Russian economy and, inevitably, our results were affected by negative developments in our market environment. International sanctions against Russian state-controlled and private companies, including major banks, were imposed during the year. At the same time, the price of Urals crude oil, the main Russian export commodity, has declined more than twofold over the year. The combination of these factors caused significant depreciation of the Russian rouble versus the US dollar, an increase in inflation and a negative GDP growth rate forecast for 2015¹. Additionally, the Russian Central Bank decided in December 2014 to increase its key lending rate from 10.5% to 17% (reduced to 15% in January 2015 and to 14% in March 2015), causing a sharp rise in rouble borrowing costs to levels unviable for most corporate and private borrowers.

The main effect of the difficult market environment on our financial results was significant downward revision of portfolio values in the fourth quarter of 2014. The value of our portfolio of properties was reduced from US\$2.4 billion at the end of 2013 to US\$2.0 billion at the end of 2014. The significant devaluation of

¹ The Economist Intelligence Unit forecasts Russian real GDP growth for 2015 at -3.5%; consumer price inflation for 2014 is estimated at 11.9% (EIU Russia Country Report February 2014).

the rouble in relation to the dollar during the fourth quarter caused a decrease in net operating income projections. At the same time, the recent downgrades of the Russian Federation sovereign credit rating by Standard & Poor's and Moody's triggered an increase in the risk-free rate and a corresponding increase in the discount rate employed in DCF valuation models.

The difficult current macroeconomic environment has also caused AFI Development to change some of its development plans. For example, we have decided to postpone the development of Kossinskaya as an apparel and fashion wholesale trade centre due to uncertain levels of potential demand. For other projects currently in the active development stage, such as Tverskaya Plaza Ic, we are looking to obtain debt financing at favourable terms and for the market environment to improve before moving forward. At the same time, development continues to plan at our residential project Odinburg, where we are close

to completing our first building, with apartment pre-sales ongoing.

Our key yielding project, AFIMALL City continued to improve its operational performance during the year. Sustained strong growth in occupancy levels and the ability to attract new, high quality tenants reflect the high popularity achieved by the Mall. With increasing ease of access due to continued improvements in transport links and the overall development of the "Moscow City" district, AFIMALL City's attractiveness is expected to show further growth in the years to come.

We believe that our strategy of focusing on high quality projects in Moscow area will generate both strong cash-flow and significant capital returns for our shareholders in future years. Although we remain confident in the long-term opportunities in our market, we expect operating conditions to remain challenging throughout 2015.



Executive Director's Statement

Mark Groysman

Executive Director

Resuming our results for 2014, we have to note the serious deterioration in the macro-economic environment in Russia during the year. The negative developments in the economy have also started to affect the real estate market in Russia and its capital Moscow, which is the key market for AFI Development. Towards the end of 2014, the vacancy rate in class A office buildings increased to 28.4%, while across A and B class office space it reached 16.7%¹. Whilst growth in vacancy rates in the retail segment was less pronounced (6% by the end of 2014), analysts note a 20% decrease in average shopping centre rents in dollar terms². Following severe rouble depreciation, office and retail tenants started to experience diffi-

¹ Cushman&Wakefield Market Beat report 2014.

² Cushman&Wakefield, Retail Snapshot Q4 2014.



culties in paying dollar-denominated rents, causing many market analysts to forecast a “de-dollarisation” trend across the Moscow commercial real estate market.

Our results were largely affected by the negative adjustments to our portfolio valuation caused by revision of valuation models due to macroeconomic trends and the deteriorating sovereign risk profile of the Russian Federation. In Q4 2014, we recorded a reduction in the value of our portfolio of properties from circa US\$2.5 billion (at the end of September 2014) to circa US\$2.0 billion at the end of 2014.

We are pleased to report that, despite difficult market conditions, our rental income for 2014 is down by only 2%. This is driven by the strong performance of AFIMALL City. However, mainly as a result of a valua-

tion loss of US\$220.7 million in Q4 2014, we incurred a net loss of US\$287.3 million for the year.

Looking to 2015, we remain cautious regarding the outlook for our key market segments. Based on negative expectations with respect to economic growth in Russia and continued lack of geopolitical stability, we expect demand for real estate assets across the capital to decline throughout the year. We continue to monitor market trends and to adapt our strategy to ensure our efforts are focused on the most attractive developments, whilst ensuring our yielding assets maintain their solid operational performance.

Valuation

As at 31 December 2014, based on the Cushman & Wakefield LLC ("C&W") independent appraisers' report, the value of AFI Development's portfolio of investment properties stood at US\$1.4 billion, while the value of the portfolio of investment property under development stood at US\$0.4 billion.

Consequently, the total value of the Company's assets, mainly based on independent valuation as of 31 December 2014, was US\$2.0 billion, compared to US\$2.4 billion as at 31 December 2013.

The main reasons behind the decrease in the portfolio valuation were as follows:

1. Devaluation of the national currency during the year and a difficult macroeconomic situation driven by imposed economic sanctions.
2. As a result of the slowdown in the national economy and increase in country risks, capitalisation and discount rates and projection of future cash flows within the portfolio valuation were revised by C&W individually for each project.

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

Liquidity

We completed 2014 with a strong liquidity position of approximately US\$93.3 million of cash, cash equivalents and marketable securities on our balance sheet and a debt³ to equity level of 53%. This strong position reflects the Company's ability to successfully balance liquidity requirements from a number of sources.

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

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

Key developments since financial year end

In January 2015, the Company subsidiary, Krown Investments LLC ("Krown"), signed an addendum to the loan facility agreement with VTB Bank JSC ("the Bank"), extending the term of the loan to 26 January 2018. Krown, which owns the Aquamarine III (Ozerkovskaya III) office complex, had an existing loan from the Bank maturing on 26 January 2015, of which US\$ 205 million were outstanding. In addition to extending the term of the loan, the new addendum amended the payment schedule and interest rate conditions of the loan agreement and introduced new covenants. The payment schedule anticipates repayments of the principal starting from Q4 2015, while the new covenants include a Debt Service Coverage Ratio of 1.2 applicable from Q4 2015 and a Loan to Value ratio of 65%. In line with the addendum, on 26 January 2015 Krown paid US\$10 million to the Bank as partial repayment of the outstanding loan amount, thus reducing the total to US\$195 million. About 90% of the principal is to be paid at maturity.

³ Debt includes all loans and borrowings.
For further details please see note 28 to the Financial Statements.

Portfolio Update

AFIMALL City

During 2014, AFIMALL City reported a strong increase in occupancy levels, reaching 85% in December 2014 vs 76% in December 2013. During its three years of full operation, AFIMALL has become one of the most popular shopping centres located in central Moscow, with a quality tenant mix and comfortable leisure, dining and entertainment zones.

Many international retailers chose AFIMALL for their first Russian shops. Forever 21, H&M Home, Crate&Barrel, Laura Ashley and Mirko Botticelli all opened their AFIMALL outlets during 2014. Additionally, the "Fizika" fitness chain opened its two-level club at AFIMALL in 2014, attracting additional visitors to the Mall.

Regarding the claim, filed in August 2014 by the Prosecution Office of the Moscow Central District on fire safety issues, AFI Development confirms that the works requested by the State Fire Safety Control Authorities have been completed by the specified deadlines, following which the Prosecution Office withdrew its claim in February 2015.

AQUAMARINE III (OZERKOVSKAYA III)

Following the disposal of Building 1 to diamond miner ALROSA, AFI Development retains title to the remaining three buildings of the complex, which have a combined GBA of 61,772 sq.m and GLA of 46,247 sq.m. The Company is currently in negotiations with potential buyers and tenants.

HOTELS

AFI Development's hospitality portfolio, which consists of one Moscow city hotel (Aquamarine) and two resorts in the Caucasus mineral waters region (Plaza Spa Kislovodsk and Plaza Spa Zheleznovodsk), has produced solid results in 2014, taking into account the difficult macroeconomic environment.

TVERSKAYA PLAZA 1c

Following the registration of a 10-year land lease agreement, the Company has successfully finalised the development concept of this Class A office complex, received the necessary construction permit and completed all pre-construction works. AFI Developments plans to start construction of this project as soon as it has secured debt financing on favourable terms and the market situation improves.

KOSSINSKAYA - EXPOLON

In November 2014, AFI Development's Board of Directors decided to place on hold and reconsider further implementation of the development concept of Kossinskaya as an apparel and fashion wholesale trade centre named "Expolon", in light of the current economic situation in Russia.



ODINBURG

Construction works of Phase 1 ("Korona") of this development are currently underway. The first building within this phase is close to completion, with final facade works taking place. Construction of the second building began in December 2014. Sales of apartments are progressing in line with the market situation.

PAVELETSKAYA PHASE II

During 2014, AFI Development finalised the planning stage of the project. The Company intends to start pre-construction works during H2 2015, subject to improvement in the market situation.

BOLSHAYA POCHTOVAYA

AFI Development is currently developing the design of the project and aims to obtain a construction permit during 2015.

BOTANIC GARDEN

In December 2014, AFI Development restored the Botanic Garden project on its balance sheet, following liquidation of former primary investor, Novoe Koltso Moskvyy OJSC ("NKM"), as risks related to the bankruptcy of NKM were removed. The Company has completed the planning of the residential complex and received the Moscow construction authorities' approval for the project. In addition, the necessary construction permit was obtained in December 2014.

UNDERSTANDING AFI DEVELOPMENT

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Understanding AFI Development

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

Group structure

AFI Development PLC acts as a holding company for the Group's investments in subsidiaries, usually structured as special purpose vehicles organised to develop and operate particular projects, and joint ventures. The majority of our real estate projects are managed by our operating subsidiary, AFI RUS LLC, which acts as a management company for most of the subsidiaries. Another important operating company in AFI Development Group is Stroyinkom-K LLC, a Russian company licensed to perform various technical and supervisory functions in the development and construction process, which is heavily regulated in Russia. It serves as project manager for most

of our Russian projects which are under development. AFI Development Hotels Ltd. is a subsidiary, which operates the Company's hospitality projects. AFI Ukraine Ltd. is a dedicated subsidiary holding stakes in the Company's projects in the Ukraine. A list of significant subsidiaries and jointly controlled entities of AFI Development PLC can be found in Note 34 to the consolidated financial statements. A simplified structure of the AFI Development Group is presented in the Exhibit 1 below (this is not a legal structure, it is intended to illustrate how the Company's holding structure and operations are organised):

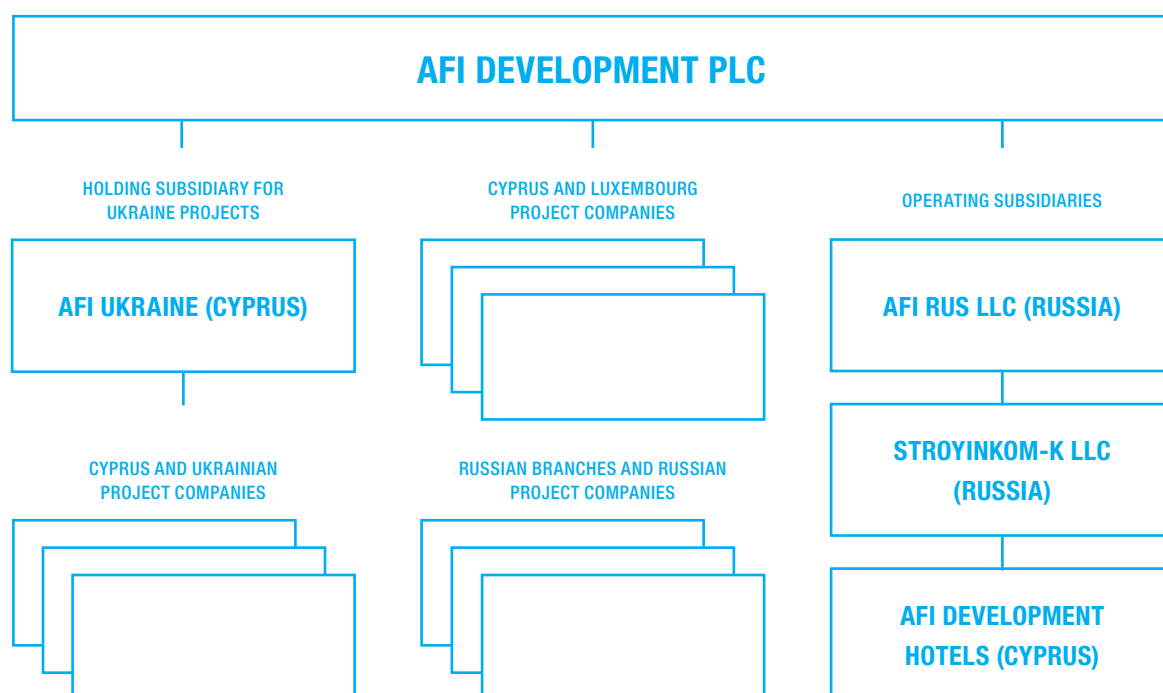


Exhibit 1: Simplified structure of the AFI Development Group

AFI Development strategy

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

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

Moscow is a rapidly expanding city in an economy that is undergoing a period of sustained growth. AFI Development has been part of this expansion for the last ten years and aims to develop projects that meet the needs of a growing, global city. We create new urban environments in the districts we develop, changing the everyday experience of Muscovites for the better.

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

Our experienced management team, with strong knowledge and a proven track record of operating in the Russian market, aims to maintain a diversified portfolio whilst using a flexible, phased development approach. This enhances our ability to leverage our development platform and complete our projects on a cost-efficient basis while making our projects cash-generative at the earliest possible opportunity.

The high quality of our developments enables us to attract the most desirable international and local tenants on favourable terms. To ensure high retention rates, we aim to sign leases of increasing length with our tenants and place greater emphasis on on-going tenant relations.

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

Projects portfolio

Yielding properties

AFIMALL CITY

AFIMALL City is a retail and entertainment development, located in the high-rise business district of Moscow, "Moscow-City". With a total GBA of 283,182 sq.m (including parking) and GLA of 107,208 sq.m, the project has a shopping gallery of nearly 400 shops and an 11-screen movie theatre with a number of additional outstanding leisure facilities. AFIMALL City is one of Europe's largest and most ambitious retail developments in recent years.

The Mall introduces a new standard of quality to the Russian retail sector and offers visitors a combined shopping, dining and entertainment experience. AFIMALL City can be easily accessed from three metro stations ("Vystavochная", "Mezhdunarodnaya", "Delovoy Tsentr") and from the Third Transportation Ring.

Type	Retail
Company share	100%
GBA (sq.m)	283,182
GLA (sq.m)	107,208
Parking (units)	2,075
Valuation by Cushman & Wakefield as at 31.12.2014 (US\$ million)	1,000
Status	Yielding

Understanding AFI Development





OZERKOVSKAYA

(AQUAMARINE) PHASE III

Ozerkovskaya (Aquamarine) III is an office complex forming part of the “Aquamarine” mixed-use development, located on the Ozerkovskaya embankment in the very heart of the historical Zamoskvorechie district of Moscow. The project consists of four Class A buildings with common underground parking and creates attractive working conditions through state-of-the-art architecture, innovative design and efficient use of space. Due to these characteristics “Aquamarine III” sets new standards for quality and an aspirational environment among Moscow’s commercial developments. The project is located within the Garden Ring, and is served by two metro stations. In 2013, AFI Development disposed of Building 1 in the complex to ALROSA diamond mining company.

Type	Office
Company share	100%
GBA (sq.m)	61,772*
GLA (sq.m)	46,247
Parking (units)	466
Valuation by Cushman & Wakefield as at 31.12.2014 (US\$ million)*	300
Status	In negotiations with tenants for sale/lease

*After the disposal of Building 1 to ALROSA mining company in Q4 2013

Understanding AFI Development





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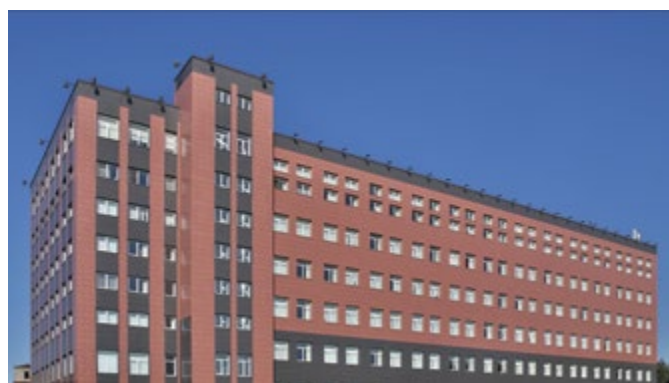
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The project comprises completed reconstruction of four Class B+ office buildings, forming a gated business park. The project is conveniently located in central Moscow, between the Garden Ring and the Third Transportation Ring, and is within walking distance from Ki-evskaya transportation hub.



The Paveletskaya I office complex comprises a reconstructed Class B building. The anchor tenant of the building is ZAO Greenatom, a subsidiary of the Russian Federation Atomic Energy Corporation, Rosatom.



The project comprises a Class B office building reconstructed around the frame of a former administrative building. It is located in a dynamically developing business area on the border of Moscow's Central and Southern Administrative Districts.

BEREZHKOVSKAYA RIVERSIDE STATION

Type	Office, business park
Company share	74%
GBA (sq.m)	11,612
GLA (sq.m)	10,250
Parking (units)	140
Valuation by Cushman & Wakefield as at 31.12.2014 (US\$ million)*	21.3
Status	Yielding

*AFI Development share only

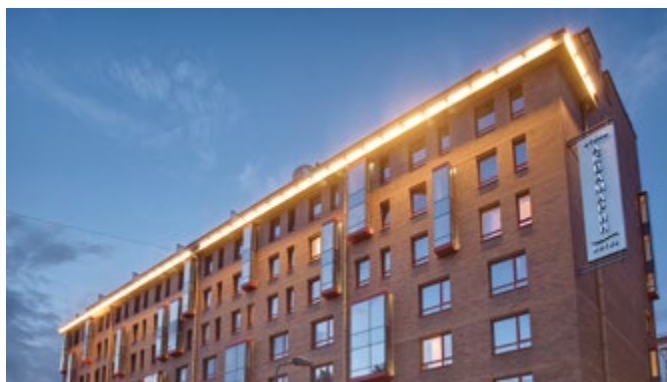
PAVELETSKAYA PHASE I OFFICE COMPLEX

Type	Office, business park
Company share	100%
GBA (sq.m)	16,246
GLA (sq.m)	14,085
Parking (units)	126
Valuation by Cushman & Wakefield as at 31.12.2014 (US\$ million)	19.5
Status	Yielding

H₂O OFFICE COMPLEX

Type	Office
Company share	100%
GBA (sq.m)	10,698
GLA (sq.m)	8,991
Parking (units)	81
Valuation by Cushman & Wakefield as at 31.12.2014 (US\$ million)	12.1
Status	Yielding

HOTELS



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



Plaza Spa Hotel in Kislovodsk is a four star hotel located on a 1.5 hectare land plot. It comprises two hotel buildings, a spa, a health and fitness center, a swimming pool, saunas, restaurants and conference facilities. Located in the Caucasus mineral waters region, the Plaza



The Spa Hotel Zheleznovodsk is a modern mid-class spa and medical resort in the Caucasus mineral waters region. The hotel is adjacent to the main park of Zheleznovodsk, featuring a thermal water source, and has a direct access to the park. A spa treatment area occupies approx-

AQUAMARINE HOTEL MOSCOW

Type	City-hotel
Company share	100%
GBA (sq.m)	8,931
Number of rooms	159
Status	Operating

PLAZA SPA HOTEL KISLOVODSK

Type	Hotel/Spa
Company share	50%
GBA (sq.m)	25,000
Number of rooms	275
Status	Operating

*AFI Development share only

Spa Kislovodsk caters to guests seeking treatment for disturbances of the cardiovascular and nervous systems, as well as respiratory diseases.

PLAZA SPA HOTEL ZHELEZNOVODSK

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

imately 1,100 sq.m, which includes 45 treatment rooms, saunas, a jacuzzi, an indoor swimming pool and extensive medical and diagnostic facilities.

DEVELOPMENT PROJECTS

ODINBURG

Odinburg is located in the town of Odintsovo in the Moscow region (11 km west of Moscow). The entire residential district takes up an area of 33.14 hectares. The development is planned to include multi-functional infrastructure comprising two schools, two kindergartens, a medical centre and other facilities.

The project involves construction of a multi-storey residential micro district consisting of two phases:

- Phase I – Construction of a 22-section residential building named Korona (Crown) and of the infrastructure for the kindergartens and schools. This will have a total sellable area of 145,059 sq.m (2,652 apartments);
- Phase II – Construction of 8 residential buildings and of infrastructure for the kindergartens, schools and outdoor multi-level parking. This will have a total sellable area of 307,931 sq.m of 319,775 sq.m (6,247 apartments). Each phase includes commercial premises on the ground floor that are planned to be sold to end users.

Each phase includes commercial premises on ground floors that are planned to be disposed to end users.

Type	Residential
Company share*	100%
GBA (sq.m)	761,127
GSA (sq.m) / GSA commercial (sq.m)	450,432 / 19,680
Parking (units)	3,399
Book value**	133
Status	Construction stage

* AFI Development owns 100% of the project, however under the Investment Contract there are obligations to register title to certain amount of completed residential and commercial areas to the municipality of Odintsovo.

**Odinburg is a part of Company trading properties and therefore presented in the Financial Statements at cost.

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TVERSKAYA PLAZA IC

Type	Office
Company share	100%
GBA, (sq.m)	61,810
GLA (sq.m)	37,035
Parking (units)	467
Valuation by Cushman & Wakefield as at 31.12.2014 (US\$ million)	87.7
Status	Development stage

The project is a class A office complex located at 50/2, 2nd Brestskaya street, Moscow. One of the key attractions of this project is the excellent access both by public and private transportation, and its location in a well-developed and established business district. It is located in proximity to Four Winds Plaza and other class A office properties in the well-developed office area between the Garden Ring and Belorussky railway station.



TVERSKAYA PLAZA IV

Type	Office
Company share	95%
GBA (sq.m)	108,000
GLA (sq.m)	61,350
Parking (units)	1,210
Valuation by Cushman & Wakefield as at 31.12.2014 (US\$ million)*	107.1
Status	Concept Stage

*AFI Development share only

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



BOTANIC GARDEN

Type	Residential
Company share	90%
GBA (sq.m)	255,025
GSA (sq.m) / GSA commercial (sq.m.)	107,501 / 5,149
Parking (units)	1,334
Valuation by Cushman & Wakefield as at 31.12.2014 (company share, US\$ million)*	20.1
Status	Planning stage

*Value of Company share

Botanic Garden is a residential project, located in the North-Eastern Administrative District of Moscow, approximately 8 km from the Third Transportation Ring, near the major transportation route of the district Prospekt Mira, within walking distance from Botanichesky Sad and Sviblovo metro stations. The future residential complex has a land plot of 3.2 Ha and a gross building (GBA) of 255,025 sq.m (including "city share").



KOSSINSKAYA (EXPOLON)

Type	Mixed-use retail/office
Company share	100%
GBA ₁ (sq.m)	111,770
GLA (sq.m)	70,000
Parking (units)	1,200
Valuation by Cushman & Wakefield as at 31.12.2014 (US\$ million)	53.7
Status	Pipeline

Kossinskaya is a mixed-use building with nine aboveground floors and single underground level. The property was constructed in 2005.



BOLSHAYA POCHTOVAYA

Type	Residential
Company share	100%
GBA (sq.m)	170,350
GSA (sq.m) / GLA commercial (sq.m)	56,952 / 34,208
Parking (units)	1,771
Valuation by Cushman & Wakefield as at 31.12.2014 (US\$ million)	108.3
Status	Planning stage

Bolshaya Pochtovaya is a mixed-use project with dominant residential use on a land area of 5.65 hectares. The future development is located in the Central Administrative district of Moscow. The land plot borders the Yauza river, which will significantly enhance the views from the apartments. The project is located in an attractive neighborhood, which benefits from developed social infrastructure: transport, shops and cultural/leisure amenities.



PAVELETSKAYA PHASE II

Type	Residential
Company share	100%
GBA (sq.m)	151,373
GSA (sq.m) / GSA commercial (sq.m.)	48,180 / 26,115
Parking (units)	1,760
Valuation by Cushman & Wakefield as at 31.12.2014 (US\$ million)	67.4
Status	Planning stage

Paveletskaya Phase II is planned as a modern residential complex in proximity to the Moscow city centre on Paveletskaya Embankment. The project is located in Danilovsky Subdistrict (the South Administrative district of Moscow), between the Garden ring and the Third Transportation Ring and can be easily accessed by private or public transport.

COMPLETED PROJECTS



FOUR WINDS PLAZA

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

*AFI Development share only

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



FOUR WINDS RESIDENTIAL

Type	Residential
GBA (sq.m)	41,364
GSA (sq.m)	18,097
GLA (sq.m)	5,069
Number of apartments	111
Parking (units)	323
Status	Completed

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



OZERKOVSKAYA (AQUAMARINE) PHASE II

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

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

Board of Directors

AFI Development PLC is managed by the Board of Directors, which consists of seven directors with vast experience in the fields of finance, banking, real estate and investment management. Of the company's seven directors, four are independent.



Lev Leviev

Executive Chairman of the Board

Mr Leviev has served as the Chairman of the Board of Directors since 1 January 2008. On 22 November 2012 he became Executive Chairman. He holds a 48.13% stake in Africa Israel Investments Ltd and also serves as its Chairman. He is also the owner and the President of the LLD Diamonds Ltd Group and is the President of the Federation of Jewish Communities of the CIS.



Mark Groysman

Executive Director

Mr Groysman joined the AFI Development Group in May 2011 as the CEO of LLC AFI RUS, the main Russian operating subsidiary. Mr Groysman was appointed Executive Director of AFI Development PLC on 1 January 2012. Mr Groysman has over 25 years of experience in real estate development, investments, asset and property management. Prior to joining AFI Development, Mr Groysman was the general manager of Sawatzky Property Management, the company he established in 1992 and which later became one of the leaders of the Moscow property management market. Mr Groysman graduated from the Israel Institute of Technology.



Avraham Novogrocki

Non-Executive Director

Mr Novogrocki joined the Board of Directors of AFI Development in August 2012. Mr Novogrocki is the CEO of Africa Israel Investments Ltd., major shareholder of AFI Development PLC. Prior to assuming the CEO role, Mr Novogrocki served as CEO of Africa Israel Investments subsidiaries, namely Africa Israel Industries Ltd. (from 2008 to 2012) and Packer Steel Industries Ltd. (from 2007 to 2012), as well as Deputy CEO and CFO of Africa Israel Industries Ltd. In total, Mr. Novogrocki has been working in the Africa Israel Group for 15 years. Mr Novogrocki holds MBA and BA in Economics and Business Administration degrees of Bar-Ilan University, Israel.



Christakis Klerides

Senior Independent Non-Executive Director

Chairman of the Audit Committee, Senior Independent Director

Mr Klerides is senior independent non-executive director of AFI Development and Chairman of the Audit Committee. Mr Klerides was the Minister of Finance of Cyprus from 1999 to 2003 and currently provides finance and business consultancy services through his family-owned company, CMK Eurofinance Consultants Limited. Mr Klerides is a Fellow of the Chartered Association of Certified Accountants.



Moshe Amit

Independent Non-Executive Director

Chairman of the Nomination Committee

Mr Amit serves as an independent non-executive director of AFI Development PLC and is Chairman of the Remuneration Committee. He is also Chairman of the Board of Directors of Excellence Investment Ltd and holds board memberships at a number of companies, including Delek Group Ltd, Isracard Ltd and Hapoalim Capital Markets – Investment Bank Ltd. For more than 40 years Mr Amit worked at Bank Hapoalim, one of the major Israeli banking institutions. Mr Amit holds a banking management diploma from the Israeli Banking Association Institute and a Bachelor degree in political science and sociology from Bar-Ilan University, Israel.



Panayiotis Demetriou

Independent Non-Executive Director

Chairman of the Remuneration Committee

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



John Porter

Independent Non-Executive Director

Mr Porter serves as an independent non-executive director of AFI Development PLC. Among other directorships, he is also the Chairman of Sinocare Group, which owns and operates hospitals in the People's Republic of China. Sinocare serves the broad community and aims to raise the standard of health care for the Chinese middle class. Mr Porter has had a history of involvement with the life sciences, helping to found Natus Medical and serving for 5 years as a director of Ivax Corpnow (now part of Teva). Mr Porter holds degrees from the Universities of Oxford, Paris and Stanford. He serves on the Board of Advisors to the Said Business School, Oxford and has served two terms on the Board of Advisors to Stanford Business School.

Management team

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



Mark Groysman

CEO of AFI RUS LLC, Executive Director of AFI Development PLC

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



Tzvia Leviev-Eliazarov

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

Mrs Leviev-Eliazarov's core experience is concentrated in management of large shopping centres. Before relocating to Moscow she was managing shopping centres for Africa-Israel Investments Ltd. in Israel and had established long-term business relationships with a variety of international retail chains. Mrs Tzvia Leviev-Eliazarov is currently responsible for managing AFIMALL City.



Natalia Pirogova

Deputy CEO Finance and Economics, AFI RUS LLC

Mrs Pirogova joined the management team in October 2011. She has long and successful track record in the Russian real estate with a focus on M&A deals and tax issues. For the last seven years Natalia was involved in the Russian business of Fleming Family and Partners Limited as the Financial Director and the Managing Partner and worked for Marbleton Advisers Limited as the Managing Director.



Dmitry Kurnikov

Deputy CEO Construction and Development, AFI RUS LLC

Dmitry Kurnikov joined AFI Development in April 2014. He has more than 15 years of work experience in real estate development. Prior to joining AFI Development Dmitry Kurnikov held senior roles in big development companies BARKLI, Forum Properties, Central Properties, Insignia, where he led the development of office centres and elite residential complexes.



Vyacheslav Khlopunov

Deputy CEO Legal Affairs and Investments, AFI RUS LLC

Mr Khlopunov joined AFI Development in June 2011. Prior to joining AFI Development, Mr Khlopunov headed a successful law practice specialising in real estate transactions. Mr Khlopunov is leading the legal team of LLC AFI RUS and is in charge with investment and divestment activities of the group. Mr Khlopunov is a graduate of Moscow State University.



Evgeny Potashnikov

Technical Director, AFI RUS LLC

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

OPERATIONAL REVIEW

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Projects review 37





Operational review

Market overview – general Moscow Real Estate

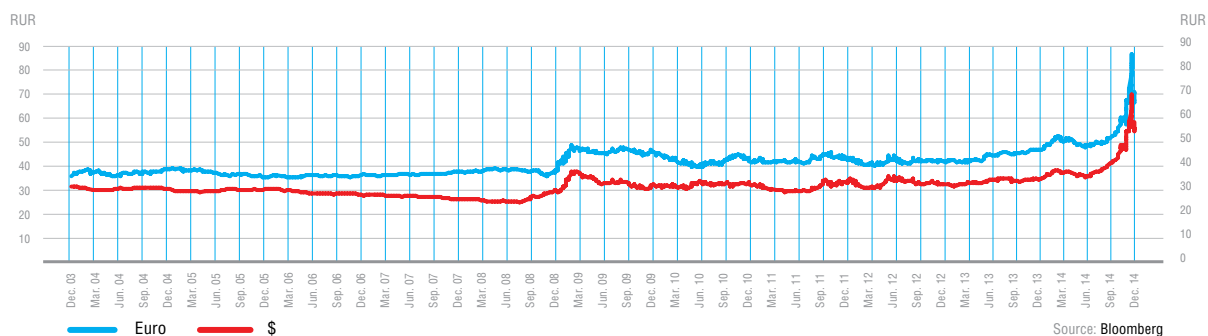
Macroeconomic environment

During the second half of 2014, Russia was faced with difficult market conditions including decreasing oil prices and growing risk perceptions of the country, leading to a 43% depreciation of the rouble against the US dollar during Q4 alone. Economic growth is widely expected to suffer further during 2015. Towards the end of 2014, a weak rouble put pressure on inflation, which reached 11.4% year-on-year in December 2014. As a result of this anticipated increase in inflation, consumers aggressively purchased goods which allowed retail sales to remain

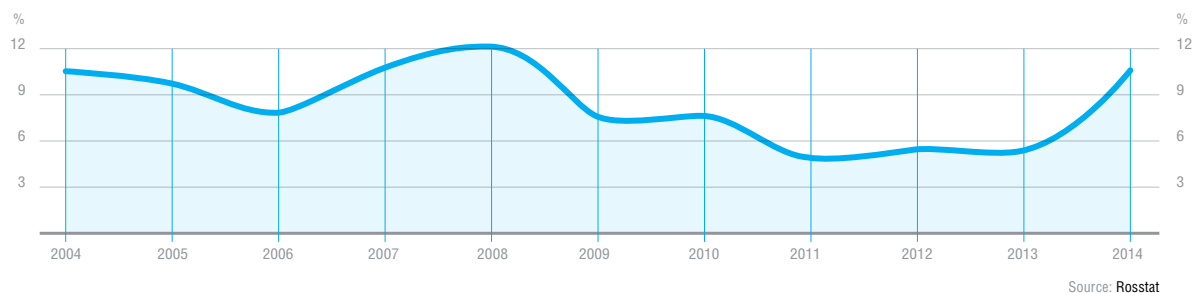
firm in Q4 2014 at 5.3%. However, looking ahead to 2015, this trend is not anticipated to continue and a 4% contraction in retail sales over 2014 levels is expected. During 2014, the share of foreign investors in Russian real estate decreased to 24%, compared to 45% in 2013, with local investors largely dominating the market. This trend is expected to continue during 2015 with local players having more comfort in the market than others; however, foreign investors could be attracted back to the market given the lower cost of debt financing if risk appetites allow.

Source: Russian Investment Market, Q4 2014, JLL; Cushman & Wakefield Report, Marketbeat: Russia; Economist Intelligence Unit Report

US\$/RUR and EUR/RUR exchange rate



Inflation, % (Russia)



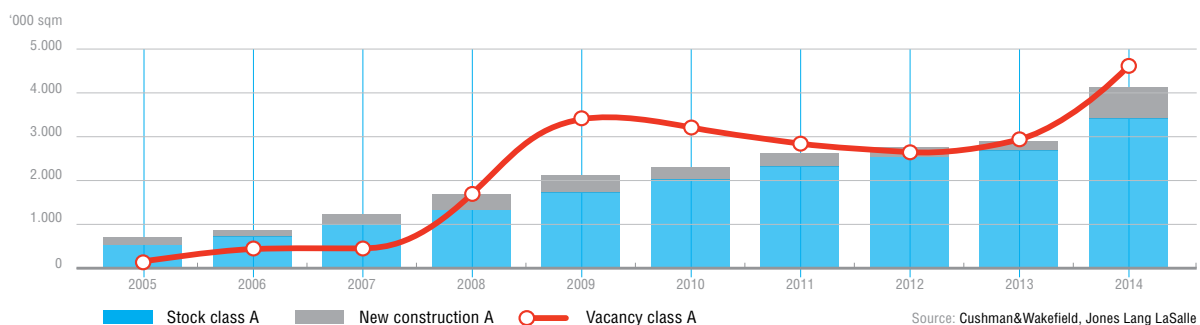
Moscow office market

The overall volume of project completions in 2014 increased by 58% to 1.4m sq.m, representing the highest levels in five years, with over 50% meeting Class A requirements, amounting to the highest ever volume on record. Driven by the considerable volume of new supply as well as a decreasing demand, the average vacancy rate for class A and B combined further increased to 16.7% from 13.7% a year earlier, with vacancy rates in Class A buildings growing at a particularly fast rate to 28.4%, from 18.2% in 2013. Prime rents ranged from US\$750–900 per sq.m per annum, while Class A rents ranged between US\$450 and US\$650 and Class B+ rents ranged between US\$275–450 per sq. m per annum. The rouble de-

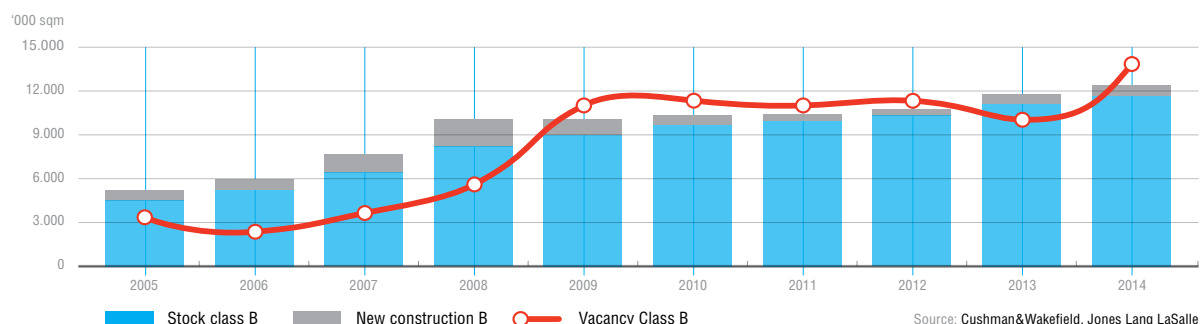
valuation during Q4 2014 made companies look for alternatives to US dollar denominated rental rates and de-dollarisation of the Moscow office market is expected to be the main trend in 2015 as rents remain under pressure and are expected to be 10-15% lower. Looking to 2015, it is expected that about 1 million sq.m of new office space will be supplied, with the Moscow City area accounting for approximately 25% of that figure. That said, many developers have not yet revised construction plans based on current challenges within the market and it is expected that the pipeline could be reduced further.

Source: Moscow Office Market View Q4 2014, JLL; Marketbeat Russia, Office Snapshot Q4 2014, Cushman & Wakefield

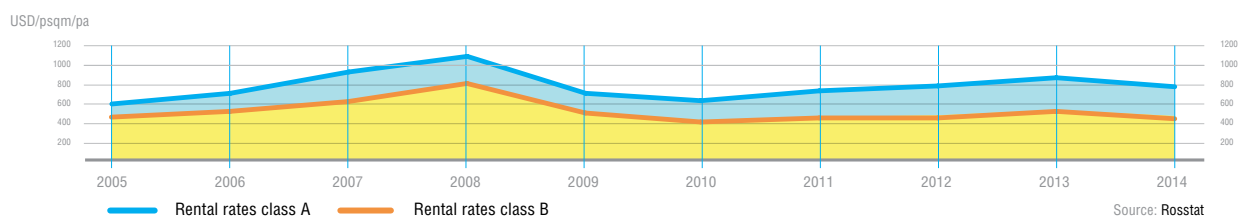
Class A office market (stock, new construction and vacancy)



Class B office market (stock, new construction and vacancy)



Office rents (Class A and Class B), US\$ per sq.m per annum



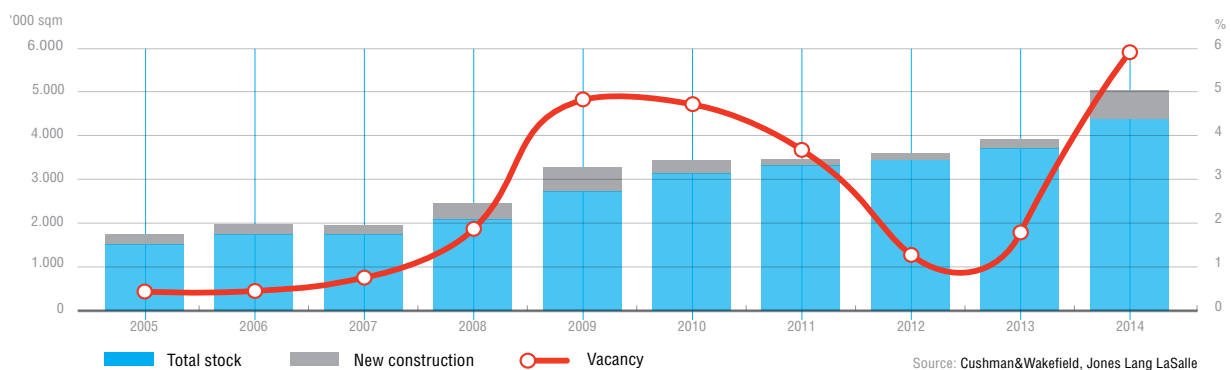
Moscow retail market

14 shopping centres, including Europe's biggest mall, AviaPark, opened in Moscow during the year. It is expected that during 2015, completions will reach 1.9 million sq.m as shopping centre supply in Moscow increases by 500,000 sq.m, largely due to a significant number of completions that were expected in 2014 being pushed to 2015. By the end of 2014, average vacancy rates in Moscow's shopping centres had risen to highs of 6% due to the current economic climate. It is expected that rates will continue to rise to approximately 8% during 2015 as a result of lower retailer demand stemming from the weakening purchasing power of consumers. Shopping centre rents in Moscow decreased by

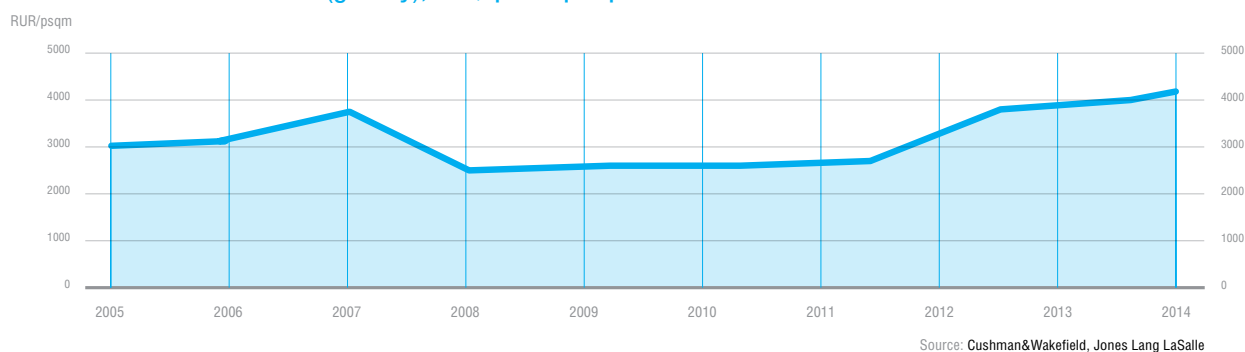
20% during 2014 with average rents in the range of US\$400-1,450 (per sq.m per annum) and prime rates ranging between US\$2,400 and US\$4,500 (per sq.m per annum). Rental rates are expected to continue to face pressure in 2015 as a result of increasing competition between shopping centres and demands for discounts from retailers. That said, desirable shopping centres will remain in demand with rents not anticipated to shrink significantly. Looking ahead to 2015, retail sales in Russia are expected to contract by 4% as a result of increased cost of imported goods due to self-imposed sanctions and a devalued rouble negatively affecting consumer purchasing power.

Source: Marketbeat Russia, Retail Snapshot Q4 2014, Cushman & Wakefield; Retail Market Overview Q4-2014- Shopping Centres, JLL

Moscow quality shopping centres supply and vacancy



Prime retail rents (gallery), US\$ per sq.m per annum



Moscow and Moscow Region residential market

Moscow - During 2014, approximately 3.3 million sq.m of residential space was delivered in Moscow, including circa 1.6 million sq.m commissioned in “new Moscow” and about the same area commissioned in “old Moscow”. The focus of development activity is gradually shifting to “new Moscow” territories.

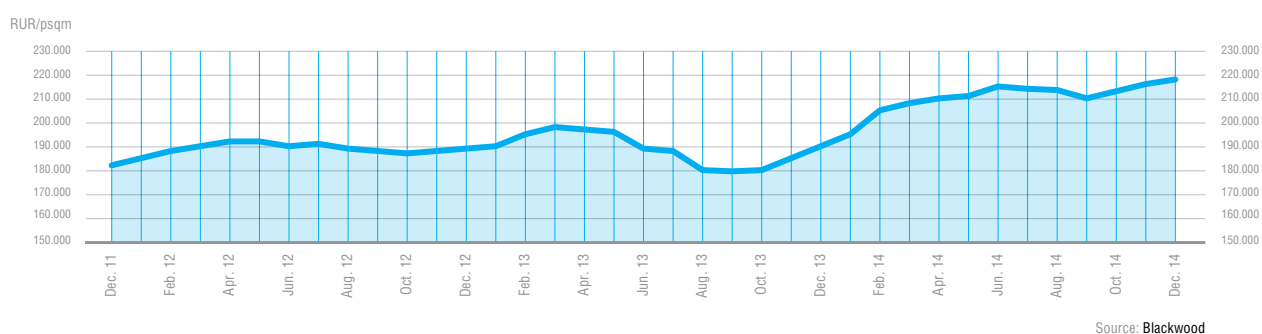
The analysis of the structure of the multi-storey residential market reveals business class as the most popular segment among developers, accounting for 49.9% of the supply volume during 2014. Comfort class comes second with 33.3% in the total volume. Premium class occupies 14.3% coming third. Economy class proved to be the least popular with only 3.3% of the whole volume of construction. In 2014, the average weighted price on the primary residential market of “old” Moscow grew by 13.4% in Russian rouble terms as compared to 2013, to RUR 217,910

per sq.m (excluding premium class and apartments). Prices in US dollar terms, however, dropped by 34% to US\$ 3,870 per sq.m. This is explained by the significant Russian rouble depreciation versus the US dollar during the year, which could not be counterbalanced by growth in the price of housing.

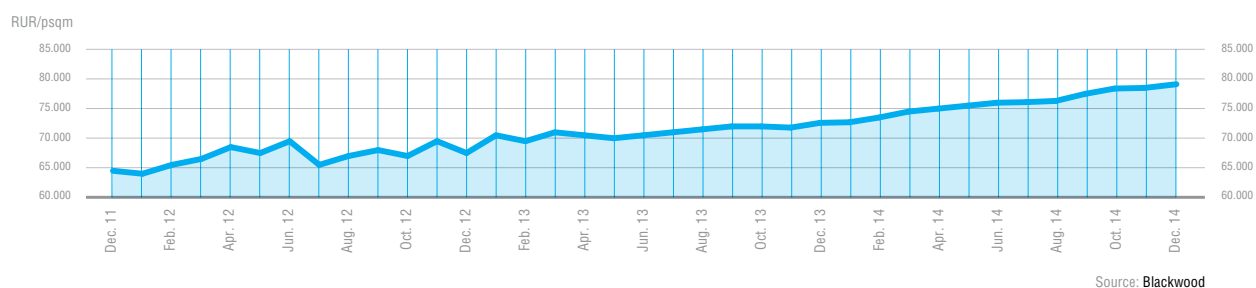
Moscow region - During 2014, there were 982 new buildings commissioned in the Moscow region (representing circa 8.255 million sq.m, an increase of 11.5% over 2013). The average price per sq.m in the Moscow region amounted to RUR 81, 550 (circa US\$1,462). By the year end, comfort class apartments reached RUR 83, 750 per sq.m (circa US\$ 1,475), whilst business class apartments were priced at RUR 189,450 per sq.m (circa US\$ 3,337). The average price per sq.m in the Odintsovo region was RUR 96,800 (circa US\$ 1,705).

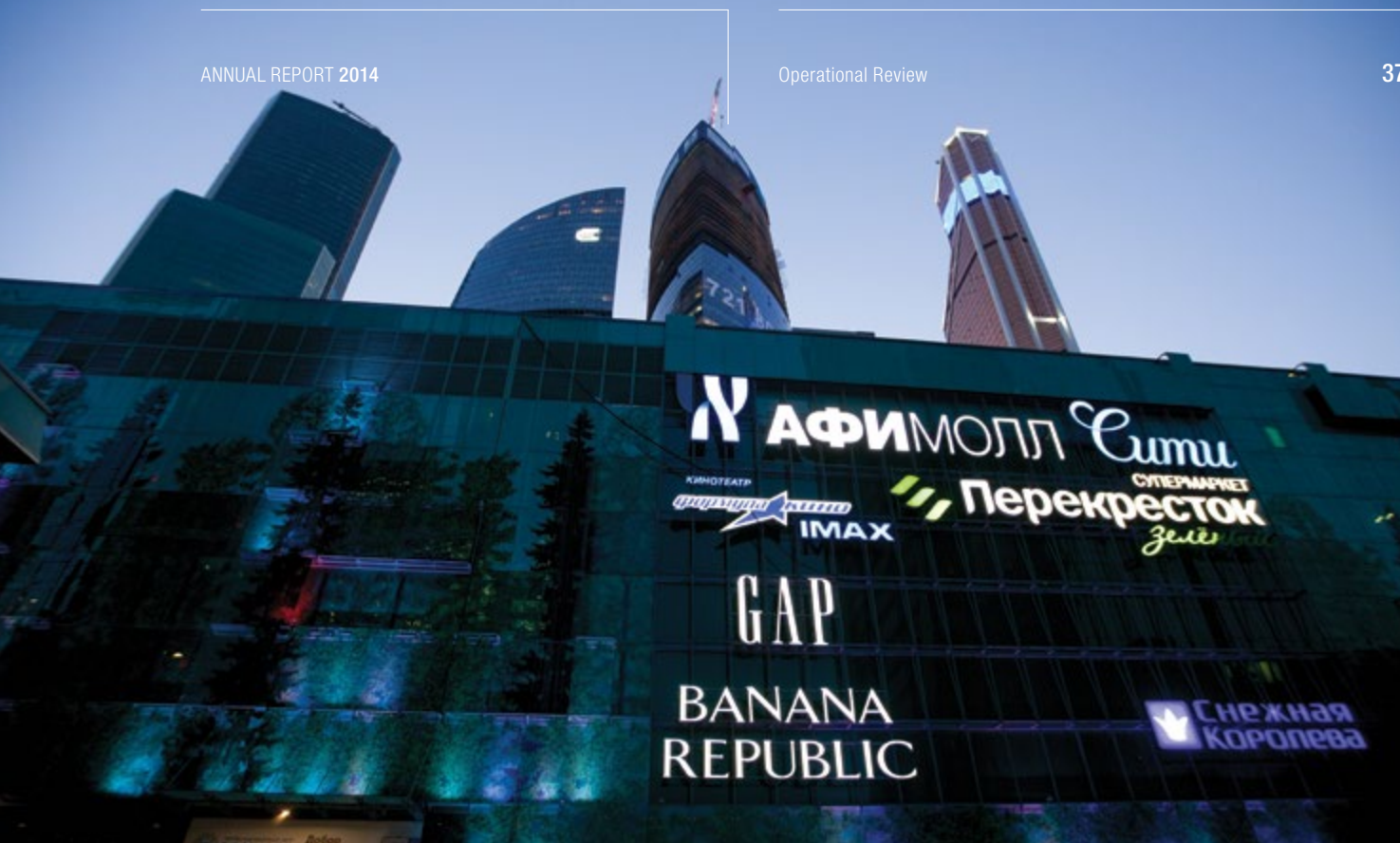
Source: Report by Blackwood End of 2014, IntermarkSavills, Rosstat

Average price for primary market residential space, Moscow (RUR per sq.m per annum)



Average price for primary market residential space, the Moscow Region (RUR per sq.m per annum)





Project-specific activities and review

The Company announced the following updates to its portfolio during 2014:

Yielding assets

AFIMALL CITY

AFIMALL City is a major retail scheme located in the high-rise business district of Moscow, "Moscow-City". With a total GBA of nearly 283,182¹ sq.m (including parking), and GLA of nearly 107,000 sq.m, the project has a shopping gallery of nearly 400 shops and an 11-screen movie theatre with a number of additional outstanding leisure facilities. AFIMALL City is one of Europe's largest and most ambitious retail developments in recent years. The Mall introduces a new standard of quality to the Russian retail sector and offers visitors a combined shopping, dining and entertainment experience unmatched in any other retail development in Moscow.

During 2014, AFIMALL City reported a strong increase in occupancy level, reaching 85% in December 2014 vs 76% in December 2013. During its three

years of full operation, AFIMALL has become one of the most popular shopping centres located in central Moscow with a quality tenant mix and comfortable leisure, dining and entertainment zones.

In the course of the year, AFIMALL became the leading Moscow shopping centre, selected by new-to-Russia brands for their first Russian shops. Forever 21, H&M Home, Crate&Barrel, Laura Ashley, Mirko Botticelli all opened their AFIMALL outlets during 2014. Additionally, the "Fizika" fitness chain opened its two-level club at AFIMALL in 2014, attracting additional visitors to the Mall.

The new metro station "Delovoy Tsentr" was opened in January 2014, which, similar to "Vistavochная" station, provides direct access to AFIMALL. Over the next year, this station is planned to become the main connecting point for a new line which will link the densely populated residential districts Ramenky, Horoshevskiy, Savyolovskiy and Maryina Roscha.

¹ This is the area after the disposal of part of the parking space to "VTB Bank" JSC.

By 2017, transport infrastructure in the business district is expected to significantly improve, which will result in better accessibility and higher attractiveness of “Moscow City” amongst corporate tenants and office employees. The development environment of “Moscow City” continues to be a strong driver for the future traffic growth of AFIMALL City. AFIMALL is surrounded by completed office towers and projects under construction.

According to CBRE, during 2013-2014 three new buildings have been completed, including Mercury City, Stalnaya Vershina (ex-Eurasia Tower) and OKO, adding almost 200,000 sq.m of space.

Notwithstanding that construction of surrounding buildings is still ongoing, AFIMALL is easy to reach from different directions: from office towers “Federation”, “Naberezhnaya Tower” and “Capital City”, as well as from Novotel, “Evolution” tower and the neighbouring ExpoCentre. In 2014, the management of AFIMALL launched a new navigation system, which helps visitors quickly and simply find their way to nearby parking or shops. According to independent appraisers Cushman &

Wakefield, the market value of AFIMALL City as of 31 December 2014 was US\$1,000 million.

OZERKOVSKAYA III

Ozerkovskaya (Aquamarine) III is an office complex forming part of the “Aquamarine” mixed-use development, located on the Ozerkovskaya embankment in the very heart of the historical Zamoskvorechie district of Moscow. The project consists of three Class A buildings of 46,247 sq.m of combined lettable space² and common underground parking for 446 cars. The project creates very attractive working conditions through state-of-the-art architecture, innovative design and efficient use of space. Due to these characteristics, “Aquamarine III” sets new standards for quality and an aspirational environment among Moscow’s commercial developments. AFI Development is in negotiations with potential buyers and tenants regarding selling or leasing the project either in full or in parts.

According to independent appraisers Cushman & Wakefield, the market value of the remaining buildings of the Complex as of 31 December 2014 was US\$300 million.

Hotels

The Company’s portfolio includes three hospitality projects, one located in Moscow and the remaining two located in the Caucasus Mineral Waters region.

AQUAMARINE HOTEL

The Aquamarine Hotel is a modern, 4 star hotel located in the heart of Moscow. It is part of the company’s mixed-use Aquamarine development, which also houses an A-class office centre Aquamarine III and completed elite residential complex Aquamarine II.

The Hotel provides high level services and offers 159 spacious rooms, a fitness-centre, spa-centre,

bar, restaurant, and conference rooms. It is located in the Zamoskvorechie district which is a 20 minute walk from both the Kremlin and the Tretyakov Gallery and a 5 minute walk from the Novokuznetskaya and Tretyakovskaya metro stations. The Hotel has added to the infrastructure of the historical district and is convenient for both business travellers and tourists. The hotel’s performance in 2014 was negatively affected by the slowdown in international business activity in Moscow, more intense competition and rouble depreciation versus the dollar.

The balance sheet value of the project as of 31 December 2014 was US\$17.3 million.

² After the disposal of Building 1 to ALROSA in 2013.



PLAZA SPA ZHELEZNOVODSK

Plaza Spa Zheleznovodsk is a sanatorium project which was launched in the summer of 2012 and is located in the Zheleznovodsk, in the Caucasus mineral waters region. The hotel comprises 134 guest rooms on 9,526 sq.m of gross buildable area. The spa provides diagnostic assessment and treatment of urological diseases. During 2014 the hotel demonstrated growing occupancy, which reached an average of 69% for the year. The hotel benefited from the current trend of growing domestic tourism in Russia.

The balance sheet value of the project as of 31 December 2014 was US\$12.2 million.

PLAZA SPA KISLOVODSK

The Plaza Spa is located in the city centre of Kislovodsk, in the Caucasus mineral waters region. The facility was put into operation in 2008 after a full reconstruction and now has a total of 275 rooms spread over 25,000 sq.m. Today, the Plaza Spa Kislovodsk is a popular spa hotel which has established new standards of quality and hospitality for the entire region. It offers an extensive range of medical services focused on the treatment of cardiac diseases. Diagnostic and treatment equipment is continually updated and the staff regularly attend training sessions for new methods of treatment to aid rehabilitation of patients.

The balance sheet value of the Company share in the project (50%) as of 31 December 2014 was US\$14.4 million.

Development projects

TVERSKAYA PLAZA IC

Tverskaya Plaza Ic is a class A office complex located in the cultural and business quarter of the Tverskoy sub-district. The complex is located within a 4-minute walk of Belorusskaya metro station, which serves as the main transport hub linking the city centre with one of Moscow's main airports – Sheremetievo International Airport. The project has a GBA of 61,810 sq.m (including underground parking of approximately 467 parking spaces) and an estimated GLA of 37,035 sq.m. Following the registration of a 10-year land lease agreement, the Company successfully finalised the development concept, received the necessary construction permit and completed all pre-construction works. AFI Development plans to start construction of this project as soon as it has secured debt financing on favourable terms and the market situation improves.

Based on an independent valuation of the Company's portfolio by Cushman & Wakefield as of 31 December 2014, the fair value of Tverskaya Plaza Ic is US\$87.7 million.

TVERSKAYA PLAZA IV

Plaza IV is a class A office complex with supporting ground level retail zones, located at 11, Gruzinky Val. The project has a GBA of 108,000 sq.m (including underground parking) and an estimated GLA of 61,350 sq.m. During 2014, the Company progressed with securing the land lease agreement with Moscow authorities.

Based on an independent valuation of the Company portfolio by Cushman & Wakefield as of 31 December 2014, the fair value of Plaza IV was US\$107.1 million.

KOSSINSKAYA - EXPOLON

Kossinskaya is a mixed-use building totalling 111,700 sq.m with nine above ground floors and a single underground level. The property was constructed in

2005. In November 2014, AFI Development's Board of Directors decided to place on hold and reconsider further implementation of the development concept of Kossinskaya as apparel and fashion wholesale trade centre "Expolon", in light of the current economic situation in Russia.

Based on an independent valuation of the Company portfolio by Cushman & Wakefield as of 31 December 2014, the fair value of Kossinskaya is US\$ 53.7 million.

ODINBURG

In October 2013, AFI Development began construction at "Odinburg", one of the Company's largest residential projects with a total area of over 33 hectares located 11 km west of Moscow in the town Odintsovo. The development is planned to include multi-functional infrastructure comprising of two schools, two kindergartens, a medical centre and other facilities.

The project involves construction of a multi-storey residential micro district consisting of two phases:

- Phase I – Construction of a 22-section residential building named "Korona" (Crown) and of the infrastructure for the kindergartens and schools. This will have a total sellable area of 145,059 sq.m (2,652 apartments);
- Phase II – Construction of 8 residential buildings and of infrastructure for the kindergartens, schools and outdoor multi-level parking. This will have a total sellable area of 307,931 sq.m of 319,775 sq.m (6,487 apartments). Each phase includes commercial premises on the ground floor that are planned to be sold to end users.

The construction works of Phase I ("Korona") are underway. Construction of the first building within this development is near completion, with final facade works taking place. The construction of the second building began in December 2014. Initial sales of apartments are progressing in line with the market



situation. As of the date of publication of this report, 594 contracts for sales of apartments have been signed. The balance sheet value of the project as of 31 December 2014 was US\$133.0 million.

PAVELETSKAYA II

Paveletskaya Phase II is planned as a modern residential complex located on the Paveletskaya Embankment close to Moscow city centre. The project is located in the Danilovsky Subdistrict (the south administrative district of Moscow) and can be easily accessed by private or public transport.

Following the decision of the town-planning land committee ("GZK") and the land plot master-plan ("GPZU") GBA of the project is to comprise 151,373 sq.m, which includes 48,180 sq.m of residential area, circa 26,115 sq.m of commercial area and 1,760 units of underground parking. During the 2014, AFI Development finalised the planning stage of the pro-

ject. The Company intends to start pre-construction works during H2 2015, subject to improvement in the market situation. Based on an independent valuation of the Company portfolio by Cushman & Wakefield as of 31 December 2014, the fair value of Paveletskaya Phase II is US\$67.4 million.

BOLSHAYA POCHTOVAYA

Bolshaya Pochtovaya is a mixed-use project with predominantly residential use. It is located in an attractive neighbourhood in the central administrative district of Moscow. The area benefits from a developed infrastructure: transport, shops and cultural/leisure amenities as well as from a nearby river, which significantly enhances the views from the project. It boasts a GBA of 170,350 sq.m on a land area of 5.65 hectares. The development plan for the property anticipates construction of 170,350 sq.m GBA, which includes 56,952 sq.m of residential area, 34,208 sq.m of commercial area and 1,771 under-

ground spaces. Currently, the Company is developing the design of the project and plans to receive the construction permit in 2015.

Based on an independent valuation of the Company portfolio by Cushman & Wakefield as of 31 December 2014, the fair value of Bolshaya Pochtovaya is US\$108.3 million.

BOTANIC GARDEN

Botanic Garden is a residential project, located in the North-Eastern Administrative District of Moscow, approximately 8 km from the Third Transportation Ring, near the major transportation route of the district Prospekt Mira, within walking distance from Botanicheskiy Sad and Sviblovo metro stations. The future residential complex has a land plot of 3.2 Ha and a gross building (GBA) of 255,025 sq.m (including "city share"): 107,501 sq.m of residential area, 5,149 sqm of commercial premises and 1,334 underground and above ground parking lots.

In December 2014, AFI Development restored the Botanic Garden project on its books, following liquidation of former primary investor, Novoe Koltso Moskv OJSC ("NKM"), as risks related to the bankruptcy of NKM were removed. The Company has completed the planning of the residential complex, while the project received the approval of the Moscow construction authorities. A construction permit was received in December 2014.

Based on an independent valuation of the Company portfolio by Cushman & Wakefield as of 31 December 2014, the fair value of Botanic Garden is US\$20.1 million.

Land bank

In addition to multiple yielding properties and projects under development, AFI Development also has a land bank which consists of projects that are not currently under development. By retaining full flexibility regarding future development of these projects, the Company remains well placed to benefit from further recovery in the regional real estate markets. Given its strong track record in bringing projects to completion, this represents a significant competitive advantage for AFI Development. AFI Development's strategy with respect to its land bank is to activate projects only upon securing necessary financing and having full confidence in the demand levels of prospective tenants or buyers.

PRINCIPAL BUSINESS RISKS AND UNCERTAINTIES AFFECTING THE COMPANY



Principal business risks and uncertainties affecting the Company

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

Risk management framework

The Board of Directors has overall responsibility for the establishment and oversight of the Company's risk management framework and is responsible for developing and monitoring the Company's risk management policies.

The Company's risk management policies are established to identify and analyse the risks faced by the Company, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions and the Company's activities. The Company, through its training and management standards and procedures, aims to develop a disciplined and constructive control environment in which all employees understand their roles and obligations.

The Company's Audit Committee oversees how management monitors compliance with the Company's risk management policies and procedures, and reviews the adequacy of the risk management framework in relation to the risks faced by the Group. The Company's Audit Committee is assisted in its oversight role by Internal Audit. Internal Audit undertakes both regular and ad hoc reviews of risk management controls and procedures, the results of which are reported to the Audit Committee and the whole Board of Directors. The Board of Directors requests the management to take corrective actions as necessary and make follow up reports to the Audit Committee and to the Board on addressing deficiencies found.

Credit risk

Credit risk is the risk of financial loss to AFI Development if a customer or counterparty to a financial instrument fails to meet its contractual obligations and arises principally from the Company's receivables from customers and investment securities.

Trade and other receivables

Financial assets that are potentially subject to credit risk consist principally of trade and other receivables. The carrying amount of trade and other receivables represents the maximum amount exposed to credit risk. Credit risk arises from cash and cash equivalents as well as credit exposures with respect to rental customers, including outstanding receivables. The Company has policies in place to ensure that, where possible, rental contracts are made with customers with an appropriate credit history. Cash transactions are limited to high-credit-quality financial institutions. The utilisation of credit limits is regularly monitored.

AFI Development has no other significant concentrations of credit risk, although collection of receivables could be influenced by economic factors.

Investments

The Company limits its exposure to credit risk by investing only in liquid securities and only with counterparties that have a high credit rating. Management actively monitors credit ratings and given that the Group only has invested in securities with high credit

ratings, management does not expect any existing counterparty to fail to meet its obligations, except as disclosed in note 33 to the our consolidated Financial Statements.

Guarantees

The Company's policy is to provide financial guarantees only to wholly-owned subsidiaries in exceptional cases. In negotiations with lending banks the Company is aiming to avoid recourse to AFI Development on loans taken by subsidiaries. As at 31 December 2014, there were two outstanding guarantees: one for the amount of US\$1 million in favour of VTB Bank JSC under a loan facility agreement of Bellgate Construction Limited (AFIMALL City) and the second one for the amount of US\$205 million in favour of VTB Bank JSC under a loan facility agreement of Krown Investments LLC (Ozerkovskaya III).

Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due. AFI Development's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Company's reputation. Prudent liquidity risk management implies maintaining sufficient cash, the availability of funding through an adequate amount of committed credit facilities and the ability to close out market positions. Due to the dynamic nature of the underlying businesses, the Company aims to maintain flexibility in its funding requirements by keeping cash and committed credit lines available.

AFI Development's liquidity position is monitored on a daily basis by the management, which takes necessary actions if required. The Company structures its assets and liabilities in such a way that liquidity risk is minimised.

Market risk

Market risk is the risk that changes in market prices, such as foreign exchange rates, interest rates and equity prices will affect the Company's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the available returns for shareholders. We are exposed to market risks from changes in both foreign currency exchange rates and interest rates. We do not use financial instruments, such as foreign exchange forward contracts, foreign currency options and forward rate agreements, to manage these market risks. To date, we have not utilised any derivative or other financial instruments for trading purposes.

Interest rate risk

We are subject to market risk deriving from changes in interest rates, which may affect the cost of our current floating rate indebtedness and future financing. As of 31 December 2014, 27% of our financial liabilities were fixed rate. For more detail see note 33 to our consolidated financial statements.

Currency risk

The Company is exposed to currency risk on future commercial transactions, recognised monetary assets and liabilities and net investments in foreign operations that are denominated in a currency other than the respective functional currencies of AFI Development's entities, primarily the US Dollar and Russian Rouble.

Operational risk

Operational risk is the risk of direct or indirect loss arising from a wide variety of causes associated with the Company's processes, personnel, technology and infrastructure, and from external factors other than credit, market and liquidity risks such as those arising from legal and regulatory requirements and generally accepted standards of corporate behaviour. Operational risks arise from all of the Group's operations.

The Company's objective is to manage operational risk so as to balance the need to avoid financial losses and damage to the Group's reputation with overall cost effectiveness.

The primary responsibility for the development and implementation of controls to address operational risk is assigned to senior management within each business unit. This responsibility is supported by the development of overall Company standards for the management of operational risk. Compliance with Company standards is supported by a programme of periodic reviews undertaken by way of internal audits. The results of the internal audit reviews are discussed with the management of the business unit to which they relate, with summaries submitted to the Audit Committee and the Board of Directors.

Critical accounting Policies

Critical accounting policies are those policies that require the application of our management's most challenging, subjective or complex judgments, often as a result of the need to make estimates about the effect of matters that are inherently uncertain and may change in subsequent periods. Critical accounting policies involve judgments and uncertainties that are sufficiently sensitive to result in materially different results under different assumptions and conditions. We believe that our most critical accounting policies are those described below.

A detailed description of certain of the main accounting policies we use in preparing our consolidated financial statements is set forth in note 5 to our consolidated financial statements.

Estimates regarding fair value

We make estimates and assumptions regarding the fair value of our investment properties that have a significant risk of causing a material adjustment to the amounts of assets and liabilities on our balance sheet. In particular, our investment properties

under development (which currently comprise the majority of our projects) are remeasured at fair value upon completion of construction and the gain or loss on remeasurement is recognised in our income statement, as appropriate. In forming an opinion on fair value, we consider information from a variety of sources including, among others, the current prices in an active market, third party valuations and internal management estimates.

The principal assumptions underlying our estimates of fair value are those related to the receipt of contractual rentals, expected future market rentals, void/vacancy periods, maintenance requirements and discount rates that we deem appropriate. We regularly compare these valuations to our actual market yield data and actual transactions and those reported by the market. We determine expected future market rents on the basis of current market rents for similar properties in the same location and condition. For further details, please refer to Note 3 to our consolidated financial statements.

Impairment of financial assets

We recognise impairment losses with respect to financial assets, including loans receivable and trade and other receivables, in our income statement if objective evidence indicates that one or more events have had a negative effect on the estimated future cash flows of that asset. We test significant financial assets for impairment on an individual basis and assess our remaining financial assets collectively in groups that share similar credit characteristics. Impairment losses with respect to financial assets are calculated as the difference between the asset's carrying amount and the present value of the estimated future cash flows of the asset discounted at the original effective interest rate of that asset.

Estimating the discounted present value of the estimated future cash flows of a financial asset is inherently uncertain and requires us both to make an estimate of the expected future cash flows from the asset and also to choose a suitable discount rate in

order to calculate the present value of those cash flows. Changes in one or more of these estimates can lead us to either recognizing or avoiding impairment charges

Impairment of non-financial assets

We recognise impairment loss with respect to non-financial assets, including investment property under development and trading properties under construction, if the carrying amount of the asset exceeds its recoverable amount. The recoverable amount of an asset is the greater of its value in use and its fair value less costs to sell. In assessing value in use, we discount estimated future cash flows of the asset to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. The carrying amounts of impaired non-financial assets are reduced to their estimated recoverable amount either directly or through the use of an allowance account and we include the amount of such loss in our income statement for the period.

We assess at each reporting date whether there is any indication that a non-financial asset may be impaired. If any such indication exists, we then estimate the recoverable amount of the asset. Estimating the value in use requires us to make an estimate of the expected future cash flows from the asset and also to choose a suitable discount rate in order to calculate the present value of those cash flows. The development of the value in use amount requires us to estimate the life of the asset, its expected cash flows over that life and the appropriate discount rate, which is primarily based on our weighted average cost of capital, itself subject to additional estimates and assumptions. Changes in one or all of these assumptions can lead to us either recognizing or avoiding impairment charges.

Deferred income taxes

We are required to estimate our income taxes in each of the jurisdictions in which we operate. This process involves a jurisdiction-by-jurisdiction estimation of actual current tax exposure and the assessment of the temporary differences resulting from differing treatment of items, such as capitalization of expenses, among others, for tax and financial reporting purposes.

These differences result in deferred tax assets and liabilities, which are included within our consolidated balance sheet. We must assess, in the course of our tax planning process, our ability and the ability of our subsidiaries to obtain the benefit of deferred tax assets based on expected future taxable profit and available tax planning strategies. If, in our management's judgment, the deferred tax assets recorded will not be recovered, a valuation allowance is recorded to reduce the deferred tax asset.

Significant management judgment is required in determining our provision for income taxes, deferred tax assets, deferred tax liabilities and valuation allowances to reflect the potential inability to fully recover deferred tax assets. In our consolidated financial statements the analysis is based on the estimates of taxable income in the jurisdictions in which we operate and the period over which the deferred tax assets and liabilities will be recoverable.

If actual results differ from these estimates, or we adjust these estimates in future periods, we may need to establish an additional valuation allowance which could adversely affect our financial position and results of operations.

Share-based payment transactions

The fair value of employee share options is measured using a binomial lattice model. The fair value of share appreciation rights is measured using the Black-Scholes formula. Measurement inputs include share price on the measurement date, exercise price of the instrument, expected volatility (based on weighted average historic volatility adjusted for changes expected due to publicly available information), weighted average expected life of the instruments (based on historic experience and general option holder behaviour), expected dividends and the risk-free interest rate (based on government bonds). Service and non-market performance conditions attached to the transactions are not taken into account in determining fair value.

Related party transactions

There were no related party transactions (as defined in UK Listing Rules) in the financial year ended 31 December 2014 or in the period since 31 December 2014.

CORPORATE GOVERNANCE



Corporate Governance and compliance with the UK Listing Rules

Compliance with the UK Listing Rule 9.2.2AR

The Board of Directors states as follows:

AFI Development Plc has a controlling shareholder, Africa Israel Investments Limited, who was holding 64.88% interest in AFI Development as of 31 December 2014.

The Company has entered into a Relationship Agreement under the UK Listing Rule 9.2.2A R (a) with its controlling shareholder, Africa Israel Investments Limited, on 16 September 2014 ("the Relationship Agreement"). This agreement replaced the previous relationship agreement made by the Company with its controlling shareholder in 2007.

The Board of Directors is satisfied that the Company has complied with the independence provisions in the Relationship Agreement during 2014.

So far as the Company is aware, the independence provisions included in the Relationship Agreement have been complied with during 2014 by the controlling shareholder and or any of its associates.

All independent directors supported the above statement.

At the Annual General Meeting of Shareholders held on 6 November 2014 the Company adopted changes to its Articles of Association to allow election and re-election of independent directors in accordance with the provisions of UK Listing Rules 9.2.2.E R and 9.2.2F R.

Compliance with the UK Corporate Governance Code

Although the Company is incorporated in Cyprus, its shares are not listed on the Cyprus Stock Exchange, and therefore it is not required to comply with the corporate governance regime of Cyprus. Pursuant to the Listing Rules however, the Company is required to comply with the 2012 UK Corporate Governance Code¹ (the "Code") or to explain its reasons for non-compliance. The Company's policy is to achieve best practice in its standards of business integrity in relation to all activities. This includes a commitment to follow the highest standards of corporate governance throughout the AFI Development group.

The directors are pleased to confirm that the Company has complied with the provisions of the Code for the period under review, with the exception that the Executive Chairman of the Board, Mr Leviev, is not independent (as required by section A.3.1 of the Code) by virtue of the fact that he is, indirectly, a major shareholder of the Company. Mr. Leviev holds a controlling stake in Africa Israel Investments Ltd., the major shareholder of the Company. The directors consider Mr. Leviev to be a key member of the Company's leadership and are of the opinion that his oversight, management role and business reputation are important to the Company's success. The directors are therefore of the view that Mr. Leviev should continue as Executive Chairman as it would be beneficial for the Company.

¹ A copy of the Code can be downloaded free of charge from the Financial Reporting Council website at <http://www.frc.org.uk/Our-Work/Codes-Standards/Corporate-governance/UK-Corporate-Governance-Code.aspx>

Working processes at the Board of Directors

Balance of Directors

Throughout 2014, the Company had a strong non-executive representation on the Board. Of the seven directors currently on the Board, there are five non-executive directors, four of whom are independent. The four independent non-executive directors are Christakis Klerides, Panayiotis Demetriou, John Porter and Moshe Amit. Christakis Klerides continued to serve as Senior Independent Director, a position he was appointed to in 2010. The Board is satisfied that no one individual or group of directors has unfettered powers of discretion, that an appropriate balance exists between the executive and non-executive members of the Board and that between them, the directors bring the range of skills, knowledge and expertise necessary to lead the Company.

The roles of the Executive Chairman and Executive Director are split and clearly defined. The Executive Chairman, Mr Lev Leviev, provides strategic leadership and leads key negotiations with the Moscow Authorities, other government authorities in regions of AFI Development operations, with key lenders and with its counterparties in transactions of strategic importance. Additionally, the Executive Chairman is generally responsible for the governance of the Board, for facilitating the effective contribution of all directors and for ensuring that Board members are aware of the views of major shareholders. The Executive Director, Mr Mark Groysman, is responsible for all aspects of the operation and management of the Company and its business. His role includes developing an appropriate business strategy for Board

approval, and ensuring that the agreed strategy is implemented in a timely and effective manner. When appointing new directors to the Board, objective criteria are applied. Appointments are made on merit with due regard to the benefit of diversity on the Board, both in terms of a broad range of skills, expertise and experience, and with respect to gender.

The Company is committed to the principle of diversity and equal opportunities. As of 31 December 2014, female representation across the workforce of AFI Development was approximately 67%, while at the middle management level the figure was approximately 47%. In addition, 28% of the senior management team of AFI RUS LLC, the Company's main operating subsidiary, are female.

Board Practices

The Board of Directors normally meets at least five times a year to review trading performance, budgets and funding; to set and monitor strategy; to examine acquisition opportunities; and to report to shareholders. There is a formal schedule of matters specifically reserved to the Board for decisions². The Board is responsible for the strategy, approval of annual budgets, approval of interim and final financial results, maintaining the system of internal control, compliance and risk management, approval of major transactions and other matters. To enable the Board to perform its duties, each director has full access to all relevant information. It is the Executive Chairman's responsibility to ensure that the Board is provided with accurate, timely and clear information in relation to the Company and its business.

² A copy of the schedule can be found on the Company website: www.afi-development.com.

Attendance at Board Meetings in 2014 was as follows:

Name	Board Meetings	Audit Committee	Remuneration Committee	Nomination Committee
Lev Leviev	3	-	-	-
Mark Groysman	6	-	-	-
Avraham Novogrocki	5	-	-	0
Christakis Klerides	6	6	5	0
Moshe Amit	6	5	5	0
John Porter	6	5	4	0
Panayiotis Demetriou	6	-	4	0
Dates held	17.03.2014	17.03.2014	17.03.2014	
	19.05.2014	19.05.2014	19.05.2014	
	18.08.2014	18.08.2014	18.08.2014	
	11.09.2014	11.09.2014		
	17.11.2014	17.11.2014	17.11.2014	
	22.12.2014	22.12.2014	22.12.2014	
No. of meetings held during 2014	6	6	5	0

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

The matters discussed at the board meetings included:

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

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

At the Board Meeting on 22 December 2014 the non-executive directors met without the Chairman present to appraise the Chairman's performance in 2014.

Terms of Appointment

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

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

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

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

Board and Chairman Appraisals

In 2014 AFI Development conducted performance evaluations for the Board and its committees in-house using the “Board Governance Analysis” service package of the UK Institute of Directors.

The appraisal of Chairman’s performance was conducted in December 2014 by the non-executive directors, under the leadership of Mr Christakis Klerides, the Senior Independent Director.

Committees

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

Nomination Committee

The Nomination Committee comprises of four directors: Moshe Amit (Chairman), Christakis Klerides, John Porter and Avraham Novogrocki. All members of the Committee, except Mr Novogrocki, are independent non-executive directors. The Nomination Committee meets as required for its role. It is responsible for preparing selection criteria and appointment procedures for members of the Board and reviewing on a regular basis the structure, size and composition of the Board. In undertaking this role, the Committee refers to the balance of skills, knowledge, independence and experience required on the Board based on the Company’s stage of development and in light of such considerations, makes its appointment recommendations to the Board. When assessing candidates, the Nomination Committee uses objective criteria; all appointments are based on merit. The Nomination

Committee also considers future appointments and makes recommendations regarding the composition of the Audit and Remuneration Committees. During 2014 the Nomination Committee did not meet.

Remuneration Committee

The Remuneration Committee consists of four directors: Panayiotis Demetriou (Chairman), Moshe Amit, Christakis Klerides and John Porter. All committee members are independent non-executive directors.

The Remuneration Committee is responsible for:

- making recommendations on the Company’s remuneration policies and reviewing and determining the remuneration of executive directors; and
- reviewing the scale and structure of the remuneration packages of the executive directors and the terms of their service or employment contracts, including participation in the Company’s share options plan, other employee incentive schemes adopted by the Company from time to time and pension contributions.

The remuneration of non-executive directors is determined by the Chairman and other executive directors outside the framework of the Remuneration Committee, although this can be reviewed by the Remuneration Committee. No director or manager may be involved in any discussions or decisions relating to his or her own remuneration.

The Remuneration Committee discussed the existing executive remuneration practices in place and came to the opinion that the remuneration package of executive directors should be determined on an individual basis, in the context of both the market in which the Company operates and good corporate governance practice. In determining executive directors’ individual remuneration packages, the Remuneration Committee applies the provisions of Schedule A to the Code. The Company currently has two executive directors, Mr Mark Groysman and Mr Lev Leviev.

The Remuneration Committee met on five occasions in 2014. It discussed and made recommendations to the Board on annual bonuses to executive directors and senior executives and reviewed their remuneration packages.

The Remuneration Committee did not appoint any external consultants during 2014.

Audit Committee

The Audit Committee comprises three independent directors and meets at least five times each year at appropriate times in the reporting and audit cycle of the Company and more frequently if required. The members of the Audit Committee are: Christakis Klerides (Chairman), Moshe Amit and John Porter. All members of the Committee are independent non-executive directors.

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

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

The Audit Committee supervises and monitors, and advises the Board on risk management and control systems and the implementation of codes of conduct. In addition, the Audit Committee supervises the submission by the Company of financial information and

a number of other audit related issues (both external and internal) and makes recommendations to the Board accordingly.

The Audit Committee held five meetings during 2014. The Board is satisfied that at all stages during 2014 at least two members of the Audit Committee had recent and relevant financial experience.

The matters reviewed and considered by the Audit Committee in 2014 included:

- The Internal Audit Report on Financing Aspects in Company Projects;
- The Internal Audit Report Authorisation Rights and Managing of Bank Accounts;
- The Internal Audit Report on Business Centre Riverside Station - Asset management;
- The Internal Audit Report on Plaza Spa Zheleznovodsk – Operation Management;
- The Internal Audit Report on Human Resources Management.

Dividends

During 2014, the Company did not pay any dividends. In the future, the Company may consider making dividend payments in respect of its ordinary shares, when and if commercially prudent, after taking into account profits, cash flow and capital investment requirements. No dividends will be paid otherwise than out of profits.

Safety

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

The Company works with its suppliers and contractors to ensure that they meet the Company's high health and safety standards.

Communication with shareholders

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

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

The main shareholder of the Company is Africa Israel Investments Limited ("AFI Investments"), which holds a 64.88% interest in AFI Development. AFI Development maintains on-going reciprocal communications with AFI Investments on several levels, including at a Board level, as the CEO of AFI Investments, Mr Avraham Novogrocki, is a Board member, and AFI Investments' Chairman, Mr Lev Leviev, is the Executive Chairman of AFI Development. Additionally, several senior managers of AFI Investments regularly attend board meetings of AFI Development. Senior representatives of AFI Investments are therefore able to share views with non-executive directors, including the senior independent director, during AFI Development's Board meetings, to ensure that its views, issues and concerns are clearly communicated to AFI Development's directors.

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

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

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

The Company's annual general meeting allows individual shareholders the opportunity to question the Executive Chairman and members of the Board. Notice of the annual general meeting is sent to shareholders at least 21 days before the meeting. At the meeting, after each resolution has been passed, details are given of the number of proxies lodged together with details of the number of votes cast for and against each resolution.

Risk Management Processes and Internal Control

Internal auditor

On 17 March 2014 the Board of Directors appointed Mr Ami Faivel as the internal auditor of the Company.

The internal auditor is responsible for the recommendation of an annual auditing plan to the Audit Committee. Subsequently, the internal auditor carries out auditing assignments in accordance with such a plan and oversees and reports on the Company's compliance with the plan's recommendations. The internal

auditor is available for any meetings of the Audit Committee and/or of the Board of Directors.

Principal aspects of the Company's Internal Control

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

The Company implements its procedures according to the best practice on internal control provided in the Turnbull Guidance "Internal Control: Revised Guidance for Directors on the Combined Code" ("the Turnbull Guidance"). The Company's system of internal control supports identification, evaluation and managing the risks affecting the Company and the business environment in which it operates.

Additionally, as part of the Africa Israel Investments Group, AFI Development has to comply with the requirements of the Israel Securities Authority's regulations and guidelines for the execution of an effective evaluation of internal control over financial reporting and disclosure by the Board and management.

These regulations were introduced to improve the quality and accuracy of financial reporting and disclosure for "reporting companies" in Israel, within the meaning thereof in the Securities Law 1968 (hereinafter – "the Israeli Securities Law"), by improving the internal control infrastructure over the financial reporting and disclosure processes in companies and by strengthening management commitment to ensuring their quality and accuracy. For this purpose, the regulations include an obligation on the part of "reporting companies" in Israel to attach to their financial statements a management declaration regarding the accuracy of the financial information included therein. The regulations also introduce a reporting obligation

to prepare a separate report of the Board and management regarding the effectiveness of the internal control over financial reporting and disclosure. Additionally, "reporting companies" have an obligation to attach an opinion report of an external auditor regarding the effectiveness of the internal control.

As a practical result, management of a "reporting company" is required to establish a system of internal control over the financial reporting and the disclosure processes, which is intended to provide a reasonable level of confidence regarding the accuracy and reliability of financial reports and disclosures.

The management of the "reporting company" is required to monitor the company's system of internal control on an ongoing basis in order to ensure that the effectiveness of the internal control is constantly adapted to changes in the company and its activities.

Internal Control Framework

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

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

Entity Level Controls - these are controls that may have an overall impact on the organisation. These organisation level controls constitute the infrastructure for the course and nature of the activities executed by the Company. These controls are embedded into the organisational structure of the Company. Controls at the Entity Level include, among others: Decision making process in the Company; Procedures regarding

identifying, approving and reporting of transactions with related parties and people of interest; Procedures regarding identifying and approving transactions that are in conflict of interest; The appropriateness of the function of the Board and its Committees; Efficiency of the function of the Audit Committee; Segregation of duties between the management and the Board; Risk identification and risk management; Assessment and control over the corporate results; Active supervision of the Board over Company Management.

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

General Controls over the Information Systems (ITGC) - Control procedures relating mainly to: Procedures regarding system access right controls; Procedures regarding performing changes to the system; Backup and restoration procedures; Appropriate separation of the “production” environment and the “testing” environment; Information security procedures.

Processes that are “Very Significant to the Financial Reporting and the Disclosure” - These are processes that might have a material impact on the company’s financial reports and the disclosure (hereinafter also – “Very Significant Processes”). A process for this purpose is a series of activities executed by parties in the company or the information systems thereof from the moment of initiation of the transaction (or event) and up to reflecting and/or disclosing it in the company’s financial reports. In order to com-

ply with the provisions of the Turnbull Guidance, the Company included in its system of internal control specific controls over business operations and risk management, which are monitored together with the controls over financial reporting and disclosure, as required by the Israeli Securities Law.

AFI Development Group employs a full time dedicated internal controller, who is responsible for day-to-day management of the internal control system, preparation and maintenance of necessary documentation, liaising with internal auditors and for internal control reporting to senior management. Authority is delegated from the Board through the senior management to the operating divisions and clear reporting lines and assigned responsibilities exist amongst different management levels within each division. Segregation of duties is applied throughout the Company.

The Company has a clearly set out organisational structure with well-defined reporting lines between the Board and the heads of each operating division.

The Board of Directors has ultimate decision-making power over significant matters relating to the financial management of the Company such as material changes in banking arrangements (including a change of bankers facilities and signatory category limits), approval of project budgets, General Annual Budget and the Annual Working Programme, changes to the Company’s capital structure, and acquisitions and disposals of subsidiaries or projects.

Budgeting and reporting

The Company has comprehensive project-based budgeting and reporting processes as well as a finance reporting process, and produces monthly operational results and forecasts. Detailed annual budgets for the coming year are presented to the Board in December.

Financial control procedures

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

Investment appraisal process

In the course of the investment appraisal process the following guidelines are followed by the Company's management:

1. When valuing the current portfolio of assets an independent appraiser is used on semi-annual basis to confirm the improvement or impairment in market value of each of the Company's properties. The calculations are then examined by the management team.
2. When making decisions on re-activating the development of pipeline or land bank projects, internal investment models are prepared to evaluate economic effectiveness and reasonableness of potential investments. An investment model template approved by the Company's financial department is used to evaluate the economics of future developments.
3. Before disposals of material projects a calculation of market value is performed by an independent appraiser to justify the reasonableness of the contracted price or to analyse any discrepancies revealed.
4. When approving any significant change in the development budget of any of the Company's existing projects, internal investment modeling is performed to test the potential influence on the projects' returns.

Operation policies and procedures

The Company has a well-defined strategy, which is determined by the senior management and approved by the Board. The policies and procedures relating to the core business processes are formally documented and communicated to the relevant employees.

Compliance with laws and regulations

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

Monitoring and review of activities

Assurances on compliance with the internal control systems are obtained through a number of monitoring processes, including a formal annual confirmation of compliance provided by Mr Groyzman, the Executive Director.

Review of effectiveness

Based on results of a test of the effectiveness of the Company's risk management and internal control systems conducted as at 31 December 2014, the Board concluded that for the period ending on 31 December 2014 the risk management and internal control systems were effective. The Board continues to monitor the effectiveness of these systems on an ongoing basis as follows:

- AFI RUS LLC management provides the Board with a quarterly declaration regarding the effectiveness of the financial, operational and compliance internal controls and discloses any information that has been detected during the period.
- Half year evaluation – AFI RUS LLC management presents an extensive Board presentation regarding the results of the testing of the effectiveness of selected financial, operational and compliance internal controls.
- Year-end evaluation - AFI RUS LLC management presents an extensive Board presentation regarding the results of testing of the effectiveness of the risk management, financial, operational and compliance internal controls.

Financial reporting and the 'going concern' basis for accounting

The Board seeks to present a balanced and understandable assessment of the Company's position and prospects, and details are given in the Directors' Report.

The directors are responsible for the preparation of the Annual Report and financial statements of the Company.

After making enquiries, the directors have a reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future. For this reason, they continue to adopt the going concern basis in preparing the accounts.

DIRECTORS' REMUNERATION REPORT



Directors' Remuneration Report

The principles of directors' remuneration

AFI Development Plc became a premium listed company on the London Stock Exchange in 2010 and during 2011 the Remuneration Committee and the Board of Directors revised the principles for executive and non-executive directors' remuneration to meet the requirements of the Code. The same principles were applied during 2014.

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

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

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

Employee share option plan

The AFI Development Share Option Plan (the "Share Option Plan") was adopted by the Board on 12 April 2007. The Remuneration Committee has responsibility for granting options and supervising and administering the Share Option Plan. The Plan is discretionary and options will only be granted when the Remuneration Committee so determines. All employees and directors (except independent directors) of the Company, and those of the Company's holding company or any of its subsidiaries, are eligible to participate in the Share Option Plan at the discretion of the Remuneration Committee. Options are currently intended to be granted to senior managers, directors (except non-executive directors) and key personnel of the Company or any of its subsidiaries only.

The price payable on the exercise of an option for each A Ordinary share, B Ordinary Share or Global Depository Receipt, is determined by the Remuneration Committee and should not be lower than the closing market price on the day preceding the day of grant, unless the Remuneration Committee determines at its discretion that a lower price is required, for example, in order to facilitate the recruitment or retention of a key executive. In any 10 year period, not more than 10% of the Company's issued ordinary share capital may be issued or be issuable under the Share Option Plan and any other employee share plan that the Company operates. Options that have been released or lapsed without being exercised are ignored for the purposes of this maximum limit.

Subject to the participant discharging any relevant tax liability, options will normally be exercisable at the following times: (a) as to one-third of the A Ordinary Shares, B Ordinary Shares or GDRs in respect of which it was granted from the second anniversary of the grant, (b) as to a further one-third of the A Ordinary Shares, B Ordinary Shares or GDRs from the third anniversary of grant, and (c) as to the remainder of the A Ordinary Shares, B Ordinary Shares or



GDRs from the fourth anniversary of grant. A different vesting schedule may be determined by the Remuneration Committee at grant. The vesting of options already granted is not subject to any performance conditions. The Remuneration Committee may, however, determine that options granted in the future should be subject to performance conditions.

If a participant dies, her/his options will be exercisable within a period of 12 months following her/his death. If a participant ceases to be an employee or director by reason of injury, disability, redundancy, the sale of the business for which he works to a third party, or retirement, her/his options may generally be exercised within 6 months of cessation. If a participant ceases to be an employee or director for any other reason, her/his options will normally lapse unless and to the extent the Remuneration committee decides otherwise. The Remuneration Committee may satisfy (generally with the consent of the participant) an option on exercise by paying to the participant in cash

or other assets the gain (i.e. the difference between the market value of the relevant B Ordinary shares or GDRs on the date of exercise and the exercise price), as an alternative to issuing or transferring B Ordinary Shares or transferring or procuring the transfer of GDRs to the participant.

The Remuneration Committee may amend the rules of the Share Option Plan at any time. The Share Option Plan will terminate upon the tenth anniversary of approval, if not terminated earlier by the Remuneration Committee. Termination of the Share Option Plan will not affect the subsisting rights of the participants.

In 2014, the Company did not grant any share options under the Share Options Plan.

Directors' emoluments

The aggregate emoluments of each of the directors (including benefits in kind) for the financial accounting period ending 31 December 2014 were as follows:

Name	Salary / Fee	Benefits in kind	Annual bonuses	Pension	Total
Lev Leviev	US\$1,200,000	US\$0	US\$600,000	US\$0	US\$1,800,000
Mark Groysman	US\$500,000	US\$0	US\$250,000	US\$0	US\$750,000
Avraham Novogrocki	US\$0	US\$0	US\$0	US\$0	US\$0
Christakis Klerides	US\$73,500	US\$0	US\$0	US\$0	US\$73,500
Moshe Amit	US\$66,750	US\$0	US\$0	US\$0	US\$66,750
John Porter	US\$60,500	US\$0	US\$0	US\$0	US\$60,500
Panayiotis Demetriou	US\$68,500	US\$0	US\$0	US\$0	US\$68,500

Long term incentive plan

As of 31 December 2014, there was no long term incentive plan available for the directors.

Options held by directors and senior managers

GDRs:

As of 31 December 2014, there were valid options over 1,017,240 GDRs granted with an exercise price of US\$7 vesting one-third on the second anniversary of the date of grant, a further one-third on the third anniversary and the remaining one-third on the fourth anniversary of the date of grant provided the participants remain in employment until the vesting date. The vesting is not subject to any performance conditions. The options for all 1,017,240 GDRs vested and their contractual life is 10 years from the date of the grant.

B Ordinary Shares:

As of 31 December 2014, there were valid options over 46,622,385 B Ordinary shares. Options for 15,191,563 B Ordinary shares were granted on 21 May 2012 with an exercise price of US\$0.7208 and an option for 31,430,822 B Ordinary shares was granted on 22 November 2012 with an exercise price of US\$0.5667. All options are vesting one-third on the second anniversary of the date of grant, a further one-third on the third anniversary and the remaining one-third on the fourth anniversary of the date of grant provided that the participants remain in employment until the vesting date. The vesting is not subject to any performance conditions. As of 31 December 2014, 5,063,854 options with an exercise price of US\$0.7208 and 10,476,941 options with an exercise price of US\$0.5667 have vested. If an Optionholder ceases to hold any office in, or be employed by, any Member of the AFI Development Group by reason of dismissal by the Optionholder's employer (except as a result of the Optionholder having been guilty of gross breach of duty or other serious breach of their employment contract, and as determined by the Remuneration Committee in its absolute discretion), the Optionholder shall remain entitled to

exercise the option (to the extent already exercisable as at the date of termination) within the period of 90 calendar days following the date of termination. If and to the extent that the Option has not been exercised

nor otherwise lapsed in accordance with the Rules of the Share Option Plan, it shall lapse on the fifth anniversary of the date of the grant. As of 31.12.2014, Company directors held the following share options:

Name of director	Title	Amount of shares and type	Date granted	Exercise price	Performance conditions	Vesting dates and amount of shares vesting Total
Lev Leviev	Executive Chairman	31,430,822 B Ordinary shares	22 November 2012	US\$0.5667	None	22 Nov 2014: 10,476,941 shares 22 Nov 2015: 10,476,941 shares 22 Nov 2016: 10,476,940 shares
Mark Groysman	Executive Director	5,238,470 B Ordinary shares	21 May 2012	US\$0.7208	None	21 May 2014: 1,746,157 shares 21 May 2015: 1,746,157 shares 21 May 2016: 1,746,156 shares

Pensions and benefits in kind

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

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Overview

As at 31 December 2014, the Company's portfolio consisted of 8 investment properties, 7 investment properties under development, 1 trading property under development, 1 inventory of real estate and 4 hotel projects. The portfolio comprises commercial projects focused on offices, shopping centres, hotels, mixed-use properties and residential projects in prime locations in Moscow. The total value of the Company's assets, based predominantly on independent valuation as of 31 December 2014, was US\$2.0 billion¹. About 68% of the assets book value is attributed to yielding properties.

Revenues for 2014 decreased by 29% year-on-year to US\$144.1 million mainly due to the fact that the 2013 revenue was largely influenced by completion of the disposal transaction of 643 parking places to VTB Bank JSC in Q1 2013. AFI Development recorded a 35% year-on-year decrease in gross profit to US\$49.9 million due to the same reason. Cash, cash equivalents and marketable securities decreased by 54% to US\$93.3 million as at 31 December 2014 due to financing of construction works, performed in 2014, by own capital.

In 2014 AFI Development incurred net loss of US\$287.3 million, compared to net profit of US\$103.9 in 2013, mainly due to valuation loss of US\$220.7 million in Q4 2014.

Key factors affecting our financial results

Our results have been affected, and are expected to be affected in the future, by a variety of factors, including, but not limited to, the following:

Macroeconomic factors

Our properties and projects are mainly located in Russia. As a result, Russian macroeconomic trends and country-specific risks significantly influence our performance.

The following table sets out certain macroeconomic information for Russia as of and for the dates indicated:

	Year ended 31 December 2014	Year ended 31 December 2013
Real Gross Domestic Product growth	0.5%	1.3%
Consumer prices	11.4%	6.5%

Source: The Economist Intelligence Unit, Rosstat

¹ According to the IFRS rules, Investment property and Investment property under development are presented on a fair value basis, Trading property and Property, plant and equipment are presented on a cost basis.

Company specific factors

The following factors affected our performance in 2014:

- In the beginning of 2014, the Company started active sales of apartments at Odintsovo, which had a positive impact on the cash flows.
- In Q4 2014, the gross value of the Company portfolio of properties decreased from circa US\$2.5 billion recorded at end-September 2014 to circa US\$2.0 billion at year-end. The Company recorded a net valuation loss on investment properties, investment properties under development and inventory of real estate during Q4 2014 of circa US\$210 million before taxes. The equity decreased in Q4 2014 in the amount of circa US\$390 million. The decrease in portfolio value and the valuation loss and impairment were caused by negative developments in the macroeconomic environment in Russia, which resulted in several negative factors influencing valuation models across the portfolio of properties.

Disposals and acquisitions

During 2014, the Company made the following disposal:

In March 2014, AFI Development disposed of its 100% share in Keyiri Trade & Invest Limited with its Russian subsidiary Favorit LLC, holding rights to the St Petersburg project for US\$1,400 thousand. The disposal followed the decision not to develop the project. The resulting profit on sale amounting to US\$61 thousand was recognised in the income statement of Q1 2014.

During 2014, the Company made the following acquisition:

In July 2014, our subsidiary, MTOK JSC, acquired an office building with total area of 720 sq.m on Sadovaya Samotchnaya street in central Moscow, for a total consideration of RUR 86.75 million (circa US\$1.9 million). The building was acquired from Novoe Koltso Moskvyy JSC (former "primary investor" in the Botanic Garden Project, "NKM") as part of its bankruptcy proceedings. The purpose of the acquisition was to accelerate the liquidation of NKM.

Presentation of financial information

Our consolidated financial statements were prepared in accordance with International Financial Reporting Standards ("IFRS"), as adopted by the European Union ("EU"), which were in effect at the time of preparing our consolidated financial statements, and the requirements of the Companies Law of Cyprus, Cap. 113. IFRS differs in various material respects from US GAAP and UK GAAP.

Financial policies and practices

Revenue recognition

The key elements of our revenue recognition policies are as follows:

- **Rental income.** We recognise rental income from investment properties leased out under operating leases in our statement of comprehensive income on a straight line basis over the term of the lease. Rental income also includes income from hotels operations.
- **Sales of trading properties.** We recognise revenue from the sale of trading properties in our statement of comprehensive income when the risks and rewards of ownership of the property are transferred to the buyer. When we receive down payments in connection with the sale of trading property that is under construction, we record this figure in the current liabilities on our balance sheet at the time of sale.

Operating expenses

Operating expenses consist mainly of employee wages, social benefits and property operating expenses, including property tax, which are directly attributable to revenues. We recognise as expenses in our statement of comprehensive income the costs of those employees who have provided construction consulting and construction management services with respect to our investment and trading property. We also recognise property operating costs (including outsourced building maintenance), utilities, security and other tenant services related to our properties that generate rental income, as expenses on our statement of comprehensive income.

Administrative expenses

Our administrative expenses comprise primarily general and administrative expenses such as audit and consulting, marketing costs, charity, travelling and entertainment, office equipment as well as depreciation expenses related to our office use motor vehicles, bad debt provisions and other provisions.

Profit on disposal of investment in subsidiaries

We recognise profit or loss from the sale of interests in our subsidiaries when the risks and rewards of ownership are transferred to the buyer in the transaction.

Revaluation of Investment property

An external, independent valuation company, having appropriate recognised professional qualifications and recent experience in the location and categories of properties being valued, values the Company's investment property portfolio every six months. The fair values are based on market values, being the estimated amount for which a property could be exchanged on the date of the valuation in a transaction between a willing buyer and a willing seller after proper marketing, wherein the parties had each acted knowledgeably, prudently and without compulsion. The difference between revalued fair value of investment property and its book value is recognised as gain or loss in the statement of comprehensive income.

Operating profit before net finance costs

Operating profit before net finance costs is calculated by adding revenue, other income, profit on disposal of investment in subsidiaries and valuation gains on investment property, and subtracting operating expenses, administrative expenses and other expenses.

Finance income

Our finance income comprises net foreign exchange gain, if any, and interest income. We recognise foreign exchange gains and losses, principally

in connection with US Dollar or other foreign currency denominated payables and receivables of our Russian subsidiaries, whose functional currency is the Russian Rouble. Our interest income is derived primarily from interest on our bank deposits and interest on loans to our joint ventures.

Finance expenses

Our finance expense comprises net foreign exchange loss, if any, and interest expense on outstanding loans less interest capitalised. We recognise foreign exchange gains and losses principally in connection with US Dollar denominated payables and receivables of our Russian subsidiaries, whose functional currency is the Russian Rouble. We capitalise our interest expense with respect to our development projects that are under construction, for which amounts are not reflected as expenses in our statement of comprehensive income. When funds are borrowed specifically for a particular project, we capitalise all actual borrowing costs related to the project less income earned on the temporary investment of such borrowings and when funding for a project is obtained from our general funds, we capitalise only funding costs related to the particular project based on the weighted average of the borrowing costs applicable to our general funds.

Foreign currency gain or loss on financial assets and financial liabilities is reported on a net basis as either finance income or finance expense depending on whether foreign currency movements are in a net gain or net loss position.

Income tax expense

Income taxes are calculated based on tax legislation applicable to the country of residence of each of our subsidiaries and, as a company based and organised in Cyprus, we are subject to income tax in Cyprus. We and our Cypriot subsidiaries are currently subject to a statutory corporate income tax rate of 12.5% in Cyprus. Our Russian subsidiaries were subject to corporate income tax at a rate of 20%.

Capitalisation of costs for Properties under development

We capitalise all costs directly related to the purchase and construction of properties being developed as both investment properties and trading properties, including costs to acquire land rights and premises, design costs, permit costs, costs of general contractors, costs relating to the lease of the underlying land and the majority of our employee costs related to such projects.

In addition, we capitalise financing costs related to development projects only during the period of construction of the projects. We do not, however, commence the capitalising of financing costs related to expenditures on a project until construction on each project begins. Since the Company's adoption of IAS 40 from 1 January 2009, upon completion of construction works, property classified as investment property under development (which are those properties that are being constructed or developed for future use to earn rental income or for capital appreciation) is appraised to market value and reclassified as an investment property and any gain or loss on appraisal is recognised in our statement of comprehensive income. Trading properties, which include those projects where we intend to sell the entire project as a whole or in part (this principally includes our residential development projects), are represented on our balance sheet at the lower of cost and net realizable value, which is the estimated selling price in the ordinary course of business, less the estimated costs of completion and sale.

Exchange rates

Our consolidated financial statements are presented in US Dollars, which is our functional currency. The functional currency of our Russian subsidiaries and joint ventures and one Cyprus company is the Russian Rouble. The balance sheets of our Russian subsidiaries are translated into US Dollars in accordance with IAS 21, whereby assets and liabilities are translated into US Dollars at the rate of exchange prevailing at the balance sheet date and income and ex-

pense items are translated into US Dollars at the average exchange rate for the period. If the volatility of the exchange rates is high for a given year or period the Company uses the average rate for shorter periods i.e. quarters or months for income and expense items. All resulting foreign currency exchange rate differences are recognised directly in our shareholders' equity under the line item "translation reserve." When a foreign operation is sold, the cumulative amount of the exchange differences deferred in the separate component of equity relating to that foreign operation is recognised in our statement of comprehensive income when the gain or loss on disposal of the foreign operation is recognised. The monetary assets and liabilities of our Russian subsidiaries that are denominated in currencies other than Russian Roubles are initially recorded by our subsidiaries at the exchange rate between the Russian Rouble and such foreign currency prevailing at such date. Such monetary assets and liabilities are then retranslated into Russian Roubles at the exchange rate prevailing at each subsequent balance sheet date. We recognise the resulting exchange rate differences between the dates at which such assets or liabilities were originally recorded and at subsequent balance sheet dates as foreign exchange losses and gains in our statement of comprehensive income. In particular, during the period under review, we have recognised foreign exchange rate gains and losses in connection with US Dollar denominated payables and receivables of our Russian subsidiaries.

Recovery of VAT

We pay VAT to the Russian authorities with respect to construction costs and expenses incurred in connection with our projects, which, according to Russian tax law, can be recovered upon completion of construction. Under a revised Russian VAT legislation, VAT can also be claimed during the period of construction provided that all required documentation is presented to the VAT authorities. We have accordingly included recoverable VAT as an asset on our balance sheet, the size of which we expect will slightly decrease as the development of our projects advances and necessary documents will be obtained.

Deferred taxation

As we continue to advance the development of our projects, we also expect to record higher deferred tax liabilities and assets. Under Russian tax law, we are not allowed to capitalise certain of the costs in relation to the design, construction and financing of projects that we capitalise for the purposes of our consolidated financial statements under IFRS. As a result, our tax bases in the related assets may be lower than our accounting bases for IFRS purposes, which would result in deferred tax liabilities. However, the recognition of such costs as expenses may result in accumulated tax losses for Russian tax purposes that we may be able to carry forward against estimated future profits, resulting in deferred tax assets. We expect these deferred tax liabilities and assets to grow as our major projects reach more advanced stages. However, such tax losses may only be carried forward to offset gains for a ten-year period under Russian tax law and they may only be utilised in the Russian subsidiary/branch in which such tax losses were generated.

Fair value calculation

Our future results of operations may be affected by our measurement of the fair value of our investment properties and changes in the fair value of such properties. Upon completion of construction, the projects that we have classified as investment property under development are reassessed at fair value and reclassified as investment property, and any gain or loss as a result of reassessment is recognised in our statement of comprehensive income.

Any change in fair value of the investment property under development is thereafter recognised as a gain or loss in the statement of comprehensive income. Accordingly, fair value measurements of investment properties under development may significantly affect results of operations even if the Company does not dispose of such assets.

Results of operations

Description of Statement of comprehensive income line items

Summary of statement of comprehensive income for 2014 and 2013

US\$ million	For the year ended 31 December 2014	For the year ended 31 December 2013	Change 2014 / 2013 US\$ million
Revenue			
Construction consulting / management services	0.2	0.2	-
Rental income	141.4	144.6	(3.1)
Sale of residential	2.4	57.5	(55.1)
	144.1	202.3	(58.2)
Expenses			
Other income	3.5	6.4	(2.9)
Operating expenses	(62.5)	(76.5)	14.0
Administrative expenses	(22.3)	(16.9)	(5.4)
including Bad debt provisions and write-offs	(4.6)	0.9	(5.5)
Cost of sales of residential	(1.6)	(32.6)	31.0
Other expenses	(6.8)	(5.5)	(1.3)
	(89.7)	(125.1)	35.4
Share of the after tax (loss) / profit of joint ventures	(4.5)	(0.8)	(3.7)
Gross profit	49.9	76.3	(26.4)
Profit on disposal of investments in subsidiaries	0.1	32.3	(32.2)
Profit on disposal of investment property	-	27.8	(27.8)
Valuation gain/(loss) on properties	(85.9)	106.2	(192.1)
Impairment loss on inventory of real estate	(8.9)	(2.2)	(6.7)
Results from operating activities	(44.7)	240.5	(285.2)
Finance income	7.0	21.0	(13.9)
Finance expense	(60.8)	(66.9)	6.1
FX Gain / (Loss)	(224.8)	(28.9)	(195.9)
Translation reserve reclassification due to disposal of subsidiary	-	(30.3)	30.3
Net finance income / (costs)	(278.6)	(105.2)	(173.4)
Profit before income tax	(323.3)	135.3	(458.7)
Income tax expense	36.0	(31.4)	67.4
Profit from continuing operations	(287.3)	103.9	(391.2)

Revenue – general overview

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

Rental income

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

US\$ million	For the year ended 31 December 2014	For the year ended 31 December 2013	Change 2014 / 2013	
			US\$ million	%%
Investment property				
AFIMALL City	107.0	104.1	2.9	2.8%
H2O office building	2.1	2.6	(0.5)	(19.9)%
Berezhkovskaya office building	4.3	5.4	(1.1)	(20.7)%
Paveletskaya I	4.0	5.0	(1.0)	(20.3)%
Premises at Bolshaya Pochtovaya	5.1	5.7	(0.6)	(10.3)%
Premises at Plaza IV (Gruzinsky Val)	0.1	0.2	(0.1)	(48.7)%
Premises at Tverskaya Zastava Square	3.4	3.9	(0.6)	(14.5)%
Ozerkovskaya (Aquamarine) III	0.1	-	0.1	n/a
Other land bank assets	0.1	0.0	0.1	498.7%
Hotels				
Aquamarine hotel	7.2	9.8	(2.6)	(26.2)%
Plaza Spa Hotel (Zheleznovodsk)	8.0	7.9	0.1	1.3%
Total	141.4	144.7	(3.3)	(2.3)%

Sale of residential

US\$ million	For the year ended 31 December 2014	For the year ended 31 December 2013	Change 2014 / 2013	
			US\$ million	%%
Revenue				
AFIMall Parking	-	54.5	(54.5)	(100)%
Ozerkovskaya II	2.4	1.7	0.8	45.2%
4 Winds Residential	-	1.4	(1.4)	(100)%
Total	2.4	57.5	(55.1)	(95.8)%

On 3 June 2013 the Company completed the first stage of the sale of 643 parking spaces of AFIMALL City to VTB Bank and therefore recognised revenue of US\$54.5 million in the income statement. During 2014 the Company sold 2 residential apartments and 14 parking lots in the Ozerkovskaya II project.

Operating expenses. Our operating expenses decreased by US\$14.0 million, from US\$76.5 million in 2013 to US\$62.5 million in 2014. The year-on-year decrease of 18.3% is attributable to decreased property tax charge, decrease in brokerage expense and rouble devaluation versus the dollar.

Administrative expenses. Our administrative expenses increased by US\$5.4 million or 31.9% year-on-year, from US\$16.9 million in 2013 to US\$22.3 million in 2014. The increase is attributable to increase in bad debt provision from US\$0.9 of reverse in 2013 to US\$4.6 of additional charge in 2014.

Profit on sale of investment properties. In December 2013, the Company successfully completed the sale of Building 1 in the Aquamarine III office complex (also known as Ozerkovskaya III) to Russian diamonds miner and producer "ALROSA" JSC. The total profit on disposal was US\$27.8 million, including the consideration paid in cash and amounted to US\$91.5 million.

Profit on sale/disposal of properties / investment. In March 2014 AFI Development disposed of its 100% share in Keyiri Trade & Invest Limited with its Russian subsidiary Favorit LLC, holding rights to the St Petersburg project for US\$1,400 thousand. The disposal followed the decision not to develop the project. The resulting profit on sale amounting to US\$61 thousand was recognised in the income statement of Q1 2014. For additional information, please refer to "Disposals and acquisitions" section above.

Net valuation gain / (losses) on properties. Net result of investment property valuation decreased from a gain of US\$106.2 million in 2013 to a loss of US\$85.9 million in 2014. For additional information, please refer to "Portfolio Valuation" section below.

Finance income. Our finance income decreased by US\$13.9 million or 66.5% year-on-year, from US\$21.0 million in 2013 to US\$7.0 million in 2014. The decrease was a result of loans write-off in 2013.

Finance expense. Our finance expense decreased by US\$6.1 million or 9.1% year-on-year, from US\$66.9 million in 2013 to US\$60.8 million in 2014. The decrease followed full repayment of the Sberbank loan at our Plaza Spa Zheleznovodsk project in 2013 and partial repayment of the principal of the VTB bank loan as per the agreed loan facility at the AFIMALL City project. In addition in Q1 2014 the Company fully repaid the fourth instalment (RUR 1,333 million) to the City of Moscow for the acquisition of the parking area under the AFIMALL City which cancelled discounting charges on long-term portion of the liability.

FX Gain / (Loss). We recorded a foreign exchange loss of US\$224.8 million in 2014, against a loss of US\$28.9 million in 2013. This was a result of Russian Rouble depreciation versus the US Dollar during 2014.

Income tax expense. Our current tax expense decreased to US\$0.6 million compared to US\$8.9 million in 2013 mainly due to tax obligations incurred as a result of sale of the office building in Ozerkovskaya III in 2013.

Profit / Loss for the year. Due to the factors described above, we recorded a US\$287.3 million net loss for 2014 compared to net gain of US\$103.9 million for 2013.

Liquidity and capital resources

Cash flows

Summary of cash flows for 2014 and 2013

US\$ thousand	For the year ended 31 December 2014	For the year ended 31 December 2013
Net cash from operating activities	64,494	19,095
Net cash from / (used in) investing activities	(116,540)	(203,106)
Net cash from / (used in) financing activities	(42,183)	198,974
Effect of exchange rate fluctuations	(12,345)	3,518
Net increase / (decrease) in cash and cash equivalents	(106,574)	18,481
Cash and cash equivalents at 1 January	193,330	174,849
Cash and cash equivalents at 31 December*	86,756	193,330

*Note: the cash and cash equivalents do not include US\$6.5 million (2013: US\$10.0 million) fair value of marketable securities.

Net cash from operating activities

Net cash from operating activities increased to US\$64.5 million in 2014, from US\$19.1 million in 2013. The increase is attributable to advances received from customers for the sale of residential properties at the Odensburg project.

Net cash from investing activities

Net cash outflow from investing activities amounted to US\$116.5 million and is mainly attributable to payments for construction and acquisition of investment property and investment property under development.

Net cash used in financing activities

Net cash from financing activities decreased to a negative US\$42.2 million in 2014 from a positive US\$199.0 million in 2013 due to the fact that in 2013 there was increased debt financing and the new loan facility of US\$220 million obtained by Krown Investments LLC.

Capital resources

Capital requirements

We require capital to finance capital expenditures, consisting of cash outlays for capital investments in active real estate development projects; repayment of debt; changes in working capital; and general corporate activities.

Real estate development is a capital-intensive business, and we expect to have significant ongoing liquidity and capital requirements in order to finance our active development projects.

For the foreseeable future, we expect that we will continue to rely on our financing activities to support our investing and operating activities. We also expect that our capital expenditures in connection with the development of real estate properties will comprise the majority of our cash outflows for the foreseeable future.

We completed 2014 with a strong liquidity position of approximately US\$93.3 million cash, cash equivalents and marketable securities on our balance sheet and a debt to equity level of 53%. This strong position reflects the Company's ability to successfully balance liquidity requirements from a number of sources.

Our financing strategy aims to maximise the amount of debt financing for projects under construction while maintaining healthy loan-to-value levels. After delivery and commissioning we aim to refinance the properties at more favourable terms, including longer amortisation periods, lower interest rates and higher principal balloon payments. Property rights and shares of property holding companies are mainly used as collateral for the debt². We strongly prefer, whenever possible, to use non-recourse project level financing.

As of December 31, 2014 our debt portfolio was as follows:

Project / Subsidiary	Lending bank	Max debt limit	Principal balance as of Dec-31, 2014	Available (US\$ mn)	Nominal Interest rate	Currency	Maturity
		(US\$ mn)	(US\$ mn)				(dd.mm.yy)
AFIMALL City / Bellgate Con- structions Ltd	VTB Bank JSC	502.1 (RUR 21 billion)*	184.7 296.4	0	9.5% 3-month LIBOR + 5.02%	RUR US\$	01.04.2018
Ozerkovskaya III/ Krown Invest- ments LLC	VTB Bank JSC	220.0	205.0	0	3-month LIBOR + 5.7%	US\$	26.01.2015*

*In January 2015 the loan was refinanced by VTB Bank JSC, please refer to Note 41 to the Consolidated Financial Statement

The total balance of debt financing reached US\$686.4 million as at 31 of December 2014, including US\$686.1 million of principal debt and US\$0.3 million of accrued Interest with average

interest rate 6.88% per annum as at 31.12.2014 (6.97% respectively as at 31.12.2013) (for more details see note 28 to our consolidated financial statements).

² Debt includes all loans and borrowings.

For further details please see note 28 to the Financial Statements.

As at 31 December 2014, our loans and borrowings were payable as follows:

US\$ thousand	As at 31 December 2014	As at 31 December 2013
Less than one year	231,684	27,027
Between one and five years	455,097	778,909
Total	686,781	805,936

Portfolio valuation

As at 31 December 2014, based on the Cushman & Wakefield LLC ("C&W") independent appraisers' report, the value of AFI Development's portfolio of investment properties stood at US\$1.38 billion, while the value of the portfolio of investment property under development stood at US\$0.4 billion.

Consequently, the total value of the Company's assets, based predominantly on independent valuation as of 31 December 2014, was US\$2.0 billion, compared to US\$2.4 million as at 31 December 2013.

Property	Valuation 31/12/2014, US Dollars	Valuation 31/12/2013, US Dollars	Change in valuation, %	Balance sheet value 31/12/2014, US Dollars	Balance sheet value 31/12/2013, US Dollars
Investment property					
1 H2O	12,100,000	17,300,000	-30%	12,100,000	17,300,000
2 Ozerkovskaya Phase III	300,000,000	323,700,000	-7%	300,000,000	323,700,000
3 Berezhkovskaya ¹	15,762,000	28,490,000	-45%	21,300,000	38,500,000
4 AFIMALL City	1,000,000,000	1,160,000,000	-14%	1,000,000,000	1,160,000,000
5 Paveletskaya I ³	19,338,150	29,354,320	-34%	19,500,000	29,600,000
6 Plaza II	15,200,000	31,900,000	-52%	15,200,000	31,900,000
7 Plaza Ib	5,400,000	8,800,000	-39%	5,400,000	8,800,000
8 Sadovaya-Samotechnaya	1,916,234	0	n/a	1,916,234	0
Total	1,369,716,384	1,599,544,320	-17%	1,375,416,234	1,609,800,000
Investment property under development					
9 Plaza Ic	87,700,000	110,600,000	-21%	87,700,000	110,600,000
10 Plaza IIa	3,600,000	12,400,000	-71%	3,600,000	12,400,000
11 Plaza IV ²	101,753,623	159,980,000	-36%	107,109,076	168,400,000
12 Paveletskaya Phase II ³	66,840,580	91,930,590	-27%	67,400,000	92,700,000
13 Kossinskaya	53,700,000	106,700,000	-50%	53,700,000	106,700,000
14 Bolshaya Pochtovaya	108,300,000	139,400,000	-22%	108,300,000	139,400,000
Total	421,894,203	621,010,590	-32%	427,809,076	630,200,000
Trading property & Trading property under development					
15 Odintsov	n/a	n/a	-	133,035,537	127,212,941
16 Four Winds Residential	n/a	n/a	-	624,284	1,104,444
17 Ozerkovskaya II	n/a	n/a	-	2,355,115	5,304,038
Total	n/a	n/a		136,014,935	133,621,424
Inventory of real estate					
18 Botanic Garden ⁴	18,100,000	n/a	-	20,111,111	n/a
Total	18,100,000	n/a	-	20,111,111	n/a
Land Bank Properties					
19 Ruza	n/a	n/a	-	3,665,000	3,665,000
20 St. Petersburg	n/a	1,400,000	-100%	n/a	1,400,000
21 Boryspol (Ukraine)	0	0	-	0	0
Total	0	1,400,000	-100%	3,665,000	5,065,000
Hotels					
22 Aquamarine Hotel	n/a	n/a	-	17,343,063	30,855,838
23 Plaza Spa Hotel Kislovodsk ⁵	n/a	n/a	-	14,414,050	24,829,575
24 Plaza Spa Hotel Zheleznovodsk	n/a	n/a	-	12,249,094	22,417,076
25 Park Plaza hotel development in Kislovodsk	n/a	n/a	-	4,241,520	7,276,236
26 Versailles project in Kislovodsk	n/a	n/a	-	0	7,122,840
Total	n/a	n/a	-	48,247,727	92,501,565
Grand Total	1,809,710,587	2,221,954,910	-19%	2,011,264,083	2,471,187,989

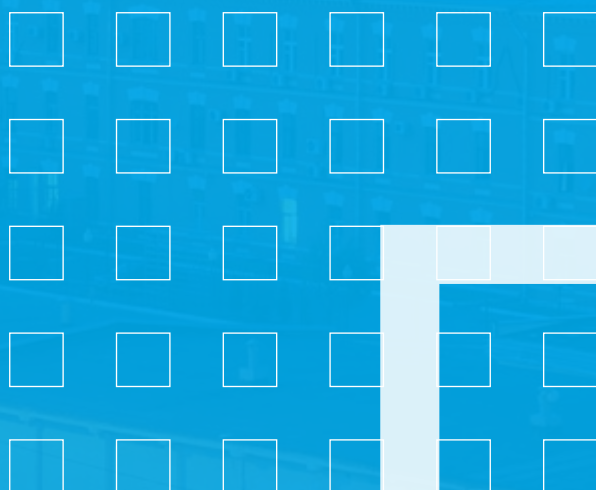
¹Valuation figures represent Company's share (74%)²Valuation figures represent Company's share (95%)³Valuation figures represent Company's share (99%)⁴Valuation figures represent Company's share (90%)⁵The project portfolio includes 50% owned joint ventures, which are accounted by equity method

FINANCIAL STATEMENTS

BOARD OF DIRECTORS' REPORT

DIRECTORS' RESPONSIBILITY STATEMENT

INDEPENDENT AUDITORS' REPORT



Board of Directors and professional advisers

Board of Directors Lev Leviev – Chairman

Mark Groysman

Moshe Amit

Avraham Noach Novogrocki

Christakis Klerides

John Robert Camber Porter

Panayiotis Demetriou

Secretary Fuamari Secretarial Limited

Independent Auditors KPMG Limited

Bankers Joint Stock Company VTB Bank

Joint Stock Commercial Savings Bank
of the Russian Federation (SBERBANK)

Raiffeisen Bank International AG

Registered Office Spyrou Araouzou 165,

Lordos Waterfront Building,

3035 Limassol,

Cyprus

Board of Directors' report

The Board of Directors of AFI Development Plc (the "Company") presents to the members its annual report together with the audited consolidated financial statements of the Company for the year ended 31 December 2014.

Principal activities

The principal activities of the Group, which remained unchanged from last year, are real estate investment and development. The principal activity of the Company is the holding of investments in subsidiaries.

Examination of the development, position and performance of the activities of the group

AFI Development is one of the leading real estate development companies operating in Russia. Established in 2001, AFI Development is a publicly traded subsidiary of Africa Israel Investments Ltd.

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 and customer service.

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

As at 31 December 2014, the Company's portfolio consisted of 8 investment properties, 7 investment properties under development, 1 trading property under development, 1 property as inventory of real estate and 4 hotel projects. The portfolio comprises commercial projects focused on offices, shopping centres, hotels, mixed-use properties and residential projects in prime locations in Moscow.

Financial results

The Group's results are set out in the consolidated income statement on page 8. The loss of the Group for the year before taxation amounted to US\$323,343 thousand (2013: profit US\$135,331 thousand). The loss after taxation attributable to the Group's shareholders amounted to US\$281,020 thousand (2013: profit US\$103,074 thousand).

Dividends

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

Main risks and uncertainties

The most significant risks faced by the Group and the steps taken to manage these risks are described in note 33 of the consolidated financial statements.

Future developments

The Group is one of the leading real estate development companies operating in Russia. It focuses on developing and redeveloping high quality commercial and residential real estate assets in Moscow and the Moscow Region. The strategy during the reporting period and for the future periods is to sell the residential properties that the Group develops and to either lease the commercial properties that the Group develops or sell them if the Group is able to achieve a favourable return.

Share capital

There were no changes to the share capital of the Company during the year. As at the year end the share capital of the company comprised:

- 523,847,027 "A" shares of US\$0.001 and,
- 523,847,027 "B" shares of US\$0.001

All "A" shares are on deposit with BNY (Nominees) Limited and each "A" share is represented by one GDR listed on the London Stock Exchange ("LSE").

All "B" shares were admitted to a premium listing of the Official list of the UK Listing Authority and to trading on the main market of LSE.

Branches

The Group operates six branches and/or representative offices of Cypriot, BVI and Luxembourg entities in the Russian Federation. These are Bellgate Construction Ltd branch, which operates AFIMALL City project, Amerone Ltd branch, Bugis Finance branch and Triumvirate I S.a r.l branch operating investment properties and Bastet Estates Ltd branch and Falgaro Investments Ltd branch acting as sale agents for residential properties.

Board of Directors

The members of the Board of Directors as at 31 December 2014 and at the date of this report are shown on page 80. The directors' date of appointment and resignation, if applicable, is indicated on page 80. The term of those that have not resigned will expire on the date of the next annual general meeting of the shareholders but all of them are eligible for re-election. There were no significant changes in the assignment of responsibilities of the Board of Directors during the year.

Post balance sheet events

Events which took place after the reporting date and which have a bearing on the understanding of the financial statements are described in note 41 of the consolidated financial statements.

Independent auditors

The independent auditors, KPMG Limited, have expressed their willingness to continue offering their services. A resolution reappointing the auditors and giving authority to the Board of Directors to fix their remuneration will be proposed at the Annual General Meeting.

By order of the Board
Fuamari Secretarial Limited
Secretary
Nicosia, 16 March 2015

Directors' responsibility statement

Each of the directors, whose names are listed below confirm that, to the best of their knowledge:

- the consolidated financial statements, prepared in accordance with IFRS as adopted by the EU, give a true and fair view of the assets, liabilities, financial position and profit or loss of the Company and the undertakings included in the consolidation as a whole; and
- the adoption of a going concern basis for the preparation of the financial statements continues to be appropriate based on the foregoing and having reviewed the forecast financial position of the Group; and
- the Board of Directors' report includes a fair review of the development and performance of the business and the position of the Company and the undertakings included in the consolidation as a whole, together with a description of the principal risks and uncertainties that they face.

The Directors of the Company as at the date of this announcement are as set out below:

The Board of Directors

Executive directors

Lev Leviev – Chairman

Mark Groysman

Non-executive director

Avraham Noach Novogrocki

Non-executive independent directors

Moshe Amit

Christakis Klerides

John Robert Camber Porter

Panayiotis Demetriou



Independent Auditors' Report

To the Members of AFI Development Plc

Report on the consolidated financial statements and the separate financial statements of AFI Development Plc

We have audited the accompanying consolidated financial statements of AFI Development Plc and its subsidiaries (The "Group"), and the separate financial statements of AFI Development Plc ("the Company"), which comprise the consolidated statement of financial position and the statement of financial position of the Company as at 31 December 2014, and the consolidated statements of income statement, comprehensive income, changes in equity and cash flows and the statements of income statement, comprehensive income, changes in equity and cash flows of the Company for the year then ended, and a summary of significant accounting policies and other explanatory information.

Board of Directors' Responsibility for the Financial Statements

The Board of Directors is responsible for the preparation of consolidated and separate financial statements of the Company that give a true and fair view in accordance with International Financial Reporting Standards as adopted by the European Union and the requirements of the Cyprus Companies Law, Cap. 113, and for such internal control as the Board of Directors determines is necessary to enable the preparation of consolidated and separate financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated and financial statements of the Company based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those Standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the consolidated and separate financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the consolidated and separate financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of consolidated and separate financial statements that give a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the Board of Directors, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements and the separate financial statements give a true and fair view of the financial position of the Group and the Company as at 31 December 2014, and of their financial performance and their cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union and the requirements of the Cyprus Companies Law, Cap. 113.

Report on other legal requirements

Pursuant to the additional requirements of the Auditors and Statutory Audits of Annual and Consolidated Accounts Laws of 2009 and 2013, we report the following:

- We have obtained all the information and explanations we considered necessary for the purposes of our audit.
- In our opinion, proper books of account have been kept by the Company, so far as appears from our examination of those books.
- The consolidated and the separate financial statements are in agreement with the books of account.
- In our opinion and to the best of our information and according to the explanations given to us, the consolidated and the separate financial statements give the information required by the Cyprus Companies Law, Cap. 113, in the manner so required.

- In our opinion, the information given in the report of the Board of Directors is consistent with the consolidated and the separate financial statements.

Other Matter

This report, including the opinion, has been prepared for and only for the Company's members as a body in accordance with Section 34 of the Auditors and Statutory Audits of Annual and Consolidated Accounts Laws of 2009 and 2013 and for no other purpose. We do not, in giving this opinion, accept or assume responsibility for any other purpose or to any other person to whose knowledge this report may come to.

Matters which we are required to report by exception

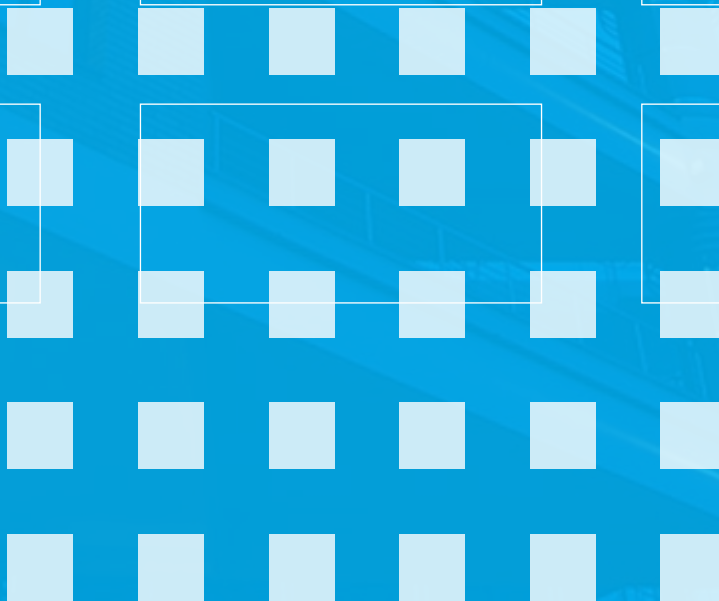
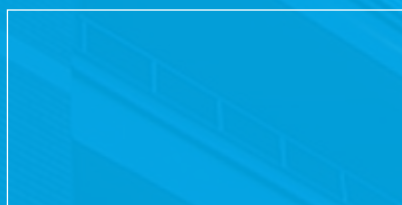
Under the United Kingdom Listing Authority (the Listing Rules) we are required to review the part of the Corporate Governance Statement relating to the Company's compliance with the nine provisions of the UK Corporate Governance code. We have nothing to report arising from our review.

Marios G. Gregoriades CPA
 Certified Public Accountant and Registered Auditor
 For and on behalf of
 KPMG Limited
 Certified Public Accountants and Registered Auditors
 14 Esperidon Street
 1087 Nicosia, Cyprus
 16 March 2015

FINANCIAL STATEMENTS

CONSOLIDATED FINANCIAL STATEMENTS

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CONSOLIDATED INCOME STATEMENT

For the year ended 31 December 2014

	Note	2014 US\$ '000	2013 US\$ '000
Revenue	7	144,088	202,261
Other income	8	3,507	6,409
Operating expenses	9	(62,510)	(76,517)
Carrying value of trading properties sold	22	(1,632)	(32,623)
Administrative expenses	10	(22,303)	(16,911)
Other expenses	11	(6,773)	(5,480)
Total expenses		(93,218)	(131,531)
Share of the after tax loss of joint ventures	17	(4,451)	(798)
Gross Profit		49,926	76,341
Profit on disposal of investment in subsidiaries / joint ventures	35	114	32,278
Profit on disposal of investment property	15	–	27,835
Valuation (loss) / profit on properties	15,16	(85,884)	106,234
Impairment loss on inventory of real estate	20	(8,892)	(2,186)
Net valuation loss on properties		(94,776)	104,048
Results from operating activities		(44,736)	240,502
Finance income		7,026	20,961
Finance costs		(285,633)	(126,132)
Net finance costs	12	(278,607)	(105,171)
(Loss) / Profit before tax		(323,343)	135,331
Tax benefit / (expense)	13	36,048	(31,386)
(Loss) / Profit for the year		(287,295)	103,945
(Loss) / Profit attributable to:			
Owners of the Company		(281,020)	103,074
Non-controlling interests		(6,275)	871
		(287,295)	103,945
Earnings per share			
Basic and diluted earnings per share (cent)	14	(26.82)	9.84

The notes on pages 94 to 140 are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2014

	2014 US\$ '000	2013 US\$ '000
(Loss) / Profit for the year	(287,295)	103,945
Other comprehensive income Items that are or may be reclassified subsequently to profit or loss		
Realised translation difference on disposal of subsidiaries / joint ventures transferred to income statement	(130)	30,042
Foreign currency translation differences for foreign operations	(164,659)	(35,960)
Other comprehensive income for the year	(164,789)	(5,918)
Total comprehensive income for the year	(452,084)	98,027
Total comprehensive income attributable to:		
Owners of the parent	(445,446)	97,230
Non-controlling interests	(6,638)	797
	(452,084)	98,027

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2014

	Attributable to the owners of the Company					Non-controlling interests	Total equity
	Share capital	Share premium	Translation reserve	Retained earnings	Total		
	US\$ '000	US\$ '000	US\$ '000	US\$ '000	US\$ '000	US\$ '000	US\$ '000
Balance at 1 January 2013	1,048	1,763,409	(144,610)	9,661	1,629,508	(2,976)	1,626,532
Total comprehensive income							
Profit for the year	-	-	-	103,074	103,074	871	103,945
Other comprehensive income	-	-	(5,844)	-	(5,844)	(74)	(5,918)
Total comprehensive income	-	-	(5,844)	103,074	97,230	797	98,027
Transactions with owners of the Company							
Contributions and distributions							
Share option expense	-	-	-	4,920	4,920	-	4,920
Balance at 31 December 2013	1,048	1,763,409	(150,454)	117,655	1,731,658	(2,179)	1,729,479
Balance at 1 January 2014	1,048	1,763,409	(150,454)	117,655	1,731,658	(2,179)	1,729,479
Total comprehensive income							
Loss for the year	-	-	-	(281,020)	(281,020)	(6,275)	(287,295)
Other comprehensive income	-	-	(164,426)	-	(164,426)	(363)	(164,789)
Total comprehensive income	-	-	(164,426)	(281,020)	(445,446)	(6,638)	(452,084)
Transactions with owners of the Company							
Contributions and distributions							
Share option expense	-	-	-	4,383	4,383	-	4,383
Balance at 31 December 2014	1,048	1,763,409	(314,880)	(158,982)	1,290,595	(8,817)	1,281,778

The notes on pages 94 to 140 are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2014

	Note	2014 US\$ '000	2013 US\$ '000
Assets			
Investment property	15	1,375,416	1,609,800
Investment property under development	16	431,474	635,266
Share of investment in joint ventures	17	-	5,555
Property, plant and equipment	18	35,101	69,735
Long-term loans receivable	19	18,071	21,652
Inventory of real estate	20	20,111	-
VAT recoverable	21	42	430
Non-current assets		1,880,215	2,342,438
Trading properties	22	2,979	6,409
Trading properties under construction	23	133,036	127,213
Other investments	24	6,499	9,982
Inventory		615	574
Short-term loans receivable	19	1	774
Trade and other receivables	25	38,961	106,425
Current tax assets	13	1,307	-
Cash and cash equivalents	26	86,756	193,330
Current assets		270,154	444,707
Total assets		2,150,369	2,787,145
Equity			
Share capital	27	1,048	1,048
Share premium	27	1,763,409	1,763,409
Translation reserve	27	(314,880)	(150,454)
Accumulated losses / retained earnings	27	(158,982)	117,655
Equity attributable to owners of the Company		1,290,595	1,731,658
Non-controlling interests	36	(8,817)	(2,179)
Total equity		1,281,778	1,729,479
Liabilities			
Long-term loans and borrowings	28	455,097	778,909
Deferred tax liabilities	29	102,621	125,260
Deferred income	32	12,966	22,048
Non-current liabilities		570,684	926,217
Short-term loans and borrowings	28	231,684	27,027
Trade and other payables	30	28,216	100,355
Advances from customers	31	38,007	107
Current tax liabilities	13	-	4,067
Current liabilities		297,907	131,449
Total liabilities		868,591	1,057,666
Total equity and liabilities		2,150,369	2,787,145

The consolidated financial statements were approved by the Board of Directors on 16 March 2015.

Lev Leviev – Chairman

Mark Groyzman – Director

The notes on pages 94 to 140 are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2014

	Note	2014 US\$ '000	2013 US\$ '000
Cash flows from operating activities			
(Loss) / profit for the year		(287,295)	103,945
Adjustments for:			
Depreciation	18	1,595	1,874
Net finance costs	12	278,143	103,823
Share option expense		4,920	4,920
Decrease / (increase) in fair value of properties	15,16,20	94,776	(104,048)
Share of loss in joint ventures	17	4,451	798
Profit on disposal of investment in subsidiaries/joint ventures	35	(114)	(32,278)
Profit on disposal of investment property	15	(27,835)	(27,835)
Profit on disposal of investment property	15	-	(27,835)
Goodwill written off		-	153
Tax (benefit) / expense	13	(36,048)	31,386
		59,849	82,722
Change in trade and other receivables		24,300	(21,011)
Change in inventories		(323)	4
Change in trading properties and trading properties under construction		(51,073)	12,632
Change in advances and amounts payable to builders of trading properties under construction		(6,213)	-
Changes in advances from customers		54,744	-
Change in trade and other payables		(16,003)	(57,336)
Change in VAT recoverable		(201)	-
Change in deferred income		164	3,429
Cash generated from operating activities		65,244	20,440
Taxes paid		(750)	(1,345)
Net cash from operating activities		64,494	19,095
Cash flows from investing activities			
Net cash inflow from the disposal of subsidiaries	35	1,400	3,382
Net cash outflow for the acquisition of assets and liabilities	17	-	(202,462)
Proceeds from sale of other investments		2,150	-
Proceeds from sale of investment property	15	-	91,329
Proceeds from sale of property, plant and equipment		141	334
Interest received		5,941	3,391
Change in advances and amounts payable to builders		(24,502)	(8,788)
Payments for construction of investment property under development	15,16	(54,813)	(32,946)
Payments for the acquisition / renovation of investment property	30	(43,800)	(43,544)
Change in VAT recoverable		3,472	(1,781)
Acquisition of property, plant and equipment	18	(593)	(1,807)
Acquisition of other investments	24	(1,916)	(10,000)
Taxes paid on disposal of investment property		(4,005)	-
Payments for loan receivable		(591)	(214)
Proceeds from repayment of loans receivable		576	-
Net cash used in investing activities		(116,540)	(203,106)

The notes on pages 94 to 140 are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS (CONTINUED)

For the year ended 31 December 2014



	Note	2014 US\$'000	2013 US\$'000
Cash flows from financing activities			
Proceeds from loans and borrowings	28	36,986	306,854
Repayment of loans and borrowings		(26,000)	(34,130)
Repayment of a loan from a related party		-	(14,354)
Interest paid		(53,169)	(59,396)
Net cash (used in) / from financing activities		(42,183)	198,974
Effect of exchange rate fluctuations		(12,345)	3,518
Net (decrease) / increase in cash and cash equivalents		(106,574)	18,481
Cash and cash equivalents at 1 January		193,330	174,849
Cash and cash equivalents at 31 December	26	86,756	193,330

The notes on pages 94 to 140 are an integral part of these consolidated financial statements.

CHAIRMAN'S STATEMENT

EXECUTIVE DIRECTOR'S
STATEMENTUNDERSTANDING
AFI DEVELOPMENT

OPERATIONAL REVIEW

PRINCIPAL BUSINESS RISKS

CORPORATE GOVERNANCE

DIRECTORS' REMUNERATION
REPORT

FINANCIAL STATEMENTS

Notes to the consolidated financial statements

For the year ended 31 December 2014

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, Lodos Waterfront Building, 5th floor, Flat/office 505, 3035 Limassol, Cyprus. The Company is a 64.88% (31/12/2013: 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.

The consolidated financial statements of the Company as at and for the year ended 31 December 2014 comprise the Company and its subsidiaries (together referred to as the "Group" and individually as "Group entities") 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 as presented in note 34 "Group Entities".

2. Basis of preparation

Statement of compliance

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union (EU) and the requirements of the Companies Law of Cyprus, Cap. 113.

The consolidated financial statements were authorised for issue by the Board of Directors on 16 March 2015.

Basis of measurement

The consolidated financial statements have been prepared on the historical cost basis as modified, up to 31 December 2003, by the provisions of IAS

29 "Reporting in Hyperinflationary Economies" which provides for the restatement of non-monetary assets and liabilities to account for the inflation. The historical cost basis is also modified in regard to investment property, investment property under development and other investments which are presented at fair value.

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.

3. Use of judgements and estimates

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

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to estimates are recognised prospectively.

Judgements

Information about judgements made in applying accounting policies that have the most significant effect on the amounts recognised in the consolidated financial statements is included in the following notes:

- Note 17 – classification of the joint arrangements;
- Note 37 – lease classification;

Assumptions and estimation uncertainties

Information about assumptions and estimation uncertainties that have a significant risk of resulting in a material adjustment in the year ending 31 December 2014 is included in the following notes:

- Note 18 – valuation of land and buildings and buildings under construction
- Note 22 – valuation of trading properties
- Note 23 – valuation of trading properties under construction
- Note 13 – provision for tax liabilities
- Note 25 – recoverability of receivables
- Note 31 – utilisation of tax losses
- Note 39 – recognition and measurement of contingencies

Measurement of fair values

A number of the Group's accounting policies and disclosures require the measurement of fair values, for both financial and non-financial assets and liabilities.

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

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

Significant valuation issues are reported to the Group's Audit Committee.

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

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

If the inputs used to measure the fair value of an asset or a liability fall into different levels of the fair value hierarchy, then the fair value measurement is categorised in its 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.

Further information about the assumptions made in measuring fair values is included in the following notes:

- Note 15 – investment property
- Note 16 – investment property under development
- Note 24 – other investments
- Note 27 – share-based payment arrangements
- Note 33 – financial instruments

4. Changes in accounting policies

Several new standards and amendments apply for the first time in 2014. However, they do not impact the annual consolidated financial statements of the Group except for the changes below.

The Group has adopted the following amendments to a standard and new interpretation with a date of initial application of 1 January 2014:

- IAS 32 (Amendments) “Offsetting Financial Assets and Financial Liabilities” (effective for annual periods beginning on or after 1 January 2014).

The nature and effects of the changes are explained below.

Amendments to IAS 32 Offsetting Financial Assets and Financial Liabilities

The Group has applied the amendments to IAS 32 Offsetting Financial Assets and Financial Liabilities for the first time in the current year. The amendments to IAS 32 clarify the requirements relating to the offset of financial assets and financial liabilities. Specifically, the amendments clarify the meaning of ‘currently has a legally enforceable right of set-off’ and ‘simultaneous realisation and settlement’.

The amendments have been applied retrospectively.

The Group has assessed whether certain of its financial assets and financial liabilities qualify for offset based on the criteria set out in the amendments and concluded that the application of the amendments has had no impact on the amounts recognised in the Group’s consolidated financial statements.

5. Significant accounting policies

Except for the changes explained in Note 4, the Group has consistently applied the following accounting policies to all periods presented in these consolidated financial statements.

Basis of consolidation

Subsidiaries

Subsidiaries are entities controlled by the Group. The Group controls an entity when it is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. The financial statements of subsidiaries are included

in the consolidated financial statements from the date on which control commences until the date on which control ceases.

Non-controlling interests (NCI)

NCI are measured at their proportionate share of the acquiree’s identifiable net assets at the date of acquisition. Subsequently the Group attributes profit or loss and each components of Other Comprehensive Income (OCI) to the NCI even if this results in a deficit balance. Changes in the Group’s interest in a subsidiary that do not result in a loss of control are accounted for as equity transactions.

Loss of control

When the Group loses control over a subsidiary, it derecognises the assets and liabilities of the subsidiary and any related NCI and other components of equity. Any resulting gain or loss is recognised in profit or loss. Any interest in the former subsidiary is measured at fair value when control is lost.

Interests in equity-accounted investees

The Group's interests in equity-accounted investees, comprise interests in joint ventures.

A joint venture is an arrangement in which the Group has joint control, whereby the Group has rights to the net assets of the arrangement, rather than rights to its assets and obligations for its liabilities.

Interests in joint ventures are accounted for using the equity method. They are initially recognised at cost, which includes transaction costs. Subsequent to initial recognition, the consolidated financial statements include the Group's share of the profit or loss and OCI of equity-accounted investees, until the date on which joint control ceases.

Transactions eliminated on consolidation

Intra-group balances and transactions and any unrealised income and expenses arising from intra-group transactions, are eliminated. Unrealised gains arising from transactions with equity-accounted investees are eliminated against the investment to the extent of the Group's interest in the investee. Unrealised losses are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment.

Foreign currency

Foreign currency transactions

Transactions in foreign currencies are translated to the respective functional currencies of Group entities at exchange rates at the dates of the transactions.

Monetary assets and liabilities denominated in foreign currencies are translated into the functional currency at the exchange rate at the reporting date. Non-monetary assets and liabilities that are measured at fair value in a foreign currency are translated to the functional currency at the exchange rate when the fair value was determined. Foreign currency differences are generally recognised in profit or loss. Non-monetary items that are measured based on historical cost in a foreign currency are not translated.

Foreign operations

The assets and liabilities of foreign operations are translated into US Dollars at the exchange rates at the reporting date. The income and expenses of foreign operations are translated into US Dollars at the exchange rates at the dates of the transactions or average rate for the year for practical reasons. If the volatility of the exchange rates is high for a given year or period the Group uses the average rate for shorter periods i.e. quarters or months for income and expense items.

Foreign currency differences are recognised in OCI and accumulated in the translation reserve, except to the extent that the translation difference is allocated to NCI.

When a foreign operation is disposed of in its entirety or partially such that control or joint control is lost, the cumulative amount in the translation reserve related to that foreign operation is reclassified to profit or loss as part of the gain or loss on disposal. If the Group disposes of part of its interest in a subsidiary but retains control, then the relevant proportion of the cumulative amount is reattributed to NCI. When the Group disposes of only part of joint venture while retaining joint control, the relevant proportion of the cumulative amount is reclassified to profit or loss.

If the settlement of a monetary item receivable from or payable to a foreign operation is neither planned nor likely to occur in the foreseeable future, then foreign currency differences arising from such item form part of the net investment in a foreign operation. Accordingly, such differences are recognised in OCI, and accumulated in the translation reserve.

The table below shows the exchange rates of Russian Roubles which is the functional currency of the Russian subsidiaries of the Group:

As of:	Exchange rate Russian Roubles	
	for US\$1	% Change
31 December 2014	56.2584	71.9
31 December 2013	32.7292	7.8
Average rate during:		
Three-month period ended 31 December 2014	47.4243	34.0
Nine-month period ended 30 September 2014	35.3878	11.1
Year ended 31 December 2013	31.8480	2.4

Financial Instruments

The Group classifies non-derivative financial assets into the following categories: financial assets at fair value through profit or loss and loans and receivables.

The Group classifies non-derivative financial liabilities into the other financial liabilities category.

Non-derivative financial assets and financial liabilities-Recognition and derecognition

The Group initially recognises loans and receivables on the date when they are originated. All other financial assets and financial liabilities are initially recognised on the trade date.

The Group derecognises a financial asset when the contractual rights to the cash flows from the asset expire, or it transfers the rights to receive the contractual cash flows in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred, or it neither transfers nor retains substantially all of the risks and rewards of ownership and does not retain control over the transferred asset. Any interest in such derecognised financial assets that is created or retained by the Group is recognised as a separate asset or liability.

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

Financial assets and liabilities are offset and the net amount presented in the statement of financial position when, and only when, the Group has a legal right to offset the amounts and intends either to settle them on a net basis or to realise the asset and settle the liability simultaneously.

Non-derivative financial assets-measurement

Financial assets at fair value through profit or loss.

A financial asset is classified as at fair value through profit or loss if it is classified as held for trading or is designated as such on initial recognition. Directly attributable transaction costs are recognised in profit or loss as incurred.

Financial assets at fair value through profit or loss are measured at fair value and changes therein, including any interest or dividend income are recognised in profit or loss.

Cash and cash equivalents

For the purpose of the statement of cash flows, cash and cash equivalents comprise cash at bank, cash in hand and deposits on demand.

Loans and receivables

These assets are initially recognised at fair value plus any directly attributable transaction costs. Subsequent to initial recognition, they are measured at amortised cost using the effective interest rate method.

Non derivative financial liabilities-measurement

Non-derivative financial liabilities are initially recognised at fair value less any direct attributable transaction costs. Subsequent to initial recognition, these liabilities are measured at amortised cost using the effective interest method.

Share capital

Ordinary shares

Incremental costs directly attributable to the issue of ordinary shares, net of any tax effects, are recognised as a deduction from equity.

Investment property

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

Any gain or loss on disposal of investment property (calculated as the difference between the net proceeds from disposal and the carrying amount of the item) is recognised in profit or loss.

When the use of a property changes from owner-occupied to investment property, the property is remeasured to fair value and reclassified accordingly. Any gain arising on this remeasurement is recognised in profit or loss to the extent that it reverses a previous impairment loss on the specific property, with any remaining gain recognised in OCI and presented in the revaluation reserve. Any loss is recognised in profit or loss.

When the use of a property changes such that it is reclassified as property, plant and equipment, its fair value at the date of reclassification becomes its cost for subsequent accounting.

When the Group begins to redevelop an existing property for continued use as investment property, the property remains an investment property, which is measured based on fair value model, and is not reclassified as property plant and equipment during the redevelopment.

Investment property under development

Property that is being constructed or developed for future use as investment property is classified as investment property under development and accounted for at fair value until construction or development is complete, at which time it is reclassified as investment property.

Certain development assets within the Group's portfolio that are in very early stages of development process were categorised as "land bank" without ascribing current market value to them. Any value ascribed to such land bank projects other than their cost, would result in a gain or loss to be recognised

in profit or loss. This approach was adopted due to abnormal market volatility and will be reviewed in the future once market conditions are more stable.

All costs directly related with the purchase and construction of a property, land lease payments, and all subsequent capital expenditure for the development qualifying as acquisition costs are capitalised.

Capitalisation of financing costs

Financing costs are capitalised if they are directly attributable to the acquisition or production of a qualifying asset. Capitalisation of financing costs commences when the activities to prepare the asset are in process and expenditures and financing costs are being incurred. Capitalisation of financing costs may continue until the assets are substantially ready for their intended use. If the resulting carrying amount of the asset exceeds its recoverable amount, an impairment loss is recognised. The capitalisation rate is arrived at by reference to the actual rate payable on borrowings for development purposes or, with regard to that part of the development cost financed out of general funds, to the average rate. The capitalised financing cost is limited to the amount of borrowing cost actually incurred.

Property, plant and equipment

Recognition and measurement

Items of property, plant and equipment are measured at cost less accumulated depreciation and accumulated impairment losses.

Cost includes expenditures that are directly attributable to the acquisition of the asset. The cost of self-constructed assets includes the cost of materials and direct labour, any other costs directly attributable to bringing the assets to a working condition for their intended use, the costs of dismantling and removing the items and restoring the site on which they are located, and capitalise borrowing costs. Purchased software that is integral to the functionality of the related equipment is capitalised as part of that equipment.

All hotels are treated as property, plant and equipment due to the Group's significant influence on their management.

If significant parts of an item of property, plant and equipment have different useful lives, then they are accounted for as separate items (major components) of property, plant and equipment.

Any gain or loss on disposal of an item of property, plant and equipment is recognised in profit or loss.

Subsequent expenditure

Subsequent expenditure is capitalised only if it is probable that the future economic benefits associated with the expenditure will flow to the Group.

Depreciation

Depreciation is calculated to write off the cost of items of property, plant and equipment less their estimated residual values using the straight-line method over their estimated useful lives, and is generally recognised in profit or loss. Leased assets are depreciated over the shorter of the lease term and their useful lives unless it is reasonably certain that the Group will obtain ownership by the end of the lease term. Land is not depreciated.

Items of property, plant and equipment are depreciated from the date that they are available for use, or in respect of self-constructed assets, from the date that the asset is completed and ready for use.

The annual depreciation rates for the current and comparative periods are as follows:

Buildings	1-2%
Office equipment	10-33½%
Motor vehicles	33½%

Depreciation methods, useful lives and residual values are reviewed at each reporting date and adjusted if appropriate.

Intangible assets and goodwill

Goodwill

Goodwill arising on the acquisition of subsidiaries represents the excess of the cost of acquisition over the Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities of the acquiree. When the excess is negative (negative goodwill), it is recognised immediately in profit or loss.

Goodwill is measured at cost less accumulated impairment losses. In respect of equity-accounted investees, the carrying amount of goodwill is included in the carrying amount of the investment, and any impairment loss is allocated to the carrying amount of the equity-accounted investee as a whole.

Trading properties

Trading Properties are measured at the lower of cost and net realisable value. Cost includes expenditure incurred in acquiring the properties and bringing them to their existing condition. In the case of constructed trading properties, cost includes an appropriate share of direct and financing costs. Net realisable value is the estimated selling price in the ordinary course of business, less estimated costs of completion and selling expenses.

Trading properties under construction

Trading properties under construction are defined as projects in which the Group participates as a contractor or as a promoter, and which include construction work with the intention to sell the entire building as a whole or parts thereof. Each project represents one building or a group of buildings.

A group of buildings is considered one project when the buildings at the same building site are being constructed according to one building plan and under one building license, and are offered for sale at the same time. Trading properties include cost of land or of rights to the land that constitutes the relative portion of the area, on which the construction work on

projects is performed, plus the cost of the work executed on the projects as well as other costs allocated thereto, less the cumulative amounts recognised in profit or loss as cost of trading properties sold up to the end of the reported period.

Direct costs and expenses are charged to projects on a specific basis, whereas borrowing costs are allocated among the projects based on the relative proportion of the costs. Non-specific borrowing costs are capitalised to such qualifying asset, or portion thereof which was not financed with specific credit, by weighted-average rate of the borrowing cost up to the amount of borrowing cost actually incurred. Where the estimated expenses for a building project indicate that a loss is expected, an appropriate provision is set up. Buildings that are under construction are classified as trading properties under construction on the statement of financial position.

Inventory of real estate

Land for future development of trading properties is classified as "Inventory of real estate" as non-current asset when it is not expected to develop and sell the properties within the Group's normal operating cycle. It is presented at the lower of cost or net realisable value.

Deferred income

Income received in advance is classified under non-current and current liabilities as deferred income and comprise rental income received for future periods and amounts received in advance for the sale of trading properties, for which recognition of revenue has not yet commenced.

Impairment

Non-derivative financial assets

Financial assets not classified as at fair value through profit or loss, including an interest in equity-accounted investee are assessed at each reporting date to determine whether there is objective evidence of impairment.

Objective evidence that financial assets are impaired includes:

- default or delinquency by a debtor;
- restructuring of an amount due to the Group on terms that the Group would not consider otherwise;
- indications that a debtor or issuer will enter bankruptcy;
- adverse changes in the payment status of borrowers or issuers;
- the disappearance of an active market for a security; or
- observable date indicating that there is a measurable decrease in expected cash flows from a group of financial assets.

Financial assets measured at amortised cost

The Group considers evidence of impairment for these assets at both an individual asset and a collective level. All individually significant assets are individually assessed for impairment. Those found not to be impaired are then collectively assessed for any impairment that has been incurred but not yet individually identified. Assets that are not individually significant are collectively assessed for impairment. Collective assessment is carried out by grouping together assets with similar risks characteristics.

In assessing collective impairment, the Group uses historical information on the timing of recoveries and the amount of loss incurred, and makes an adjustment if current economic and credit conditions are such that the actual losses are likely to be greater or lesser than suggested by historical trends.

An impairment loss is calculated as the difference between an asset's carrying amount and the present value of the estimated future cash flows discounted at the asset's original effective interest rate. Losses are recognised in profit or loss and reflected in an allowance account. When the Group considers that there are no realistic prospects of recovery of the asset, the relevant amounts are written off. If the amount of impairment loss subsequently decreases and the decrease can be related objectively to an even occurring after the impairment was recognised, then the previously recognised impairment loss is reversed through profit or loss.

Equity-accounted investees

An impairment loss in respect of an equity-accounted investee is measured by comparing the recoverable amount of the investment with its carrying amount. An impairment loss is recognised in profit or loss, and is reversed if there has been a favourable change in the estimates used to determine the recoverable amount.

Non-financial assets

At each reporting date, the Group reviews the carrying amounts of its non-financial assets (other than investment property, investment property under development, VAT recoverable, inventories and deferred tax assets) to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated.

For impairment testing, assets are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets.

The recoverable amount of an asset is the greater of its value in use and its fair value less costs to sell. Value in use is based on the estimated future cash flows, discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

An impairment loss is recognised if the carrying amount of an asset exceeds its recoverable amount and recognised in profit or loss.

An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss has been recognised.

Assets held for sale

Non-current assets, or disposal groups comprising assets and liabilities, are classified as held-for sale or held if it is highly probable that they will be recovered primarily through sale rather than through continuing use.

Such assets, or disposal groups, are generally measured at the lower of their carrying amount and fair value less costs to sell. Any impairment loss on a disposal group is allocated first to goodwill, and then to the remaining assets and liabilities on a pro rate basis, except that no loss is allocated to inventories, financial assets, deferred tax assets, employee benefit assets or investment property which continue to be measured in accordance with the Group's other accounting policies. Impairment losses on initial classification as held-for sale or held-for distribution and subsequent gains and losses on remeasurement are recognised in profit or loss.

Once classified as held for sale, intangible assets, and property, plant and equipment are no longer amortised or depreciated and any equity-accounted investee is no longer equity accounted.

Employee benefits

Short-term employee benefits

Short-term employee benefits are expensed as the related service is provided. A liability is recognised for the amount expected to be paid if the Group has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee and the obligation can be estimated reliably.

Share-based payment transactions

The grant-date fair value of equity-settled share-based payment options granted to employees is generally recognised as an expense, with a corresponding increase in equity, over the period that the employees unconditionally become entitled to the options. The amount recognised as an expense is adjusted to reflect the actual number of share options that vest.

The fair value of the amount payable to employees in respect of share appreciation rights, which are settled in cash, is recognised as an expense, with a corresponding increase in liabilities, over the period during which the employees become unconditionally entitled to payment. The liability is remeasured at each reporting date and at settlement date based on the fair value of share appreciation rights. Any changes in the liability are recognised in profit or loss.

Provisions

A provision is recognised if, as a result of a past event, the Group has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability. The unwinding of the discount is recognised as finance cost.

Revenue

Sale of trading properties

Revenue from sale of trading properties is recognised in profit or loss when the significant risks and rewards of ownership have been transferred to the buyer.

Construction Management fee

Revenue from construction management is recognised in profit or loss in proportion to the stage of completion of the transaction at the reporting date. The stage of completion is assessed by reference to surveys of work performed.

Investment Property Rental income

Rental income from investment property is recognised as revenue on a straight-line basis over the term of the lease. Lease incentives granted are recognised as an integral part of the total rental income, over the term of the lease.

Hotel operation income

Income from hotel operations comprises of accommodation, treatments and other services offered at the hotels operated by the group and sales of food and beverages and are recognised upon offering of the service and the acceptance by the client.

Gross Profit

Gross profit is the result of the Group's operations and comprises revenue and other revenue net of all cost for trading properties sold and operating, administrative and other expenses, recognised in profit or loss during the year.

Finance income and finance costs

Finance income includes interest income on funds invested and net gain on financial assets at fair value through profit or loss. Interest income is recognised as it accrues in profit or loss, using the effective interest method.

Finance costs include interest expense on borrowings, unwinding of the discount on provisions and deferred consideration, net loss on financial assets at fair value through profit or loss and impairment losses recognised on financial assets.

Borrowing costs are recognised in profit or loss using the effective interest method, net of interest capitalised.

Foreign currency gain or loss on financial assets and financial liabilities is reported on a net basis as either finance income or finance cost depending on whether foreign currency movements are in a net gain or net loss position.

Income tax

Income tax expense comprises current and deferred tax. It is recognised in profit or loss except to the extent that it relates to items recognised directly in equity or in OCI.

Current tax

Current tax comprises the expected tax payable or receivable on the taxable income or loss for the year and any adjustment to tax payable or receivable in respect of previous years. It is measured using tax rates enacted or substantively enacted at the reporting date. Current tax also includes any tax arising from dividends.

Deferred tax

Deferred tax is recognised in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes.

Deferred tax is not recognised for temporary differences on the initial recognition of assets or liabilities that affects neither accounting nor taxable profit or loss.

Deferred tax assets are recognised for unused tax losses, unused tax credits and deductible temporary differences to the extent that it is probable that future taxable profits will be available against which they can be used. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised; such reductions are reversed when the probability of future taxable profits improves. Unrecognised deferred tax assets are reassessed at each reporting date and recognised to the extent that it has become probable that future taxable profits will be available against which they can be used.

Deferred tax is measured at the tax rates that are expected to be applied to temporary differences when they reverse, using tax rates enacted or substantively enacted at the reporting date.

The measurement of deferred tax reflects the tax consequences that would follow from the manner in which the Group expects, at the reporting date, to recover or settle the carrying amount of its assets and liabilities. For this purpose the carrying amount of investment property measured at fair value is presumed to be recovered through sale and the Group has not rebutted this presumption.

Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax liabilities and assets, and they relate to taxes levied by the same tax authority on the same taxable entity, or on different tax entities, but they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realised simultaneously.

The provision for taxation either current or deferred is based on the tax rate applicable to the country of residence of each subsidiary.

Discontinued operations

A discontinued operation is a component of the Group's business, the operations and cash flows of which can be clearly distinguished from the rest of the Group and which:

- represents a separate major line of business or geographical area of operations;
- is part of a singly co-ordinated plan to dispose of a separate major line of business or geographic area of operations; or
- is a subsidiary acquired exclusively with a view to resale.

Classification as a discontinued operation occurs at the earlier of disposal or when the operation meets the criteria to be classified as held for sale.

When an operation is classified as a discontinued operation, the comparative statement of profit or loss and OCI is re-presented as if the operation had been discontinued from the start of the comparative year.

Earnings per share

The Group presents basic and diluted earnings per share (EPS) data for its ordinary shares. Basic EPS is calculated by dividing the profit or loss attributable to the owners of the Company by the weighted average number of ordinary shares outstanding during the year. Diluted EPS is determined by adjusting the profit or loss attributable to the owners of the Company and the weighted average number of ordinary shares outstanding for the effects of all dilutive potential ordinary shares, which comprise share options granted to employees.

Segment reporting

An operating segment is a component of the Group that engages in business activities from which it may earn revenues and incur expenses, including revenues and expenses that relate to transactions with any of the Group's other components. All segments results are reviewed regularly by the Group's management to make decisions about resources to be allocated to the segment and assess its performance, and for which discrete financial information is available.

Adoption of new and revised International Financial Reporting Standards and Interpretations

As from 1 January 2014, the Group adopted all changes to International Financial Reporting Standards (IFRSs) as adopted by the EU which are relevant to its operations.

(ii) Standards and Interpretations adopted by the EU

The following Standards, Amendments to Standards and Interpretations have been issued but are not yet effective for annual periods beginning on 1 January 2014. Those which may be relevant to the Company are set out below. The Company does not plan to adopt these Standards early.

- IAS 19 (Amendments) "Defined Benefit Plans: Employee Contributions" (effective for annual periods beginning on or after 1 July 2014).
- Improvements to IFRSs 2010-2012 (effective for annual periods beginning on or after 1 July 2014).
- Improvements to IFRSs 2011-2013 (effective for annual periods beginning on or after 1 July 2014).

(iii) Standards and Interpretations not adopted by the EU

- IFRS 14 "Regulatory Deferral Accounts" (effective for annual periods beginning on or after 1 January 2016).
- IFRS 10, IFRS 12 and IAS 28 (Amendments): Investment Entities: Applying the Consolidation Exception (effective for annual periods beginning on or after 1 January 2016).

- IFRS 11 "Accounting for acquisitions of interests in Joint Operations" (Amendments) (effective for annual periods beginning on or after 1 January 2016).
- IAS 1 (Amendments): Disclosure Initiative (effective for annual periods beginning on or after 1 January 2016).
- IFRS 10 and IAS 28 (Amendments): Sale or Contribution of Assets between an Investor and its Associate or Joint Venture (effective for annual periods beginning on or after 1 January 2016).
- IAS 27 (Amendments) "Equity method in separate financial statements" (effective for annual periods beginning on or after 1 January 2016).
- IAS 16 and IAS 41 (Amendments): "Bearer plants" (effective for annual periods beginning on or after 1 January 2016).
- IAS 16 and IAS 38 (Amendments) "Clarification of acceptable methods of depreciation and amortisation" (effective for annual periods beginning on or after 1 January 2016).
- Annual Improvements to IFRSs 2012-2014 Cycle (effective the latest as from the commencement date of its first annual period beginning on or after 1 January 2016).
- IFRS 15 "Revenue from contracts with customers" (effective for annual periods beginning on or after 1 January 2017).
- IFRS 9 "Financial Instruments" (effective for annual periods beginning on or after 1 January 2018).

The Board of Directors expects that the adoption of the above financial reporting standards in future periods will not have a significant effect on the financial statements of the Company except of:

- The adoption of IFRS 15 which could affect the consolidated financial statements.

The extent of the impact has not been determined.

6. Operating segments

The Group has five reportable segments, as described below, which are the Group's strategic business units. The strategic business units offer different types of real estate products and services and are managed separately because they require different marketing strategies as they address different types of clients. For each strategic business unit the Group's management reviews internal management reports on at least monthly basis. The following summary describes the operation in each of the Group's reportable segments.

- Development Projects – Commercial projects: Include construction of property for future lease.
- 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
- Other – Land bank: Includes the investment and holding of property for future development.

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



	Development projects											
	Commercial projects				Residential projects				Asset management		Hotel Operation	
	Other - land bank		Total									
	2014	2013			2014	2013	2014	2013	2014	2013	2014	2013
	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	117	54,494	2,512	3,049	117,348	111,942	15,288	17,749	8,823	15,027	144,088	202,261
Inter-segment revenue	1	1	4	1	-	-	15	18	410	469	430	489
Profit on disposal investment property	-	-	-	-	-	27,835	-	-	-	-	-	27,835
Interest revenue	1,278	3	70	6	313	397	762	722	4,603	4,729	7,026	5,857
Interest expense	(44)	(45)	(60)	(201)	(56,428)	(65,088)	(153)	(1,402)	(4,153)	(166)	(60,838)	(66,902)
Depreciation	-	(17)	(49)	(7)	(269)	(438)	(1,149)	(1,286)	(128)	(144)	(1,595)	(1,892)
Reportable segment (loss) / profit before tax	(4,676)	25,662	2,236	(2,113)	(220,037)	6,418	8,627	3,350	(2,730)	(14,338)	(216,580)	18,979
Other material non-cash items:												
Net valuation gains / (loss) on properties	(129,467)	82,012	(8,892)	(2,186)	123,278	45,415	-	-	(79,695)	(21,193)	(94,776)	104,048
Reportable segment assets	208,923	318,962	175,444	178,199	1,362,157	1,582,780	27,471	53,938	250,735	390,957	2,024,730	2,524,836
Reportable segment liabilities	4,60	-	38,348	-	808,615	1,011,865	-	-	1,323	4,163	852,893	1,016,028

Note: Development projects: investment projects under construction, including construction of residential properties.
Asset management: yielding property management (all commercial properties).

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



	2014 US\$'000	2013 US\$'000
Revenues		
Total revenue for reportable segments	144,518	202,750
Elimination of inter-segment revenue	(430)	(489)
Consolidated revenue	144,088	202,261
Profit or loss		
Total profit or loss for reportable segments	(216,580)	18,979
Other profit or loss	(7,650)	(19,176)
Share of the after tax (loss) / profit of joint ventures	(4,451)	(798)
Profit on disposal of investment in joint venture / subsidiaries	114	32,278
Valuation (loss) / gain on properties	(85,884)	106,234
Impairment loss on inventory of real estate	(8,892)	(2,186)
Consolidated (loss) / profit before tax	(323,343)	135,331
Assets		
Total assets for reportable segments	2,024,730	2,524,836
Other unallocated amounts	125,639	262,309
Consolidated total assets	2,150,369	2,787,145
Liabilities		
Total liabilities for reportable segments	852,893	1,016,028
Other unallocated amounts	15,698	41,638
Consolidated total liabilities	868,591	1,057,666



	Reportable segment totals, US\$'000	Adjustments US\$'000	Consolidated totals, US\$'000
Other material items 2014			
Interest revenue	7,026	-	7,026
Interest expense	(60,838)	5,198	(55,640)
Net valuation loss on properties	(94,776)	-	(94,776)

	Reportable segment totals, US\$'000	Adjustments US\$'000	Consolidated totals, US\$'000
Other material items 2013			
Interest revenue	5,857	15,104	20,961
Interest expense	(66,902)	6,525	(60,377)
Net valuation gain on properties	104,048	-	104,048

Geographical segments

Geographically the Group operates only in Russia and has no significant revenue or assets in other countries or geographical areas. Therefore no geographical segment reporting is presented.

Major customer

There was no concentration of revenue from any single customer in any of the segments.

7. Revenue

	2014 US\$'000	2013 US\$'000
Investment property rental income	126,152	126,965
Sales of trading properties (note 22)	2,411	57,540
Hotel operation income	15,287	17,738
Construction consulting / management fees	238	18
	144,088	202,261

8. Other income

Other income consist of:

	2014 US\$'000	2013 US\$'000
Penalties charged to tenants	1,219	2,198
Reimbursement of depositary fees	1,500	-
Profit on sale of property, plant and equipment	42	57
Sundries	746	4,154
	3,507	6,409

9. Operating expenses

	2014 US\$'000	2013 US\$'000
Maintenance, utility and security expenses	24,140	25,422
Agency and brokerage fees	825	4,552
Advertising expenses	4,462	4,186
Salaries and wages	17,553	19,398
Consultancy fees	994	1,516
Depreciation	1,412	1,721
Insurance	717	799
Rent	2,408	3,086
Property and other taxes	9,899	15,750
Other operating expenses	100	87
	62,510	76,517

10. Administrative expenses

	2014 US\$'000	2013 US\$'000
Consultancy fees	1,835	2,149
Legal fees	1,273	998
Auditors' remuneration	784	805
Valuation expenses	161	174
Directors' remuneration	2,024	1,497
Salaries and wages	16	6
Depreciation	183	155
Insurance	247	280
Provision for Doubtful Debts	4,568	(926)
Share option expense	4,383	4,920
Donations	4,834	4,527
Other administrative expense	1,995	2,326
	22,303	16,911

11. Other expenses



	2014 US\$'000	2013 US\$'000
Prior years' VAT non recoverable (note 21)	600	1,564
Compensation paid for fire damages	-	811
Legal claim	1,453	-
Sundries	4,720	3,105
	6,773	5,480

12. Finance income and finance costs



	2014 US\$'000	2013 US\$'000
Interest income	7,026	5,858
Loans written off	-	15,103
Finance income	7,026	20,961
Interest expense on loans and borrowings	(4)	(156)
Interest expense on bank loans	(55,636)	(60,221)
Net change in fair value of financial assets	(3,263)	(18)
Translation reserve reclassified upon disposal of joint venture (note 35)	-	(30,288)
Other finance costs	(1,936)	(6,508)
Net foreign exchange loss	(224,794)	(28,941)
Finance costs	(285,633)	(126,132)
Net finance costs	(278,607)	(105,171)

The net foreign exchange loss recognised during 2014 is a result of the strengthening of the US Dollar to the Russian Rouble by 72%, during 2014. The recognised loss is mainly attributable to the US Dollar denominated loans held by Russian subsidiaries or branches where the functional currency is the Russian Rouble.

Subject to the provisions of IAS23 "Borrowing costs" in 2014 the Group did not capitalise any amount

(2013: Nil) of financing costs to the projects that are in construction phase.

Loans payable written off during 2013 represent short term loans and borrowings of a Group's subsidiary, which were written off, during the first quarter of 2013 based on the understanding that neither legal nor implied obligations are no longer valid regarding these liabilities.

13. Tax expense

	2014 US\$'000	2013 US\$'000
Current tax expense		
Current year	508	8,666
Adjustment for prior years	107	245
	615	8,911
Deferred tax (benefit) / expense		
Origination and reversal of temporary differences	(36,663)	22,475
Total tax (benefit) / expense	(36,048)	31,386

The provision for taxation either current or deferred is based on the tax rates applicable to the country of residence of each Group entity. Cypriot entities are

subject to 12.5% corporate rate whereas Russian subsidiaries are subject to 20% corporate rate.

	%	2014 US\$'000	%	2013 US\$'000
(Loss) / profit for the year after tax		(287,295)		103,945
Total tax (benefit) / expense		(36,048)		31,386
(Loss) / profit before tax		(323,343)		135,331
Tax using the Company's domestic tax rate	(12.5)	(40,418)	12.5	16,916
Effect of tax rates in foreign jurisdictions	(8.6)	(27,691)	7.5	10,246
Tax exempt income	(4.1)	(13,235)	(6.3)	(8,570)
Non deductible expenses	5.9	18,968	8.2	11,047
Change in estimates related to prior years	-	107	0.2	241
Current year losses for which no deferred tax asset recognised	8.1	26,221	1.1	1,506
	(11.2)	(36,048)	23.2	31,386

The current tax assets of US\$1,307 thousand as at 31 December 2014, represents the net amount of income tax overpayment in respect of current and prior periods. The current tax liabilities of US\$4,067

thousand as at 31 December 2013, represents the net amount of income tax payable in respect of year ended 31 December 2013 and prior periods net of payments made up to the year end.

14. Earnings per share

Basic earnings per share	2014		2013	
	US\$'000		US\$'000	
(Loss) / profit attributable to ordinary shareholders	(281,020)		103,074	
Weighted average number of ordinary shares	Shares in thousands		Shares in thousands	
Weighted average number of shares	1,047,694		1,047,694	
Earnings per share (cent)	(26.82)		9.84	

Diluted earnings per share are not presented as the assumed conversion of the employee share options outstanding would have an anti-dilutive effect i.e. increase in earnings per share.

15. Investment property

a) Reconciliation of carrying amount

	2014		2013	
	US\$'000		US\$'000	
Balance at 1 January	1,609,800		1,292,300	
Reclassification from investment property under development	-		1,852	
Reclassification to trading properties (note 22)	(432)		-	
Acquisitions	-		388,254	
Disposal of investment property	-		(61,397)	
Renovations / additional cost	6,814		13,186	
Fair value adjustment	110,782		42,455	
Effect of movement in foreign exchange rates	(351,548)		(66,850)	
Balance at 31 December	1,375,416		1,609,800	

The investment property was revalued by independent appraisers on 31 December 2014. The cumulative adjustments, for all projects, are shown in line "Fair value adjustment" in the table above.

The decrease due to the effect of the foreign exchange rates is a result of the strengthening of the US Dollar to the Russian Rouble by 72%, during 2014. The fair value adjustment gain is mostly related to this rouble weakening.

Acquisitions during 2013 represent the effect of the acquisition of the 100% of the previously 50% owned joint venture Krown Investments LLC, which was thereafter treated as a subsidiary.

The disposal of investment property during 2013 represents Building 1 of the Ozerkovskaya (Aquamarine) phase III office complex in Moscow, which was disposed on 20 December 2013. Under the transaction, Krown Investments LLC, the subsidiary holding the rights to Ozerkovskaya (Aquamarine) phase III, sold premises of the first building in the Complex and part of underground premises with gross area of 10,985.8 sq.m a terrace of 418.9 sq.m and approximately a 15.8% share in the title to common areas of the Complex, which total 3,728.6 sq.m (total transacted area corresponds to approximately 11,994 sq.m), to a Russian state controlled corporation. The consideration received amounted to Russian rouble equivalent of US\$91.5 million and applicable Russian VAT resulting in a profit of US\$27.8 million before taxes.

b) Measurement of fair value

Fair value hierarchy

The fair value of investment property was determined by external, registered independent property valuers, having appropriate recognised professional qualifications and recent experience in the location and category of the property being valued. The independent valuers provide the fair value of the Group's investment property portfolio every six months. The same applies for investment property under development in note 16 below.

The fair value measurement for investment property of US\$1,375,416 thousand (2013: US\$1,609,800 thousand) has been categorised as a level 3 fair value based on the inputs to the valuation technique used.

Level 3 fair value

The table presented in reconciliation of carrying amount in 15(a) above shows the reconciliation from the opening balances to the closing balances for level 3 fair values, since all fair values of investment properties of the Group, are categorised as level 3.

Valuation technique and significant unobservable inputs

The following table shows the valuation technique used in measuring the fair value of investment property, as well as the significant unobservable inputs used.

Valuation technique	Significant unobservable inputs	Inter-relationship between key unobservable inputs and fair value measurement
Discounted cash flows: The valuation model considers the present value of net cash flows to be generated from each property, taking into account rental rates and expected rental growth rate, occupancy rate and void periods together reflected in vacancy rates, construction cost, opening and completion dates, lease incentive costs such rent free periods, taxes* and other costs not paid by tenants. The expected net cash flows are discounted using the risk-adjusted discount rates plus the final year stream is discounted with an all-risk Yield. Among other factors, discount rate estimation considers type of property offered (retail, commercial, office) quality of building and its location, tenant credit quality and lease terms.	<ul style="list-style-type: none"> • Average Rental rates per sq.m: Office class A \$650, class B \$250-\$350, Retail \$185-\$8,790 • Expected market rental growth office 0-3% average, retail 0-2.5% average • Vacancy rate (class A 0-2% class B 4-13%) • Risk-adjusted discount rates (14.5%-19%) • All-Risk Yield 10%-15.5% 	<p>The estimated fair value would increase / (decrease) if:</p> <ul style="list-style-type: none"> • Average rental rates were higher / (lower) • Expected market rental growth were higher / (lower) • Void periods were shorter / (longer) • The vacancy rates were lower / (higher) • The risk-adjusted discount rate were lower (higher) • All-risk yields were lower / (higher)

Investment properties at fair value are categorised in the following:

	2014 US\$'000	2013 US\$'000
Retail properties	1,000,000	1,160,000
Office space properties	375,416	449,800
	1,375,416	1,609,800

Fair value sensitivity analysis

Presented below is the effect on the fair value of the main investment property project, of an increase / (decrease) in the below inputs at the re-

porting date. This analysis assumes that all other variables remain constant.

AFIMALL City

Capitalization Rates	Increase of 1%	Rate used in fair value calculation as at 31/12/2014 10%	Decrease of 1%
Fair value (US\$ '000)	949,424	1,000,000	1,060,691
Average rental rates per sq.m	Decrease of 5%	Rate used in fair value calculation as at 31/12/2014 US\$1,147 sq.m	Increase of 5%
Fair value (US\$ '000)	966,543	1,000,000	1,033,457
	Decrease of 10%		Increase of 10%
	933,085	1,000,000	1,066,915
Occupancy rates	Decrease of 2%	Rate used in fair value calculation as at 31/12/2014 97%	Increase of 2%
Fair value (US\$ '000)	982,016	1,000,000	1,022,800

16. Investment property under development

	2014 US\$'000	2013 US\$'000
Balance at 1 January	635,266	567,737
Construction costs	83,820	17,050
Disposal	(1,400)	-
Acquisition	-	846
Transfer to investment property	-	(1,852)
Fair value adjustment	(196,666)	63,779
Effect of movements in foreign exchange rates	(89,546)	(12,294)
Balance at 31 December	431,474	635,266

During the period the Company disposed of its 100% share in Keyiri Trade & Invest Limited with its Russian subsidiary Favorit LLC, holding rights to the St Petersburg project, of a book value of US\$1,400 thousand. For further details refer to note 35.

The investment property under development was re-valued by independent appraisers on 31 December 2014. The cumulative adjustments, for all projects, are shown in line "Fair value adjustment" in the table above. The decrease due to the effect of the foreign exchange rates is a result of the strengthening of the US Dollar to the Russian Rouble by 72%, during 2014.

The Fair value adjustment loss is a result of the overall economic deterioration of the Russian economy which caused an increase of interest rates by the Central Bank of Russia, decrease in the Russian Rouble value which affected the valuation parameters and assumptions used in the valuation of the investment property under development.

In November 2013 the Company's subsidiary MKPK JSC and the Moscow city authorities signed an addendum to the land lease agreement for "Paveletskaya Phase II" project, amending the permitted use of land from industrial to the construction of commercial and residential premises. The addendum is in line with the previous decisions of the Moscow

city authorities on development rights of the Company in this project. However the addendum provides the level of certainty required to change the fair value of the project to market value. The market value of the project determined by Cushman & Wakefield, the Company's independent appraisers, was US\$92.6 million, as of 30 September 2013, as opposed to book value of US\$11.6 million. The resulting US\$81 million gross valuation gain (US\$64.8 million net of taxation) was recognised in profit or loss on 30 September 2013.

According to the article dated 29 October 2013 and published on the official web-site of the Moscow Government, the Construction Department of Moscow Government has made decision to start an active phase of redevelopment at Tverskaya Zastava Square in 2014 (and the first stage of redevelopment will focus on construction of an additional overhead road across the railway lines), whereas the date of completion of these works remains unclear, which will incur significant delay and, thus, pose high uncertainty with the timeline of the subject Plaza Ila project. Based on these facts, the Company recognised a decrease in the fair value of the property of US\$13.3 million. The valuation was also determined by the Company's independent appraisers and the fair value loss was recorded in profit or loss on 30 September 2013.

The fair value measurement for investment property under development of US\$431,474 thousand (2013: US\$633,213 thousand) has been categorised as a level 3 fair value based on the inputs to the valuation technique used.

Level 3 fair value

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

Valuation technique and significant unobservable inputs

The valuation technique used in measuring the fair value of investment property under development, the significant unobservable inputs used, as well as the Inter-relationship between key unobservable inputs and fair value measurement are discussed in note 15 above. In addition, the following inputs for investment property under development.

Geographical location	Fair value US\$ '000	Discount rate %	Rate of return for representative year %
Russia	431,474	20-29	9.5-13

17. Share of investment in joint ventures

	2014 US\$'000	2013 US\$'000
Balance at 1 January	5,555	82,414
Share of loss (net of share of tax)	(4,091)	(798)
Acquisition of 100% of assets and liabilities of joint venture	-	(75,599)
Effect of movements in exchange rates	(1,464)	(462)
Balance at 31 December	-	5,555

The Group's joint ventures comprise the following:

50% interest in Nouana Limited with its subsidiary Tirel LLC, owner of a hotel in Kislovodsk. 50% interest in Craespon Management Ltd with its subsidiary Sanatorium Plaza LLC that operates the aforementioned hotel.

During the period the Group's joint ventures incurred significant losses, as a result the Group's share of loss has exceeded its interest in these joint ventures. Therefore the Group discontinued recognising its share of further losses. The Group will resume recognising its share of future profits from the joint ventures only after its share of the future profits equals the share of losses not recognised.

During 2013 the Group owned a 50% interest in Westec Four Winds Ltd and its subsidiary Dulverton Ltd,

owner of investment property in Moscow, which was disposed early January 2013, see note 35.

During 2013 the Group also owned a 50% interest in Krown Investments LLC, owner of investment and trading properties in Moscow. On 12 February 2013 the Group acquired the remaining 50% shareholding, deemed as acquisition of assets and liabilities.

The following table summarises the financial information of the joint ventures as included in their own financial statement, adjusted for fair value adjustments at acquisition. The table also reconciles the summarised financial information to the Group's interest in joint ventures:

Percentage ownership interest	2014 US\$'000 50%	2013 US\$'000 50%
Non-Current assets	18,365	31,699
Current assets	11,622	9,488
Non-Current liabilities	(39,010)	(36,191)
Current liabilities	(1,843)	(11,324)
Net liabilities (100%)	(10,866)	(6,328)
Group's share of net liabilities (50%)	(5,433)	(3,164)
Fair value adjustments at acquisition	5,072	8,719
Interest in joint ventures	(361)	5,555
Restriction of share of loss	361	-
Carrying amount of interest in joint ventures	-	5,555
Revenue	39,126	28,161
Expenses	(48,030)	(29,758)
Loss and total comprehensive income (100%)	(8,904)	(1,597)
Group's share of profit and total comprehensive income (50%)	(4,452)	(798)
Dividends received by the Group	-	-

18. Property, plant and equipment

	Buildings under construction US\$ '000	Land & Buildings US\$ '000	Office Equipment US\$ '000	Motor Vehicles US\$ '000	Total US\$ '000
Cost					
Balance at 1 January 2014	14,400	56,709	3,847	1,710	76,666
Additions	-	83	240	270	593
Disposals	-	(439)	(177)	(76)	(692)
Effect of movement in foreign exchange rates	(10,158)	(24,209)	(1,342)	(780)	(36,489)
Balance at 31 December 2014	4,242	32,144	2,568	1,124	40,078
Accumulated depreciation					
Balance at 1 January 2014	-	2,617	2,908	1,406	6,931
Charge for the year	-	1,114	354	127	1,595
Disposals	-	(355)	(170)	(69)	(594)
Effect of movement in foreign exchange rates	-	(1,345)	(1,000)	(610)	(2,955)
Balance at 31 December 2014	-	2,031	2,092	854	4,977
Carrying amount					
At 31 December 2014	4,242	30,113	476	270	35,101
Cost					
Balance at 1 January 2013	16,527	60,605	3,942	1,944	83,018
Additions	159	1,267	258	123	1,807
Disposals	(8)	(669)	(9)	(197)	(883)
Effect of movement in foreign exchange rates	(2,278)	(4,494)	(344)	(160)	(7,276)
Balance at 31 December 2013	14,400	56,709	3,847	1,710	76,666
Accumulated depreciation					
Balance at 1 January 2013	-	2,221	2,625	1,617	6,463
Charge for the year	-	1,210	534	130	1,874
Disposals	-	(666)	(1)	(205)	(872)
Effect of movement in foreign exchange rates	-	(148)	(250)	(136)	(534)
Balance at 31 December 2013	-	2,617	2,908	1,406	6,931
Carrying amount					
At 31 December 2013	14,400	54,092	939	304	69,735

19. Loans receivable

	2014 US\$'000	2013 US\$'000
Long-term loans		
Loans to joint ventures (note 40)	17,962	21,438
Loans to non-related companies	109	214
	18,071	21,652
Short-term loans		
Loans to non-related companies	1	774

Terms and loan repayment schedule

Terms and conditions of outstanding loans were as follows:

	Currency	Nominal interest rate	Year of maturity	2014 US\$'000	2013 US\$'000
Unsecured loans to joint ventures	US\$	11.5%	2016	12,134	11,787
	RUR	14.4%	2016	5,828	9,651
Unsecured loans to non-related companies	RUR	-	2016	89	214
	RUR	8.8%	2016	20	34
	US\$	2.5%	2014	-	740
	RUR	0.1%	On demand	1	-
				18,072	22,426

20. Inventory of real estate

As previously announced, in August 2012 AFI Development wrote-off its rights to the project “Botanic Garden” following initiation of bankruptcy proceedings against the “main investor” under the investment contract, Novoe Koltso Moskvyy OJSC (“NKM”), while continuing its efforts to secure development rights to the project.

On 5 February and 21 February 2013, the Company reported that, as a result of negotiations with the Moscow city authorities, the Company’s development rights to the project have been recognised through an addendum to the investment contract for the project. According to this addendum, NKM shall not have any claims to the investments made by AFI Development in the Botanic Garden project and the Group’s subsidiary, Nordservice LLC, became the only investor under the investment contract.

In May 2014, the Company made further progress towards restoring the Botanic Garden project on its balance sheet. As a creditor of NKM and a participant in its bankruptcy proceedings, Nordservice LLC purchased additional rights of claim against NKM for US\$5.6 million and up to 30 September 2014 total costs amounted to US\$17.5 million which were also impaired to profit or loss.

On 18 December 2014, all risks related to the bankruptcy of NKM have been removed and the Company has restored the project in its balance sheet. The inventory of real estate was revalued by independent appraisers on 31 December 2014 at US\$20 million and up to year end additional costs of approximately US\$10 million were incurred by Nordservice LLC. The net effect was the recognition of an impairment loss of \$9 million in profit or loss for the year.

21. VAT recoverable

Represents VAT paid on construction costs and expenses which according to the Russian VAT law can be recovered upon completion of the construction. Part of this VAT is expected to be recovered after more than 12 months from the balance sheet date. Due to the uncertainties in the Russian tax and VAT law, the management has assessed the recoverability of this VAT and has provided for any amounts that their recoverability was deemed

doubtful or questionable (see note 11). Under Russian VAT legislation, VAT can also be claimed during the period of construction provided that all required documentation is presented to the VAT authorities. The Group was successful in recovering VAT during the year, and it is estimated that part of the VAT recoverable as at the year-end will be recovered within the next 12 months, which is classified as trade and other receivables, note 25.

22. Trading properties

	2014 US\$'000	2013 US\$'000
Balance at 1 January	6,409	3,597
Acquisition	-	6,944
Reclassification from investment property (note 15)	432	-
Reclassification from trading properties under construction	-	29,772
Disposals	(1,632)	(32,623)
Effect of movements in exchange rates	(2,230)	(1,281)
Balance at 31 December	2,979	6,409

Trading properties comprise unsold apartments and parking spaces. During the period the Group has sold a number of the remaining apartments and parking places and their cost was transferred to profit or loss.

The reclassification from trading properties under construction during 2013 represents the completion of the construction of the 643 parking places units which were disposed upon transferring of the rights to the buyer VTB Bank according to the agreement described below:

In November 2012 Bellgate Constructions Limited ("Bellgate"), the Company's subsidiary owning and operating AFIMALL City, entered into an agreement

to dispose approximately 643 parking spaces to VTB Bank JSC. The transaction was structured in two stages. The first stage entailed a sale-purchase transaction between Bellgate and VTB Bank JSC of 21,354 sq.m. of parking space. During the second stage 9,247 sq.m. owned (at completion) by VTB Bank JSC will be exchanged for 7,847 sq. m. owned by Bellgate. The first stage of the transaction was completed on 3 June 2013 with the transfer of the rights to the buyer, who became liable for the risks associated with ownership and can utilize the space and is free to sell to another party and therefore revenue of US\$54,492 thousand and a corresponding cost of the disposed properties of US\$29,772 thousand were recognised in the income statement during second quarter of 2013.

23. Trading properties under construction

	2014 US\$'000	2013 US\$'000
Balance at 1 January	127,213	141,787
Transfer to trading properties	-	(29,772)
Construction costs	35,874	17,805
Effect of movements in exchange rates	(30,051)	(2,607)
Balance at 31 December	133,036	127,213

Trading properties under construction comprise “Odinburg” project which involves primarily the construction of residential properties.

The 643 parking places underneath AFIMALL City were completed during the year 2013, reclassified to trading properties and disposed according to the agreement with VTB Bank JSC described in note 22 above.

24. Other investments

The amount represents investment in marketable interest bearing debt securities classified at fair value through profit or loss.

25. Trade and other receivables

	2014 US\$'000	2013 US\$'000
Advances to builders	20,200	40,241
Amounts receivable from related parties (note 40)	387	12,999
Trade receivables net	6,014	9,659
Other receivables	3,540	26,515
VAT recoverable (note 21)	7,141	15,711
Tax receivable	1,679	1,300
	38,961	106,425

Trade receivables net

Trade receivables are presented net of an accumulated provision for doubtful debts of US\$12,753 thousand (2013: US\$12,658 thousand).

26. Cash and cash equivalents

Cash and cash equivalents consist of:

	2014 US\$'000	2013 US\$'000
Cash at banks	86,504	193,027
Cash in hand	252	303
	86,756	193,330

27. Share capital and reserves

Share capital	2014 US\$'000	2013 US\$'000
Authorised		
2,000,000,000 shares of US\$0.001 each	2,000	2,000
Issued and fully paid		
523,847,027 A ordinary shares of US\$0.001 each	524	524
523,847,027 B ordinary shares of US\$0.001 each	524	524
	1,048	1,048

There were no changes to the authorised or the issued share capital of the Company during the year ended 31 December 2014.

Share premium

It represents the share premium on the issue of shares on 31 December 2006 for the conversion of the shareholders' loans to capital US\$421,325 thousand. It also includes the share premium on the issued shares which were represented by GDRs listed in the LSE in 2007. It was the result of the difference between the offering price, US\$14, and the nominal value of the shares, US\$0.001, after deduction of all listing expenses. An amount of US\$1,399,900 thousand less US\$57,292 thousand transaction costs was recognised during the year 2007. On 5 July 2010 an amount of US\$524 thousand was capitalised as a result of a bonus issue.

Employee share option plan

The Company has established an employee share option plan operated by the Board of Directors, which is responsible for granting options and administering the employee share option plan. Eligible are employees and directors, excluding independent directors, of the Company. The employees share option plan is discretionary and options will be granted only when the Board so determines at an exercise price derived from the closing middle market price preceding the date of grant. No payment will be required for the grant of the options. In any 10 year period not more than 10 per cent of the issued ordinary share capital may be issued or be issuable under the employee share option plan.

As of 31 December 2014 the following options were outstanding.

- During 2007 and 2008 options over GDRs with an exercise price of US\$7 which have already vested, one-third on the second anniversary of the date of grant, a further one-third on the third anniversary and the remaining one-third, on the fourth anniversary of the date of grant provided that the participants remained in employment until the vesting date. The vesting was not subject to any performance conditions. On 31 December 2014 1,017,240 options, 0.1% of the issued share capital, were outstanding which have already vested and have a contractual life of ten years from the date of grant.
- On 21 May 2012, the Board of Directors approved the grant of additional options to Company's employees. Options over 16,763,104 B shares, 1.6% of the issued share capital, were granted with an exercise price equal to US\$0.7208, vesting one-third on the second anniversary of the date of grant, a further one-third on the third anniversary and the remaining one-third, on the fourth anniversary of the date of grant provided that the participants remain in employment until the vesting date. The vesting is not subject to any performance conditions. Their contractual life is five years from the date of grant. During 2013 1,571,541 options were cancelled, 15,191,563 valid options remain out of which 5,063,854 options have already vested.
- On 22 November 2012, the Board of Directors approved the grant of additional options to the Company's executive chairman. Options over 31,430,822 B shares, 3% of the issued share capital, were granted with an exercise price equal to US\$0.5667, vesting one-third on the second anniversary of the date of grant, a further one-third on the third anniversary and the remaining one-third,

on the fourth anniversary of the date of grant provided that the participants remain in employment until the vesting date. The vesting is not subject to any performance conditions. Their contractual life is five years from the date of grant. 10,476,971 options have vested during the period.

If a participant ceases to be employed his options will normally lapse subject to certain exceptions. In the event of a takeover, reorganisation or winding up vested options may be exercised or exchanged for new equivalent options where appropriate. Shares / GDRs issued under the plan will rank equally with all other shares at the time of issue. The Board of Directors may satisfy, (with the consent of the participant), an option by paying the participant in cash or other assets the gain as an alternative of issuing and transferring the shares / GDRs.

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.

Retained earnings

The amount at each reporting date is available for distribution. No dividends were proposed, declared or paid during the year ended 31 December 2014.

28. Loans and borrowings

	2014 US\$'000	2013 US\$'000
Non-current liabilities		
Secured bank loans	455,097	778,909
Current liabilities		
Secured bank loans	231,297	26,367
Unsecured loans from other non-related companies	387	660
	231,684	27,027

The outstanding loans on 31 December 2014 comprise two loans as follows:

VTB loan to Bellgate

A secured loan from VTB Bank JSC ("the Bank") signed on 22 June 2012 by one of the Group's subsidiary, Bellgate Construction Ltd ("Bellgate"). On 29 June 2012 a drawdown of the first tranche of a new loan facility agreement was effected. On 3 August 2012 a drawdown of the second tranche, of US\$69,386 thousand (RUR 2,252 million). During the year the Group received the third and the fourth tranche, of total approx. US\$86,854 million (RUR 2,633 million). This new loan facility agreement offers a credit line totalling RUR 21 billion, which can be drawn down in 5 tranches, each with a designated purpose: the majority of the funds are designated to refinance existing loans previously issued by the Bank. The remaining funds are designated for the refinancing of construction costs related to the AFIMALL City parking and for the financing of the outstanding payments constituting part of the consideration for the acquisition of the parking.

The Company has discretion over the currency of each tranche, which can be drawn down either in US dollars or in Russian roubles. The loan facility has differentiated interest rates which are currency dependent: 9.5% for loans drawn down in Russian roubles and 3 months LIBOR plus 6.7% for loans drawn down in US dollars. The interest on the loans is payable on a quarterly basis, throughout the term of the credit line. Bellgate has undertaken

to make equal quarterly payments of US\$6.5 million from 2014 to 2016, on account of the principal of the loans, while it has been agreed that the remainder of the loan will mature in April 2018.

The terms of the loan facility agreement are substantially similar to those of the loan facility agreement entered into in February 2012 with the Bank in relation to the financing of the acquisition of the AFIMALL City parking. However, certain conditions of the new loan facility will differ from the aforementioned loan, including the following:

- a.** The guarantee of AFI Development Plc over the obligations of Bellgate under the loan facility agreement will be in the amount of US\$1 million, the nominal value of Bellgate's shares;
- b.** Additional mortgage over the premises of "Aquamarine" Hotel will be registered in favour of the Bank. This shall be removed in the case that Bellgate redeems US\$20 million of principal;
- c.** Additional guarantee will be provided to the Bank by Semprex LLC, a Russian company which is an indirect subsidiary of AFI Development Plc, and owner of the "Aquamarine" Hotel. This shall be removed in the case that Bellgate redeems US\$20 million of principal;
- d.** The turnover covenant has been changed from monthly bank accounts turnovers of not less than RUR 200 million to quarterly revenues (including VAT) exceeding agreed thresholds, determined as amounts gradually increasing from RUR 651 million for Q3 2012 to the amount of RUR1,139 million for Q1 2018. The penalty for not meeting the covenant is changed from 1% additional interest for the next month to 0.5% additional interest for the next quarter.

The loan facility agreement contains other generally acceptable terms, such as the borrower undertaking to maintain the aggregate value of the pledged assets, securing the loan facility, providing the lender with periodic reporting and similar common conditions.

On 17 August 2013 Bellgate Constructions Limited signed an addendum to the current Loan Facility Agreement with the Bank. According to the new terms under the above mentioned addendum the applicable interest rate to the US Dollar denominated loan facility has been decreased from 3-month LIBOR plus 6.7% p.a. to 3-month LIBOR plus 5.02% p.a. The change was effective upon the registration date of the mortgage agreements, on 3 September 2013.

VTB Loan to Krown

On 25 January 2013 Krown Investments LLC ("Krown"), a 100% subsidiary, acquired a new secured loan from VTB Bank JSC ("the Bank") for refinancing the repayment of borrowings due to related parties. This loan agreement offers a credit line of US\$220

million, which was drawn down during the first quarter of 2013. The agreed interest is three-month LIBOR plus 5.7% p.a., payable every quarter. The loan repayment date is in 731 days from the date of signing the loan agreement. Securities provided to the Bank are on the 100% of the shares of Krown and on properties/buildings of Aquamarine Phase III. A decrease in the market value of the pledged buildings by more than 15% will enable the bank to demand repayment of the loan before the agreed maturity date. In case of disposal of the pledged building, at least 70% of sale proceeds should be directed to the Bank for the repayment of the loan. An amount of US\$15 million was repaid during 2013 out of the proceeds from sale of Building 1 of the Ozerkovskaya (Aquamarine) phase III as disclosed in note 15. The outstanding loan amount as at 31 December 2014 amounted to US\$205 million, including interest, which was reclassified as current liability as the repayment date falls within the next twelve months, 26 January 2015. After the balance sheet date the Company has refinanced the loan, see note 41 for more information.

Terms and debt repayment schedule

Terms and conditions of outstanding loans were as follows:

	Currency	Nominal interest rate	Year of maturity	2014 US\$'000	2013 US\$'000
Secured loan from VTB Bank to Bellgate	RUR	9.5%	2018	184,711	290,529
Secured loan from VTB Bank to Bellgate	US\$	3m US\$ LIBOR+5.02%	2018	296,386	309,386
Secured loan from VTB Bank to Krown	US\$	3m US\$ LIBOR+5.7%	2015	205,297	205,361
Other	RUR	3-12%	on demand	387	660
				686,781	805,936

The loans and borrowings are payable as follows:

	2014 US\$'000	2013 US\$'000
Less than one year	231,684	27,027
Between one and five years	455,097	778,909
More than five years	-	-
	686,781	805,936

As of 31 December 2014 the Group is in compliance with all loan covenants.

29. Deferred tax assets and liabilities

Deferred tax (assets) and liabilities are attributable to the following:

	2014 US\$'000	2013 US\$'000
Investment property	157,429	138,666
Investment property under development	25,065	50,427
Property, plant and equipment	(1,028)	(4,151)
Trading properties	1,507	(348)
Trading properties under construction	(420)	(3,341)
Trade and other receivables	(5,204)	(4,177)
Trade and other payables	(372)	(2,230)
Short-term loans and borrowings	(5)	2,869
Other items	(21)	846
Tax losses carried forward	(74,330)	(53,301)
Deferred tax liability	102,621	125,260

30. Trade and other payables

	2014 US\$'000	2013 US\$'000
Trade payables	8,654	11,175
Payables to related parties (note 40)	2,264	4,088
Amount payable to builders	7,626	9,556
VAT and other taxes payable	7,373	28,260
Amount payable for the acquisition of properties	-	39,967
Other payables	2,299	7,202
	28,216	100,355

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

Payables to related parties

Include an amount of US\$1,465 thousand (31/12/13: US\$3,282 thousand) payable to Danya Cebus Rus LLC, related party of the Group, for contracts signed in relation to the construction of Group's projects.

Amount payable for the acquisition of properties

Represented the third instalment of an amount payable to the City of Moscow, for the acquisition of the parking area under the AFIMALL City. The amount was payable in three yearly installments starting from February 2012 and with the last falling due in February 2014. In February 2014 the company paid the third and last installment of RUR 1,333 million.

31. ADVANCES FROM CUSTOMERS

Represent advances received from customers for the sale of residential properties at “Odinburg” project.

32. Deferred income

Represents rental income received in advance, which corresponds to periods after the reporting date.

33. Financial instruments—fair values and risk management

Accounting classifications 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. 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					Total	Level 1	Level 2	Level 3	Total
		Loans receivable	Trade and other receivables	Other investments, including derivatives	Cash and cash equivalents	Loans receivable					
31 December 2014	US\$'000	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	-	-	6,499	-	-	6,499	6,499	-	-	-	6,499
Financial assets not measured at fair value											
Loans receivable	18,071	-	-	-	1	18,072					
Trade and other receivables	-	30,141	-	-	-	30,141					
Cash and cash equivalents	-	-	-	86,756	-	86,756					
	18,071	30,141	-	86,756	1	134,969					
31 December 2013											
Financial assets measured at fair value											
Investment in listed debt securities	-	-	9,982	-	-	9,982	9,982	-	-	-	9,982
Financial assets not measured at fair value											
Loans receivable	21,652	-	-	-	774	22,426					
Trade and other receivables	-	89,414	-	-	-	89,414					
Cash and cash equivalents	-	-	-	193,330	-	193,330					
	21,652	89,414	-	193,330	774	305,170					



	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 December 2014	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	(455,097)	-	(231,684)	(686,781)		(735,004)		(735,004)
Trade and other payables	-	(20,843)	-	(20,843)				
	(455,097)	(20,843)	(231,684)	(707,624)				
31 December 2013								
Financial liabilities not measured at fair value								
Interest bearing loans and borrowings	(778,909)	-	(27,027)	(805,936)		(834,466)		(834,466)
Trade and other payables	-	(71,988)	-	(71,988)				
	(778,909)	(71,988)	(27,027)	(877,924)				

Financial risk management

The Group has exposure to the following risks arising from financial instruments:

- credit risk
- liquidity risk
- market risk
- operational risk

Risk management framework

The Board of Directors has overall responsibility for the establishment and oversight of the Group's risk management framework and is responsible for developing and monitoring the Group's risk management policies.

The Group's risk management policies are established to identify and analyse the risks faced by the Group, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions and the Group's activities. The Group, through its training and management standards and procedures, aims to maintain a disciplined and constructive control environment in which all employees understand their roles and obligations.

The Audit Committee oversees how management monitors compliance with the Group's risk management policies and procedures, and reviews the adequacy of the risk management framework in relation to the risks faced by the Group. The Audit Committee is assisted in its oversight role by Internal Audit. Internal Audit undertakes both regular and ad hoc reviews of risk management controls and procedures, the results of which are reported to the Audit Committee.

Credit risk

Credit risk is the risk of financial loss to the Group if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Group's receivables from customers and cash deposited with banks.

The carrying amount of financial assets represents the maximum credit exposure.

Trade and other receivables

Financial assets which are potentially subject to credit risk consist principally of trade and other receivables as well as credit exposures with respect to rental customers and buyers of residential proper-

ties including outstanding receivables. The carrying amount of trade and other receivable represents the maximum amount exposed to credit risk. There is no concentration of credit risk to any single customer in any of the Group's segments. Geographically there is

no concentration of credit risk. The Group has policies in place to ensure that, where possible rental contracts are made with customers with an appropriate credit history.

Impairment

At 31 December 2014, the ageing of trade and other receivable that were not impaired was as follows:

	2014 US\$'000	2013 US\$'000
Neither past due nor impaired	3,005	3,071
Past due 1-30 days	1,190	3,689
Past due 31-90 days	2,529	6,914
Past due 91-120 days	23,416	75,738
	30,140	89,412

Management believes that the unimpaired amounts that are past due by more than 30 days are still collectible in full, based on historical payment be-

haviour and extensive analysis of customer credit risk, including underlying customers' credit ratings, if they are available.

The movement in the allowance for impairment in respect of trade and other receivables during the year was as follows:

	Individual impairments US\$'000	Collective impairments US\$'000
Balance at 1 January 2013	440	13,144
Impairment loss recognised	(341)	894
Amounts written off	-	(1,479)
Balance at 31 December 2013	99	12,559
Impairment loss recognised	(26)	4,595
Exchange difference effect	(19)	(4,455)
Balance at 31 December 2014	54	12,699

Cash and cash equivalents

Credit risk arises from cash and cash equivalents. Cash transactions are limited to high-credit-quality financial institutions. The utilisation of credit limits is regularly monitored.

The Group has no other significant concentrations of credit risk. Although collection of receivables could be influenced by economic factors, management believes that there is no significant risk of loss to the Group.

Investments

The Group limits its exposure to credit risk by investing only in liquid securities and only with counterparties that have a high credit rating. Management actively monitors credit ratings and given that the Group only has invested in securities with high credit ratings, management does not expect any counterparty to fail to meet its obligations.

Guarantees

The Company's policy is to provide financial guarantees only to wholly-owned subsidiaries in exceptional cases. In negotiations with lending banks the Company is aiming to avoid recourse to AFI Development on loans taken by subsidiaries. As at 31 December 2014, there were two outstanding guarantees: one of AFI Development Plc for the amount of US\$1 million in favour of VTB Bank JSC under a loan facility agreement of Bellgate Construction Limited and another one of AFI Development Plc for the amount of US\$205 million in favour of VTB Bank JSC under a loan facility agreement of Krown Investments LLC (project Aquamarine III).

Liquidity risk

Liquidity risk is the risk that the Group will encounter difficulty in meeting the obligations associated with its financial liabilities that are settled by delivering cash or another financial asset. The Group's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when they are due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Group's reputation.

The following are the remaining contractual maturities of financial liabilities at the reporting date, including estimated interest payments and excluding the impact of netting agreements:

31 December 2014	Carrying Amount US\$'000	Contractual Cash flow US\$'000	6 months or less US\$'000	6-12 months US\$'000	1-2 years US\$'000	2-5 years US\$'000
Secured bank loans	686,394	(785,535)	(235,311)	(28,991)	(56,541)	(464,692)
Unsecured loans	387	(401)	-	(401)	-	-
Trade and other payables	20,843	(20,843)	(20,843)	-	-	-
31 December 2013	Carrying Amount US\$'000	Contractual Cash flow US\$'000	6 months or less US\$'000	6-12 months US\$'000	1-2 years US\$'000	2-5 years US\$'000
Secured bank loans	805,276	(981,298)	(40,277)	(39,813)	(272,115)	(629,093)
Unsecured loans	660	(677)	-	(677)	-	-
Trade and other payables	71,988	(71,988)	(71,988)	-	-	-

Prudent liquidity risk management implies maintaining sufficient cash, the availability of funding through an adequate amount of committed credit facilities and the ability to close out market positions. Due to the dynamic nature of the underlying businesses, the Group aims to maintain flexibility in its funding requirements by keeping cash and committed credit lines available.

The Group's liquidity position is monitored by the management which take necessary actions if required. The Group structures its assets and liabilities in such a way that liquidity risk is minimised.

The Group maintains the following lines of credit as at 31 December 2014:

- A secure bank loan facility from VTB Bank JSC for RUR 21billion, with the majority of the funds designated for refinancing existing loans and the rest for the financing of the acquisition and construction AFIMALL City parking. The line was fully used up to the end of February 2014.
- A secure bank loan facility from VTB Bank JSC for US\$205 million, acquired for refinancing the construction costs for Ozerkovskaya III project.

Market risk

Market risk is the risk that changes in market prices, such as foreign exchange rates, interest rates and equity prices will affect the Group's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return.

Currency risk

The Group is exposed to currency risk on future commercial transactions, recognised monetary assets and liabilities and net investments in foreign operations that are denominated in a currency other than the respective functional currencies of Group entities, primarily the United States Dollars and Russian Roubles. The currencies in which these transactions pri-

marily are denominated are Russian Roubles, United States Dollars, Euro and Ukrainian Hryvnia.

Sensitivity analysis

The following shows the magnitude of changes in respect of a number of major factors influencing the Group's profit before taxes. The assessment has been made on the year-end figures.

A 10% strengthening of the United States Dollar against the following currencies at 31 December 2014 would have increased / (decreased) equity and profit for the year by the amounts shown below.

This analysis assumes that all other variables, in particular interest rates, remain constant. The analysis is performed on the same basis for 2013.

	Equity US\$ '000	Profit for the year US\$ '000
31 December 2014		
Russian Roubles	(6,588)	(45,125)
Ukrainian Hryvnia	(3,492)	-
Euro	-	(118)
31 December 2013		
Russian Roubles	8,460	(51,049)
Ukrainian Hryvnia	(2,297)	3
Euro	-	142

A 10% weakening of the United States Dollar against the above currencies at 31 December 2014 would have the equal but opposite effect on the above currencies to the amounts shown above, on the basis that all other variables remain constant.

*Interest rate risk***Profile**

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

	Carrying amount	
	2014 US\$'000	2013 US\$'000
Fixed rate instruments		
Financial assets	24,482	315,118
Financial liabilities	(177,843)	(291,189)
	(153,361)	(23,929)
Variable rate instruments		
Financial assets	-	34
Financial liabilities	(508,934)	(514,747)
	(508,934)	(514,713)

Cash flow sensitivity analysis for variable rate instruments

An increase of 100 basis points in interest rates at the reporting date would have increased / (decreased) equity and profit for the year by the amounts shown below. This analysis assumes that all other variables, in particular foreign currency rates, remain constant. The analysis is performed on the same basis for 2013.

	Equity US\$ '000	Profit for the year US\$ '000
31 December 2014		
Variable rate instruments	-	(5,014)
31 December 2013		
Variable rate instruments	-	(5,147)

A decrease of 100 basis points in interest rates at the reporting date would have the equal but opposite effect on the above instruments to the amounts shown above, on the basis that all other variables remain constant.

Operational risk

Operational risk is the risk of direct or indirect loss arising from a wide variety of causes associated with the Group's processes, personnel, technology and infrastructure, and from external factors

other than credit, market and liquidity risks such as those arising from legal and regulatory requirements and generally accepted standards of corporate behaviour. Operational risks arise from all of the Group's operations.

The Group's objective is to manage operational risk so as to balance the avoidance of financial losses and damage to the Group's reputation with overall cost effectiveness and to avoid control procedures that restrict initiative and creativity.

The primary responsibility for the development and implementation of controls to address operational risk is assigned to senior management within each business unit. This responsibility is supported by the development of overall Group standards for the management of operational risk in the following areas:

- requirements for appropriate segregation of duties, including the independent authorisation of transactions
- requirements for the reconciliation and monitoring of transactions
- compliance with regulatory and other legal requirements
- documentation of controls and procedures
- requirements for the periodic assessment of operational risks faced, and the adequacy of controls and procedures to address the risks identified
- requirements for the reporting of operational losses and proposed remedial action
- development of contingency plans
- training and professional development
- ethical and business standards
- risk mitigation, including insurance where this is effective

Compliance with Group standards is supported by a programme of periodic reviews undertaken by Internal Audit. The results of Internal Audit reviews are discussed with the management of the business unit to which they relate, with summaries submitted to the Audit Committee and senior management of the Group.

Capital management

The Board's policy is to maintain a strong capital base so as to maintain investor, creditor and market confidence and to sustain future development of the business.

There were no changes in the Group's approach to capital management during the year. Neither the Company nor any of its subsidiaries are subject to externally imposed capital requirements.

The Company is committed to delivering the highest standards in boardroom practice and financial transparency through:

- clear and open communication with investors;
- maintaining accurate quarterly financial records which transparently and honestly reflect the financial position of its business; and
- endeavouring to maximise shareholder returns.

A full programme of investor relations activity ensures appropriate contact with institutional and private shareholders, with regular meetings, presentations and disclosure of important information. Great care is taken to provide suitably detailed information on the Group's activities and results to enable various stakeholders to understand the performance and prospects of the Group.

Russian business environment

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

The recent conflict in Ukraine and related events has increased the perceived risks of doing business in the Russian Federation. The imposition of economic sanctions on Russian individuals and legal entities by the European Union, the United States of America, Japan, Canada, Australia and others, as well as retaliatory sanctions imposed by the Russian government, has resulted in increased economic uncertainty including more volatile equity markets, a depreciation of the Russian Rubble, a reduction in both local and foreign direct investment inflows and a significant tightening in the availability of credit. In particular, some Russian entities may be experiencing difficulties in accessing international equity and debt markets and may become increasingly dependent on Russian state banks to finance their operations. The longer term effects of recently implemented sanctions, as well as the threat of additional future sanctions, are difficult to determine.

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

Changes in property tax law

Russian Federal Law No. 307-FZ dated 2 November 2013 introduced changes in property tax calculation for office and retail premises and properties owned

by foreign legal entities that do not operate in Russia via representative offices. The law entered into force on 1 January 2014. Prior to 2014, the property tax was calculated at 2.2% of the property book value posted on the owner's balance sheet. From 2014 the cadastral values for given premises (excluding underlying land) will be set as the basis for property tax payments. The tax rate will be determined by local (regional) authorities under Federal laws. The Moscow Government announced final tax schedule for properties in Moscow as follows: 0.9% (2014), 1.2% (2015), 1.5% (2016), 1.8% (2017), 2.0% (2018).

34. Group entities

Ultimate controlling party: Lev Leviev Israel

Ultimate holding company: Africa Israel Investments Limited Israel

Holding company: Africa Israel Investments Limited Israel



Significant Subsidiaries

	Ownership interest %		Country of incorporation
	2014	2013	
1. OOO AFI RUS	100	100	Russian Federation
2. OOO Avtostoyanka Tverskaya Zastava	100	100	Russian Federation
3. OOO Krown Investments	100	100	Russian Federation
4. OAO Moskovskiy Kartonazhno-poligraphicheskiy Kombinat (MKPK)	99.17	99.17	Russian Federation
5. Bellgate Constructions Limited	100	100	Cyprus
6. OOO Regionalnoe AgroProizvodstvennoe Objedinenie (RAPO)	100	100	Russian Federation
7. OOO Aristeya	100	100	Russian Federation
8. Scotson Limited	100	100	Cyprus
7. ZAO Nedra Publishing	90.17	90.17	Russian Federation
8. OOO Titon	100	100	Russian Federation
9. ZAO MTOK	99.71	99.71	Russian Federation
10. OOO Eitan K	100	100	Russian Federation
11. OOO Semprex	100	100	Russian Federation
12. OOO Zheldoruslugi	95	95	Russian Federation
13. OOO Bizar	74	74	Russian Federation
13. AFI D Finance SA	100	100	British Virgin Islands

35. Disposal of investments in joint ventures / subsidiaries

The profit on disposal of subsidiaries consists of:

	2014 US\$'000	2013 US\$'000
Profit on disposal of non-significant subsidiaries	114	190
Profit on disposal of Westec Four Winds Ltd	-	32,088
	114	32,278

2014

During the year the Company disposed of its 100% share in Keyiri Trade & Invest Limited with its Russian subsidiary Favorit LLC, holding rights to the St Petersburg project, of a book value of US\$1,400

thousand. The selling price of the disposal was \$1,400 thousand. The resulting profit on disposal amounting to US\$114 thousand was recognised in the income statement.

The above disposals had the following effect on the Group's assets and liabilities:

	31/12/14, US\$'000
Investment property under development	(1,400)
Trade and other receivables	(14)
Current tax asset	(2)
Deferred tax assets	(1)
Trade and other payables	1
Net identifiable assets	(1,416)
Consideration received in cash / Net cash inflow from the disposal of Non-significant subsidiaries	1,400

2013

The selling price of the disposal of Westec Four Winds Ltd was US\$103,380 thousand. The resulting profit on sale amounting to US\$32,088 thousand and

a translation reserve of US\$30,288 thousand was re-classified as a realised exchange loss in financing expenses of the income statement of first quarter 2013.

36. Non-controlling interests

There were no individually significant subsidiaries which have material NCI.

37. Operating leases

Leases as lessee

Non-cancellable operating lease rentals are payable as follows:

	2014 US\$'000	2013 US\$'000
Less than a year	6,688	15,980
Between one and five years	26,327	21,676
More than five years	40,213	60,167
	73,228	97,823
Amount recognised as an expense during the year	2,298	3,086

The ownership of land in the Russian Federation is rare and especially within Moscow region, in which all of the property with only a few exceptions, is owned by the City of Moscow. The majority of land is occupied by private entities pursuant to lease agreements between occupants, of the building located on the land, and the City of Moscow. The Group has several long-term operating leases for land. These leases are entered into with the intention and right to develop the land and carry out construction. Typically they run for an initial period of one to five years which is the period of development and upon completion of development

the developer has the right to renew for a long term period of usually up to 49 years. Under both leases the lessee is required to make periodic lease payments, generally on a quarterly basis to the City of Moscow.

There is also the option of long term land lease prior to commencement of construction which the developer can acquire with a lump sum payment that is determined from time to time by the City of Moscow and is based on the size of the land, its location and the proximity to amenities. The Group has two such land rights and they run for period of 49 years.

Leases as lessor

The Group leases out investment property under operating leases.

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

	2014 US\$'000	2013 US\$'000
Less than a year	122,501	125,244
Between one and five years	169,227	204,548
More than five years	51,603	46,928
	343,331	376,720
Amount recognised as income during the year	122,226	126,814

38. Capital commitments

Up to 31 December 2014 the Group has entered into a number of contracts for the construction of investment or trading properties:

Project name	Commitment	
	2014 US\$'000	2013 US\$'000
Odinburg	16,081	53,058
Kosinskaya	1,560	20,253
TVZ Plaza IC	2,600	12,776
Serebryakova	7,243	7,332
Pavaletskaya II	4,311	3,733
TVZ Plaza IV	140	3,592
TVZ Plaza II	1,080	1,297
Bolshaya Pochtovaya	474	334
	33,489	102,375

39. Contingencies

There were not any contingent liabilities as at 31 December 2014.

40. Related parties

Outstanding balances with related parties

	2014 US\$'000	2013 US\$'000
Assets		
Amounts receivable from joint ventures	20	16
Amounts receivable from ultimate holding company	203	203
Amounts receivable from other related companies	164	12,780
Long term loan receivable from joint ventures	17,962	21,438
Liabilities		
Amounts payable to joint ventures	131	170
Amounts payable to ultimate holding company	433	435
Amounts payable to other related companies	1,700	3,483
Deferred income from related company	156	266

All outstanding balances with these parties are priced at an arm's length basis and are to be settled in cash. None of the balances is secured.

Transactions with the key management personnel

	2014 US\$'000	2013 US\$'000
Key management personnel compensation comprised:		
Short-term employee benefits	5,311	4,401
Share option scheme expense	4,383	4,920

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 mem-

ber of the key management personnel of the entity or its parent (includes the immediate, intermediate or ultimate parent). Key management is not limited to directors; other members of the management team also may be key management.

Other related party transactions

	2014 US\$'000	2013 US\$'000
Revenue		
Joint venture – consulting services	238	-
Joint venture – rental income	-	2
Joint venture – other income	-	11
Joint venture – interest income	1,920	2,523
Related company – rental income	1,519	1,358
Expenses		
Ultimate holding company – administrative expenses	766	433
Joint venture – operating expenses	177	193
Joint venture – administrative expenses	-	9
Other related companies – administrative expenses	-	6

Other related party transactions. Construction services capitalised.

	2014 US\$'000	2013 US\$'000
Related company – construction services	13,728	9,076

41. Subsequent events

Subsequent to 31 December 2014 there were no events that took place which have a bearing on the understanding of these financial statements except of the following:

In January 2015, the Company's subsidiary, Krown Investments LLC ("Krown") signed an addendum to the loan facility agreement with VTB Bank OJSC ("the Bank"), extending the term of the loan to 26 January 2018. Krown, which owns the Aquamarine III (Ozerkovskaya III) office complex, had an existing loan from the Bank maturing on 26 January 2015, of which US\$ 205 million was outstanding. In addition to extending the term of the loan, the new addendum amended the payment schedule and interest rate conditions of the loan agreement and introduced new covenants. The payment schedule anticipates repayments of the principal starting from the 4th quarter of 2015, while the new covenants include a Debt Service Coverage Ratio of 1.2 also applicable as from the 4th quarter of 2015 and a Loan to Value ratio of 65% applicable from January 2015. In line with the addendum, on 26th January 2015 Krown paid US\$10 million to the Bank as partial repayment of the outstanding loan amount, thus reducing the total to US\$195 million. About 90% of the principal is to be paid at maturity.

FINANCIAL STATEMENTS

PARENT COMPANY SEPARATE FINANCIAL STATEMENTS

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PARENT COMPANY SEPARATE INCOME STATEMENT AND STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2014



	Note	2014 US\$'000	2013 US\$'000
Revenue	4	-	1,048
Other income		1,502	1,359
Other expenses		(16)	-
Administrative expenses	5	(15,775)	(18,652)
Reversal of impairment / (impairment) of investment in subsidiaries	7	18,100	(430)
(Loss) / profit on disposal of investment in subsidiaries	7	(652)	97,271
		1,657	78,189
Results from operating activities		3,159	80,596
Finance income		1,246	10,165
Finance costs		(5,401)	(5,158)
Net finance (costs) / income	6	(4,155)	5,007
(Loss) / Profit for the year		(996)	85,603
Other comprehensive income		-	-
Total comprehensive income for the year		(996)	85,603

The notes on pages 146 to 158 are an integral part of these parent company separate financial statements.

PARENT COMPANY SEPARATE STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2014



	Share capital US\$ '000	Share premium US\$ '000	Retained earnings US\$ '000	Total US\$ '000
Balance at 1 January 2013	1,048	1,763,409	(671)	1,763,786
Total comprehensive income for the year	-	-	85,603	85,603
Transactions with owners of the Company				
Contributions and distributions				
Share option expense	-	-	4,920	4,920
Balance at 31 December 2013	1,048	1,763,409	89,852	1,854,309
Balance at 1 January 2014	1,048	1,763,409	89,852	1,854,309
Total comprehensive income for the year	-	-	(996)	(996)
Transactions with owners of the Company				
Contributions and distributions				
Share option expense	-	-	4,383	4,383
Balance at 31 December 2014	1,048	1,763,409	93,239	1,857,696

PARENT COMPANY SEPARATE STATEMENT OF FINANCIAL POSITION

As at 31 December 2014



	Note	2014 US\$'000	2013 US\$'000
Assets			
Investment in subsidiaries	7	1,686,863	1,666,326
Loans receivable	8	217,839	217,926
Total non current assets		1,904,702	1,884,252
Trade and other receivables	9	8,767	11,649
Refundable tax		2,215	2,215
Cash and cash equivalents	10	39,127	43,239
Total current assets		50,109	57,103
Total assets		1,954,811	1,941,355
Equity			
Share capital		1,048	1,048
Share premium		1,763,409	1,763,409
Retained earnings		93,239	89,852
Total equity	11	1,857,696	1,854,309
Liabilities			
Loans and borrowings	12	94,084	85,473
Total non-current liabilities		94,084	85,473
Trade and other payables	13	3,031	1,573
Total current liabilities		3,031	1,573
Total liabilities		97,115	87,046
Total equity and liabilities		1,954,811	1,941,355

The financial statements were approved by the Board of Directors on 16 March 2015.

Lev Leviev – Chairman

Mark Groyzman – Director

The notes on pages 146 to 158 are an integral part of these parent company separate financial statements.

PARENT COMPANY SEPARATE STATEMENT OF CASH FLOWS

For the year ended 31 December 2014



	Note	2014 US\$'000	2013 US\$'000
Cash flows from operating activities			
(Loss) / profit for the year		(996)	85,603
Adjustments for:			
Unrealised exchange loss	6	93	444
Write off of receivables		16	-
Loss / (gain) on disposal of investments in subsidiaries	7	652	(97,271)
(Reversal) / charge of impairment of investment in subsidiary	7	(18,100)	430
Dividend income	4	-	(1,048)
Interest income	6	(1,246)	(10,165)
Interest expense	6	5,311	4,689
Share option expense	5	4,383	4,920
		(9,887)	(12,398)
Change in trade and other receivables		141	(268)
Change in trade and other payables		1,458	(1,220)
Net cash used in operating activities		(8,288)	(13,886)
Cash flows from investing activities			
Proceeds received from the sale of subsidiaries	7	748	3,380
Additional contribution of capital to existing subsidiaries	7	(1,826)	-
Payment for acquisition of investments in subsidiaries	7	(12)	(101,261)
Dividends received	4	-	1,048
Interest received	6	1,972	1,345
Net cash (used in) / from investing activities		882	(95,488)
Cash flows from financing activities			
Payments for loans receivable	8	-	(6,705)
Proceeds from repayment of loans receivable	8	-	91,272
Repayment of loans and borrowings	12	(8,500)	(4,000)
Repayment of a loan from joint venture partner		-	(116,264)
Proceeds from loans and borrowings	12	13,300	88,789
Interest paid	12	(1,500)	(4,000)
Net cash from / (used in) financing activities		3,300	49,092
Effect of exchange rate fluctuations on cash held		6	18
Net decrease in cash and cash equivalents		(4,112)	(60,264)
Cash and cash equivalents at 1 January		43,239	103,503
Cash and cash equivalents at 31 December	10	39,127	43,239
The cash and cash equivalents consists of:			
Cash at banks		39,127	43,239

The notes on pages 146 to 158 are an integral part of these parent company separate financial statements.

Notes to the Parent Company Separate Financial Statements

For the year ended 31 December 2014

1. Incorporation and principal activities

AFI Development PLC (the “Company”) was incorporated in Cyprus on 13 February 2001 as a limited liability company under the name Donkamill Holdings Limited. In April 2007 the Company was transformed into public company and changed its name to AFI Development PLC. The address of the Company’s registered office is 165 Spyrou Araouzou Street, Lordos Waterfront Building, 5th floor, Flat/office 505, 3035 Limassol, Cyprus. The Company is a 64.88% (31/12/2013: 64.88%) subsidiary of Africa Israel Investments Ltd (“Africa-Israel”), which is listed in the Tel Aviv Stock Exchange (“TASE”). The remain-

ing shareholding of “A” shares is held by a custodian bank in exchange for the GDRs issued and listed in the London Stock Exchange (“LSE”). On 5 July 2010 the Company issued by way of a bonus issue, 523,847,027 “B” shares, which were admitted to a premium listing on the Official List of the UK Listing Authority and to trading on the main market of LSE. On the same date, the ordinary shares of the Company were designated as “A” shares.

The principal activity of the Company is the holding of investments in subsidiaries and jointly controlled entities.

2. Basis of preparation

(a) Statement of compliance

The financial statements have been prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union (EU) and the requirements of the Cyprus Companies Law, Cap.113.

Users of these parent’s separate financial statements should read them together with the Group’s consolidated financial statements as at and for the year ended 31 December 2014 in order to obtain a proper understanding of the financial position, the financial performance and the cash flows of the Company and the Group.

(b) Basis of measurement

The financial statements have been prepared under the historical cost convention, except in the case of investments, which are stated at cost less provision for impairment in value and receivables which are stated after the provision for impairment.

(c) Adoption of new and revised International Financial Reporting Standards and Interpretations

As from 1 January 2014, the Company adopted all changes to International Financial Reporting Standards (IFRSs) which are relevant to its operations. This adoption did not have a material effect on the separate financial statements of the Company.

(i) Standards and Interpretations adopted by the EU

The following Standards, Amendments to Standards and Interpretations have been issued but are not yet effective for annual periods beginning on 1 January 2014. Those which may be relevant to the Company are set out below. The Company does not plan to adopt these Standards early.

- IAS 19 (Amendments) "Defined Benefit Plans: Employee Contributions" (effective for annual periods beginning on or after 1 July 2014).
- Improvements to IFRSs 2010-2012 (effective for annual periods beginning on or after 1 July 2014).
- Improvements to IFRSs 2011-2013 (effective for annual periods beginning on or after 1 July 2014).

(ii) Standards and Interpretations not adopted by the EU

- IFRS 14 "Regulatory Deferral Accounts" (effective for annual periods beginning on or after 1 January 2016).
- IFRS 10, IFRS 12 and IAS 28 (Amendments): Investment Entities: Applying the Consolidation Exception (effective for annual periods beginning on or after 1 January 2016).
- IFRS 11 "Accounting for acquisitions of interests in Joint Operations" (Amendments) (effective for annual periods beginning on or after 1 January 2016).
- IAS 1 (Amendments): Disclosure Initiative (effective for annual periods beginning on or after 1 January 2016).
- IFRS 10 and IAS 28 (Amendments): Sale or Contribution of Assets between an Investor and its Associate or Joint Venture (effective for annual periods beginning on or after 1 January 2016).
- IAS 27 (Amendments) "Equity method in separate financial statements" (effective for annual periods beginning on or after 1 January 2016).
- IAS 16 and IAS 41 (Amendments): "Bearer plants" (effective for annual periods beginning on or after 1 January 2016).
- IAS 16 and IAS 38 (Amendments) "Clarification of acceptable methods of depreciation and amortisation" (effective for annual periods beginning on or after 1 January 2016).

- Annual Improvements to IFRSs 2012-2014 Cycle (effective the latest as from the commencement date of its first annual period beginning on or after 1 January 2016).
- IFRS 15 "Revenue from contracts with customers" (effective for annual periods beginning on or after 1 January 2017).
- IFRS 9 "Financial Instruments" (effective for annual periods beginning on or after 1 January 2018).

The Board of Directors expects that the adoption of the above financial reporting standards in future periods will not have a significant effect on the financial statements of the Company.

(d) Use of estimates and judgements

The preparation of financial statements in conformity with IFRSs requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities, income and expenses. Actual results may deviate from such estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimates are revised and in any future periods affected.

In particular, information about critical judgements in applying accounting policies that have the most significant effect on the amounts recognised in the financial statements are described below:

• Income taxes

Significant judgement is required in determining the provision for income taxes. There are transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. The Company recognises liabilities for anticipated tax audit issues based on estimates of whether additional taxes will be due. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the income tax provisions in the period in which such determination is made.

- *Impairment of investments in subsidiaries / jointly controlled entities*

The Company periodically evaluates the recoverability of investments in subsidiaries/jointly controlled entities whenever indicators of impairment are present. Indicators of impairment include such items as declines in revenues, earnings or cash flows or material adverse changes in the economic or political stability of a particular country, which may indicate that the carrying amount of an asset is not recoverable. If facts and circumstances indicate that investment in subsidiaries/jointly controlled entities may be impaired,

the estimated future undiscounted cash flows associated with these subsidiaries/jointly controlled entities would be compared to their carrying amounts to determine if a write-down to fair value is necessary.

(e) Functional and presentation currency

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

3. Significant accounting policies

The accounting policies set out below have been applied consistently to all periods presented in these financial statements and in stating the financial position of the Company.

Subsidiary companies

Investments in subsidiary companies are stated at cost less provision for impairment in value, which is recognised as an expense in the period in which the impairment is identified.

Finance income and finance costs

Finance income comprises interest income on funds invested and on loans offered to related parties. Interest income is recognised as it accrues in profit or loss, using the effective interest method.

Finance costs comprise interest expense on borrowings and impairment losses recognised on financial assets (other than trade receivables). Borrowing costs are recognised in profit or loss using the effective interest method.

Foreign currency gains and losses are reported on a net basis as either finance income or finance cost depending on whether foreign currency movements are in a net gain or net loss position.

Foreign currency translation

(i) Functional and presentation currency

Items included in the Company's financial statements are measured using the currency of the primary economic environment in which the entity operates ('the functional currency'). The financial statements are presented in United States Dollars, rounded to the nearest thousand, which is the Company's functional and presentation currency.

(ii) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in profit or loss.

Revenue

Dividend income

Dividend income is recognised in profit or loss when the right to receive payment is established i.e. dividends are declared and approved by the investee companies.

Tax

Tax liabilities and assets for the current and prior periods are measured at the amount expected to be paid to or recovered from the taxation authorities, using the tax rates and laws that have been enacted, or substantively enacted, by the reporting date. Current tax includes any adjustments to tax payable in respect of previous periods.

Dividends

Dividend distribution to the Company's shareholders is recognised in the Company's financial statements in the year in which they are approved by the Company's shareholders.

Financial instruments

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

(i) Loans granted

Loans originated by the Company by providing money directly to the borrower are categorised as loans and are carried at amortised cost. This is defined as the fair value of cash consideration given to originate those loans as is determined by reference to market prices at origination date. All loans are recognised when cash is advanced to the borrower.

An allowance for loan impairment is established if there is objective evidence that the Company will not be able to collect all amounts due according to the original contractual terms of loans. The amount of the provision is the difference between the carrying amount and the recoverable amount, being the present value of expected cash flows including amounts recoverable from guarantees and collateral, discounted at the original effective interest rate of loans.

(ii) Cash and cash equivalents

For the purpose of the statement of cash flows, cash and cash equivalents comprise cash at bank and short term highly liquid investments with maturities

of three months or less from the acquisition date that are subject to an insignificant risk of changes in their fair value and are used by the Company in the management of its short term commitments.

(iii) Borrowings

Borrowings are recorded initially at the proceeds received, net of transaction costs incurred. Borrowings are subsequently stated at amortised cost. Any differences between the proceeds (net of transaction costs) and the redemption value is recognised in profit or loss over the period of the borrowings using the effective interest method.

Derecognition of financial assets and liabilities

Financial assets

A financial asset (or, where applicable a part of a financial asset or part of a group of similar financial assets) is derecognised when:

- the rights to receive cash flows from the asset have expired;
- the Company retains the right to receive cash flows from the asset, but has assumed an obligation to pay them in full without material delay to a third party under a 'pass through' arrangement; or
- the Company has transferred its rights to receive cash flows from the asset and either (a) has transferred substantially all the risks and rewards of the asset, or (b) has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

Financial liabilities

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires.

When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original

liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognised in profit or loss.

Impairment of assets

Assets that have an indefinite useful life are not subject to amortisation and are tested annually for impairment. Assets that are subject to depreciation or amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash generating units).

Offsetting financial instruments

Financial assets and financial liabilities are offset and the net amount reported in the statement of financial position if, and only if, there is a currently enforceable legal right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the asset and settle the liability simultaneously. This is not generally the case with master netting agreements, and the related assets and liabilities are presented gross in the statement of financial position.

Non-current assets held for sale

Non-current assets are classified as held for sale if their carrying amount will be recovered through a sale transaction rather than through continuing use. This condition is regarded as met only when the sale is highly probable and the asset is available for immediate sale in its present condition. Management must be committed to the sale, which should be expected to qualify for recognition as a completed sale within one year from the date of classification. Non-current assets classified as held for sale are presented separately in the statement of financial position and are to be measured at the lower of the asset's previous carrying amount and fair value less costs to sell.

Share capital

Ordinary shares are classified as equity. The difference between the fair value of the consideration received by the Company and the nominal value of the share capital being issued is taken to the share premium account.

Non current liabilities

Non current liabilities represent amounts that are due more than twelve months from the reporting date.

Comparatives

Where necessary, comparative figures have been adjusted to conform to changes in presentation in the current year.

4. Revenue



	2014 US\$'000	2013 US\$'000
Dividend income	-	1,048

During 2013 the Company received dividends from its subsidiary which were recognised as income upon declaration and approval.

5. Administrative expenses



	2014 US\$'000	2013 US\$'000
Consultancy and brokerage fees	2,056	5,678
Donations	4,828	4,518
Legal fees	1,078	763
Share option expense	4,383	4,920
Directors' remuneration	2,024	1,497
Auditors' remuneration	439	345
Valuation expenses	148	118
Insurance	182	192
Other administrative expense	637	621
	15,775	18,652

6. Finance income and finance costs



	2014 US\$'000	2013 US\$'000
Interest income	1,246	10,165
Finance income	1,246	10,165
Interest expense on loans and borrowings	(5,312)	(4,689)
Other finance costs	(20)	(25)
Net foreign exchange loss	(69)	(444)
Finance costs	(5,401)	(5,158)
Net finance (costs) / income	(4,155)	5,007

7. Investment in subsidiaries

	2014 US\$'000	2013 US\$'000
Balance at 1 January	1,666,326	1,506,537
Additional investment in existing subsidiaries	3,826	49,299
Transfer from investment in jointly controlled entities	-	9,659
(Disposal) / acquisition of investment in subsidiaries	(1,389)	101,261
Reversal of impairment / (impairment)	18,100	(430)
Balance at 31 December	1,686,863	1,666,326

On 18 December 2014 the Company has restored in its books its investment in Bioka Trading Ltd and its Russian subsidiary Nordservice LLC since the subsidiary has managed to obtain the necessary permits for the development of its project "Botanic Garden". The value of the investment was restored to US\$20,100 thousand following the revaluation of the project on 31 December 2014 by independent appraisers. A reversal of impairment loss amounting to US\$18,100 thousand was recognised in profit or loss for the year and an amount of US\$2,000 thousand representing additional costs paid by the Company in previous year were transferred to the cost of the investment.

During the year the Company disposed of its 100% share in Keyiri Trade & Invest Limited with its Russian subsidiary Favorit LLC, holding rights to the St Petersburg project, of a book value of US\$1,400 thousand. The consideration of the disposal was \$748 thousand with a resulting loss on disposal amounting to US\$652 thousand recognised in profit or loss. The

agreement also provided for the full repayment of a receivable from Keyiri Trade & Invest Limited.

The Company also incorporated during the year six new subsidiaries at a total cost of US\$9 thousand, (2013: six new subsidiaries at a total cost of US\$16 thousand).

On 12 February 2013 the Company acquired the remaining 50% shareholding in Krown Investments LLC, which was thereafter treated as a subsidiary. The agreement provided for the full settlement of all liabilities to the joint venture partner amounting to US\$116,264 thousand and the remaining US\$101,245 thousand was recorded as cost of acquisition.

During 2013 AFI D Finance S.A. and Rognerstar Finance Ltd, Company's wholly owned subsidiaries have increased their share capital by US\$44,130 thousand and US\$5,169 thousand respectively and offered the additional shares to the Company in exchange of loans receivable from group subsidiaries assigned.

The details of the subsidiaries are as follows:

Investment	Country of incorporation	Principal activities	2014 US\$'000	2013 US\$'000
Investment in Cypriot companies	Cyprus	Holding of investments / Financing	624,296	605,585
Investment in Russian companies	Russian Federation	Real estate development	211,879	210,053
Investment in BVI companies	BVI	Financing	850,688	850,688
			1,686,863	1,666,326

8. Loans receivable

	2014 US\$'000	2013 US\$'000
Loans to subsidiaries (Note 14)	217,839	217,926
Less current portion	-	-
Non-current portion	217,839	217,926
The loans are repayable as follows:		
Between one and five years	217,839	217,926

The above loans to subsidiaries are unsecured and are repayable on demand. As of 1 January 2014 they are interest free (2013: interest rates from 2.5% to 6% p.a.).

The fair values of non-current receivables approximate to their carrying amounts as presented above.

9. Trade and other receivables

	2014 US\$'000	2013 US\$'000
Receivables from related parties (Note 14)	8,291	8,319
Other receivables	476	3,330
	8,767	11,649

The fair values of trade and other receivables due within one year approximate to their carrying amounts as presented above.

The exposure of the Company to credit risk and impairment losses in relation to trade and other receivables is reported in note 15 of the financial statements.

10. Cash and cash equivalents

	2014 US\$'000	2013 US\$'000
Cash and cash equivalents consists of:		
Cash at banks	39,127	43,239

11. Share capital and reserves

Share capital	2014 US\$'000	2013 US\$'000
Authorised		
2,000,000,000 shares of US\$0.001 each	2,000	2,000
Issued and fully paid		
523,847,027 A ordinary shares of US\$0.001 each	524	524
523,847,027 B ordinary shares of US\$0.001 each	524	524
	1,048	1,048

There were no changes to the authorised or the issued share capital of the Company during the year ended 31 December 2014.

Share premium

It represents the share premium on the issue of shares on 31 December 2006 for the conversion of the shareholders' loans to capital US\$421,325 thousand. It also includes the share premium on the issued shares which were represented by GDRs listed in the LSE in 2007. It was the result of the difference between the offering price, US\$14, and the nominal value of the shares, US\$0.001, after deduction of all listing expenses. An amount of US\$1,399,900 thousand less US\$57,292 thousand transaction costs was recognised during the year 2007. On 5 July 2010 an amount of US\$524 thousand was capitalised as a result of a bonus issue.

Employee share option plan

The Company has established an employee share option plan operated by the Board of Directors, which is responsible for granting options and administering the employee share option plan. Eligible are employees and directors, excluding independent directors, of the Company. The employee share option plan is discretionary and options will be granted only when the Board so determines at an exercise price derived from the closing middle market price preceding the date of grant. No payment will be required for the grant of the options. In any 10 year period not more than 10 per cent of the issued ordinary share capital may be issued or be issuable under the employee share option plan.

As of 31 December 2014 the following options were outstanding.

- During 2007 and 2008 options over GDRs with an exercise price of US\$7 which have already vested, one-third on the second anniversary of the date of grant, a further one-third on the third anniversary and the remaining one-third, on the fourth anniversary of the date of grant provided that the participants remained in employment until the vesting date. The vesting was not subject to any performance conditions. On 31 December 2014 1,017,240 options, 0.1% of the issued share capital, were outstanding which have already vested and have a contractual life of ten years from the date of grant.

- On 21 May 2012, the Board of Directors approved the grant of additional options to Company's employees. Options over 16,763,104 B shares, 1.6% of the issued share capital, were granted with an exercise price equal to US\$0.7208, vesting one-third on the second anniversary of the date of grant, a further one-third on the third anniversary and the remaining one-third, on the fourth anniversary of the date of grant provided that the participants remain in employment until the vesting date. The vesting is not subject to any performance conditions. Their contractual life is five years from the date of grant. During 2013, 1,571,541 options were cancelled, 15,191,563 valid options remain, out of which 5,063,854 options have already vested. 10,476,971 options have vested during the period.
- On 22 November 2012, the Board of Directors approved the grant of additional options to the Company's executive chairman. Options over 31,430,822 B shares, 3% of the issued share capital, were granted with an exercise price equal to US\$0.5667, vesting one-third on the second anniversary of the date of grant, a further one-third on the third anniversary and the remaining one-third, on the fourth anniversary of the date of grant provided that the participants remain in employment until the vesting date. The vesting is not subject to any performance conditions. Their contractual life is five years from the date of grant.

If a participant ceases to be employed, his options will normally lapse subject to certain exceptions. In the event of a takeover, reorganisation or winding up vested options may be exercised or exchanged for new equivalent options where appropriate. Shares/GDRs issued under the plan will rank equally with all other shares at the time of issue. The Board of Directors may satisfy (with the consent of the participant) an option by paying the participant in cash or other assets the gain as an alternative of issuing and transferring the shares / GDRs.

Retained earnings

The amount at each reporting date is available for distribution. No dividends were proposed, declared or paid during the year ended 31 December 2014 (2013: Nil).

12. Loans and borrowings

	2014 US\$'000	2013 US\$'000
Long term liabilities		
Loans from related parties (Note 14)	85,473	85,473
Maturity of non current borrowings:		
Between one and five years	85,473	85,473

During 2013 the Company obtained an US\$88,789 thousand long-term unsecured loan from its subsidiary AFI D Finance S.A. The loan is denominated in US\$, bears interest of 6% p.a. and is repayable by 31 December 2016. An additional amount of US\$13,300 thousand was received during the year.

The exposure of the Company to interest rate risk in relation to financial instruments is reported in note 15 of the financial statements.

13. Trade and other payables

	2014 US\$'000	2013 US\$'000
Other payables	245	306
Payables to related parties (Note 14)	2,786	1,267
	3,031	1,573

14. Related party transactions

The transactions with related parties are as follows:

I Transactions with the Key Management Personnel

	2014 US\$'000	2013 US\$'000
Key management personnel compensation comprised:		
Short-term employee benefits	1,800	1,200
Share option scheme expense	4,383	4,920

II Other related party transactions

	2014 US\$'000	2013 US\$'000
Interest income charged to subsidiaries	-	9,056
Interest expense charged from subsidiary	(5,312)	(4,689)
Consulting fees charged from holding company	(766)	(433)
Management fees charged from subsidiaries	(1,582)	(1,249)

The balances with related parties are as follows:

I Receivables from related parties (Note 9)

	2014 US\$'000	2013 US\$'000
Receivables from subsidiaries	8,291	8,319

II Loans to related parties (Note 8)

	2013 US\$'000	2012 US\$'000
Loans to subsidiaries	217,839	217,926

The above loans to subsidiaries are unsecured and are repayable on demand. As of 1 January 2014 they are interest free (2013: interest rates from 2.5% to 6% p.a.).

III Payables to related parties (Note 13)

	2014 US\$'000	2013 US\$'000
Payables to subsidiaries	2,356	837
Payables to holding company	430	430
	2,786	1,267

IV Loan from related party (Note 12)

	2014 US\$'000	2013 US\$'000
Loan from subsidiary	94,084	85,473

During the year the Company obtained a long-term unsecured loan from its subsidiary AFI D Finance S.A. The loan is denominated in US\$, bears interest of 6% p.a. and is repayable by 31 December 2016.

15. Financial instruments and risk management

Financial risk factors

The Company is exposed to the following risks from its use of financial instruments:

- Credit risk
- Liquidity risk
- Market risk

The Board of Directors has overall responsibility for the establishment and oversight of the Company's risk management framework.

The Company's risk management policies are established to identify and analyse the risks faced by the Company, to set appropriate risk limits and controls, and monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions and the Company's activities.

I Credit risk

Credit risk arises when a failure by counter parties to discharge their obligations could reduce the amount of future cash inflows from financial assets on hand at the reporting date. The Company has no significant concentration of credit risk. Cash balances are held with high credit quality financial institutions and the Company has policies to limit the amount of credit exposure to any financial institution.

Trade and other receivables

The Company establishes an allowance for impairment that represents its estimate of incurred losses in respect of trade and other receivables. The main components of this allowance are a specific loss component that relates to individually significant exposures and a collective loss component established for groups of similar assets in respect of losses that have been incurred but not yet identified.

Cash and cash equivalents

Credit risk arises from cash and cash equivalents. Cash transactions are limited to high-credit-quality financial institutions. The utilisation of credit limits is regularly monitored.

Guarantees

The Company's policy is to provide financial guarantees only to wholly-owned subsidiaries in exceptional cases. In negotiations with lending banks the Company is aiming to avoid recourse to AFI Development on loans taken by subsidiaries. As at 31 December 2014, there were two outstanding guarantees: one of AFI Development Plc for the amount of US\$1 million in favour of VTB Bank JSC under

a loan facility agreement of Bellgate Construction Limited and another one of AFI Development Plc for the amount of US\$205 million in favour of VTB Bank JSC under a loan facility agreement of Krown Investments LLC (project Aquamarine III).

II Liquidity risk

Liquidity risk is the risk that arises when the maturity of assets and liabilities does not match. An unmatched position potentially enhances profitability, but can also increase the risk of losses. The Company has procedures with the object of minimising such losses such as maintaining sufficient cash and other highly liquid current assets and by having available an adequate amount of committed credit facilities.

III Market risk

Market risk is the risk that changes in market prices, such as foreign exchange rates, interest rates and equity prices will affect the Company's income or the value of its holdings of financial instruments.

Interest rate risk

Interest rate risk is the risk that the value of financial instruments will fluctuate due to changes in market interest rates. Borrowings issued at variable rates expose the Company to cash flow interest rate risk. Borrowings issued at fixed rates expose the Company to fair value interest rate risk. The Company's management monitors the interest rate fluctuations on a continuous basis and acts accordingly.

Currency risk

Currency risk is the risk that the value of financial instruments will fluctuate due to changes in foreign exchange rates. Currency risk arises when future commercial transactions and recognised assets and liabilities are denominated in a currency that is not the Company's measurement currency. The Company is exposed to foreign exchange risk arising from various currency exposures primarily with respect to the Euro and the Russian Rouble.

The Company's management monitors the exchange rate fluctuations on a continuous basis and acts accordingly.

Capital management

The Company manages its capital to ensure that it will be able to continue as a going concern while increasing the return to shareholders through the strive to improve the debt equity ratio. The Company's overall strategy remains unchanged from last year.

16. Fair values

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

17. Contingent liabilities

The Company had no contingent liabilities as at 31 December 2014.

18. Events after the reporting period

Subsequent to 31 December 2014 there were no events that took place which have a bearing on the understanding of these financial statements.



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