AFI DEVELOPMENT

AFI DEVELOPMENT PLC

ANNUAL
REPORT
2016





CONTENTS

1. Introduction

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.

Incorporated in Cyprus in 2001, AFI Development builds large scale, integrated and high profile commercial and residential properties to international standards.

Following the Company’s listing on the Main Market of the London Stock Exchange in 2007, AFI Development became the first real estate development company operating in Russia to attain a premium listing in 2010.

AFI Development 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.

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

Forward-looking Statements

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 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 realized. 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.

2. Executive Chairman's Statement

In 2016, the Russian macroeconomic environment started to show signs of recovery. Higher oil prices and a stronger rouble led to a lower than expected GDP decline of 0.8% (IMF) and moderate inflation of 5.4%. At the same time, the negative impact of international sanctions continued to impede growth and recovery of the economy.

In this environment, the residential real estate segment remained resilient, supported by the more accommodating macroeconomic climate. Recovery in the retail segment was largely attributable to improved consumer sentiment, more favourable rouble exchange rates, and continued interest from international retailers. However, in the office segment, high vacancy rates and low delivery levels remained.

An important development for the Company in 2016 was the resolution of negotiations with VTB Bank. In March 2016, the Bank notified the Company of a potential acceleration of the loans provided for the AFIMALL City and Ozerkovskaya III projects, totalling US$614 million. In September 2016, an agreement was reached through amendment to terms of the loans and provision of additional guarantees and collaterals for the Bank. As a result, the Company has retained all assets and was able to resume its focus on construction and marketing of residential projects and on managing yielding commercial properties.

Our continued focus on the development of residential projects is reflected in the progress achieved at our Odinburg development, through the completed construction of Building 2 (delivery of apartments started in March 2017) and the ongoing construction and pre-sale of apartments at the AFI Residence Paveletskaya. The sales of residential units have contributed US$54.5 million to our revenue in 2016. In Q1 2017, construction commenced at our other two residential projects in Moscow: AFI Residence Pochtovaya and the Botanic Garden.

Our yielding properties performed well throughout 2016, given the current environment; occupancy at AFIMALL City reached 84% and the footfall continued to grow. The hotels also performed well, with occupancy above 75%.

Revenue in 2016 grew by 47.6% year-on-year to US$138.3 million, supported by strong residential sales. Our gross profit increased by 17.2%, reaching US$49.4 million for the year. Nevertheless, due to valuation losses in H1 2016, we finished the year with a net loss of US$47.9 million.

Looking to 2017, we expect market conditions to gradually improve and the general macroeconomic environment to remain somewhat challenging. Whilst demand for commercial real estate remains subdued, we will continue to adapt our strategy to ensure sustainable growth of our business in the future.

Valuation

As at 31 December 2016, based on the Jones Lang LaSalle LLC ("JLL") independent appraisers' report, the value of AFI Development's portfolio of investment properties stood at US$0.92 billion, while the value of the portfolio of investment property under development stood at US$0.23 billion.

Consequently, the total value of the Company's assets, mainly based on independent valuation as of 31 December 2016, was US$1.4 billion, compared to US$1.4 billion as at 31 December 2015.

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

Liquidity

We ended 2016 with approximately US$16.7 million of cash, cash equivalents and marketable securities on our balance sheet and a debt[1] to equity level of 81%. This 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 Events Subsequent to 31 December 2016

Following the year-end the following key events occurred:

- In February 2017, AFI Development Plc announced that its subsidiary, Sanatory Plaza LLC ("Plaza"), received a loan from VTB Bank PJSC ("VTB") to finance the acquisition of a 50% stake in the Plaza Spa Kislovodsk project ("the Project") from its partner in the Project, which was completed on 28 February 2017. The loan, in the amount of US$22.5 million, was provided in US dollars for 5 years (the term can be extended for an additional 5 years subject to agreement between the parties). It bears an annual interest rate of 3 months Libor + 4.5%, has quarterly principal payments (ranging from US$260 thousand in Q3 2017 to US$822 thousand in Q3 2021), and a balloon payment of US$11.254 million at maturity. The interest is to be paid quarterly. The loan was primarily used to repay the outstanding debt of Plaza to the Project partner's companies (US$16.9 million), prior to acquisition of the equity stake. The remainder of the loan was used to finance the acquisition itself: 50% equity stakes in both Nuana Limited and Craespon Management Limited (which together control 100% of Plaza) were purchased by AFI Development's subsidiaries for US$5.6 million in cash.
- In March 2017, AFI Development announced completion of the acquisition of the remaining 5% stake in the Tverskaya Plaza IV project from its partner, for US$1.5 million in cash. AFI Development acquired 5% of the shares in Beslaville Management Limited, a subsidiary holding rights to the project, increasing its share from 95% to 100%.
- In March 2017 the Company subsidiary AFI RUS Management LLC signed a facility agreement for a credit line of RUR470 million from Sberbank PJSC, with a 2 years term, to finance construction of the Odinburg project.

Portfolio Update

AFIMALL City

A significant number of leases signed during 2011, when AFIMALL opened its doors to the public, expired in 2016. As a result, Mall management invested significant resources during the year in maintaining stable occupancy levels (84% at the end of 2016) through the renewal of leases or re-leasing to new tenants.

Marketing and promotional efforts at the Mall focused on attracting a family audience at weekends, as well as on targeted sales promotions in the fashion segment.

---
[1] Debt includes all loans and borrowings. For further details please see note 28 to the Financial Statements.

The footfall at the Mall continues to grow; average monthly footfall in December 2016 was 3% higher than in December 2015.

A number of new retailers recently opened outlets at the Mall, including a furniture and home improvement hypermarket, Hoff Home (1,200 sq.m); a book shop “Knizhny Labirint” (300 sq.m); an Armani Exchange boutique (170 sq.m) and an innovative confectionary shop “Alenka” (200 sq.m).

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 61,579 sq.m and GLA of 46,247 sq.m. The Company is currently in negotiations with potential buyers and tenants with regards to these buildings.

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), continued to produce strong results in 2016. The Caucasus resorts, in particular, continued to benefit from increasing levels of Russian domestic tourism. Since February 2017, AFI Development owns 100% of the Plaza Spa Kislovodsk project, following its acquisition of the remaining 50% stake.

ODINBURG

The construction works of Phase 1 (“Korona”) and supporting infrastructure are underway. Construction of both Building 1 and Building 2 are complete. All apartments sold in Building 1 have been delivered to customers, and delivery of apartments in Building 2 commenced in March 2017. At present, a Kindergarten is being built as part of Phase 1, while the development team prepares the next buildings for construction launch – these will be Building 6 (to be launched in Q2 2017) and Building 3 (to be launched in Q3 2017).

As of the date of publication of this report, 715 out of 723 contracts for sales of apartments in Building 1 have been signed, while for Building 2, 480 of 706 contracts are signed.

AFI RESIDENCE PAVELETSKAYA (PAVELETSKAYA PHASE II)

In December 2015, AFI Development successfully launched the main construction phase of the project. Flat and “apartment”[2] pre-sales started simultaneously with the construction launch. The project continues to be marketed as “AFI Residence Paveletskaya”. As of the date of publication of this report, 172 contracts combined for pre-sales of both “flats” and “apartments” have been signed.

BOLSHAYA POCHTOVAYA

[2] At AFI Residence Paveletskaya there are two types of residential units: fully residentially zoned units referred to as “flats” and commercially zoned units that, according to common market practice in Russia, are sold and referred to as “apartments” and can be used for permanent residence.

During 2016, the Company completed all preparatory steps required to launch the main construction stage. After receiving a construction permit in December 2016, the construction of the first phase was launched in Q1 2017. Marketing of apartments is scheduled to start in Q2 2017.

BOTANIC GARDEN

Following revision of the project in 2016, AFI Development obtained an updated construction permit and launched the main construction phase in March 2017. Marketing of apartments has started as well.

BOARD OF DIRECTORS

The Directors of AFI Development as at the date of publication of this report are as set out below:

Mr Lev Leviev, Executive Chairman of the Board

Mr Panayiotis Demetriou, Senior Non-Executive Independent Director

Mr David Tahan, Non-Executive Independent Director

Lev Leviev, Executive Chairman

3. Understanding AFI Development

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

3.1 Group Structure

AFI Development PLC acts as a holding company for the Group's investments in subsidiaries, usually structured as special purpose vehicles set up 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 the Russian subsidiaries and for the branches of international subsidiaries. Stroyinkom-K LLC is another important operating company in the Group and serves as project manager for most of the Group's Russian projects under development. It is a Russian company licensed to perform various technical and supervisory functions in the development and construction process, which is heavily regulated in Russia.

AFI Development Hotels Limited 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):

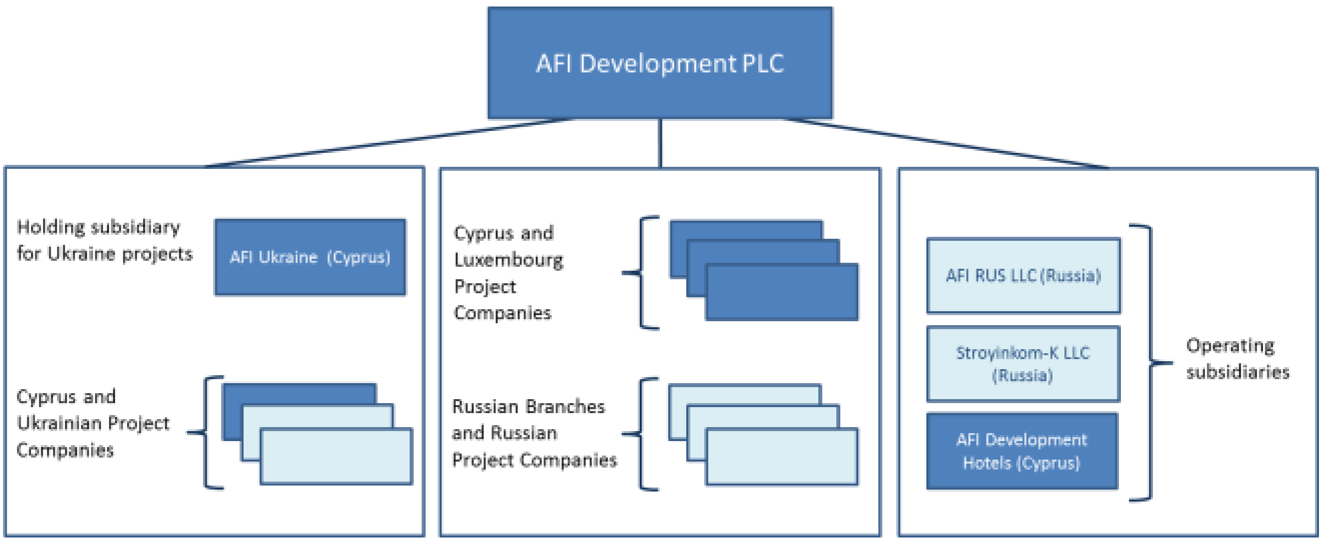

Exhibit 1: Simplified structure of the AFI Development Group

3.2 Our 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.

Moscow is a rapidly expanding city; 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, creating new urban environments.

In addition to their large scale and high complexity, 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 we enter, creating more comfortable living and working conditions.

During our years of successful operations in Moscow, we have worked closely with the City authorities who have long recognised the high value-add nature of our projects. 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 allows us to leverage its development platform and complete projects on a cost-efficient basis, whilst also resulting in cash-generation at the earliest possible opportunity.

The high quality of our developments enables us to attract international and local tenants on favourable terms. To ensure high retention rates, we aim to sign leases of increasing length 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 and robust 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 in Moscow, 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.

3.3 Our project 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 275,046 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 has direct underground access from three metro stations (Vystavochnaya, Mezhdunarodnaya, Delovoy Tsentr) and from the Third Transportation Ring. A railway station "City" of the new circular rail line was opened in Q3 2016 and is also in close vicinity to the AFIMALL.

Type	Retail
Company share	100%
GBA, (sq.m)	275,046
GLA, (sq.m)	107,208
Parking, units	2,022
Valuation by JLL as at 31.12.2016 (US$ million)	666.5
Status	Yielding

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 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 mining company.

Type	Office
Company share	100%
GBA, (sq.m)	61,579*
GLA, (sq.m)	46,247
Parking, units	466
Valuation by JLL as at 31.12.2016 (US$ million)*	198.5
Status	In negotiations with tenants for sale/lease

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

BEREZHKOVSKAYA – RIVERSIDE STATION

Type	Office, business park
Company share	74%
GBA, (sq.m)	11,612
GLA, (sq.m)	10,274
Parking, units	142
Valuation by JLL as at 31.12.2016 (US$ million)*	12.1
Status	Yielding

*AFI Development share only

The project comprises completed reconstruction of four Class B+ office buildings, which form a gated business park. The project is located in central Moscow, between the Garden Ring and the Third Transportation Ring, and is within walking distance of the Kievskaya transportation hub.

PAVELETSKAYA PHASE I OFFICE COMPLEX

	Type	Office, business park
	Company share	99.17%
	GBA, (sq.m)	16,246
	GLA, (sq.m)	13,412
	Parking, units	126
	Valuation by JLL as at 31.12.2016 (US$ million) *	11.9
	Status	Yielding

*AFI Development share only

The Paveletskaya I office complex comprises a reconstructed Class B building.

H20 OFFICE COMPLEX

	Type	Office
	Company share	99.17%
	GBA, (sq.m)	10,080
	GLA, (sq.m)	8,990
	Parking, units	81
	Valuation by JLL as at 31.12.2016 (US$ million) *	9.2
	Status	Yielding

*AFI Development share only

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.

Development Projects

ODINBURG

Type	Residential
Company share	100%
GBA, (sq.m)	821,051
GSA residential/ GSA commercial/ GLA shopping centres, (sq.m)	462,000/19,560/16,800
Parking, units	4,563
Book value *	150.2
Status	Construction stage

* Odinburg is an asset of the Trading properties under development and Trading property category and presented in the Financial Statements at the lower of cost or net realisable value. Trading property under development is represented by accumulated cost of construction and comprises US$145.1 million. Trading property is represented by completed apartments, parking places and offices of Building I and comprises US$5.1 million

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 154,774 sq.m (2,712 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 307,226 sq.m (6,474 apartments).

Each phase includes commercial premises on ground floors that are planned to be sold to end users. In addition, the project envisages stand-alone shopping centres with areas to be leased to tenants.

AFI RESIDENCE PAVELETSKAYA

Type	Residential
Company share	99.17%
GBA, (sq.m)	133,510
GSA residential/ GSA commercial (sq.m)	61,777/17,092
Parking, units	1,114
Book value *	76.7
Status	Construction stage

* AFI Residence Paveletskaya is an asset of the Trading properties under development category and presented in the Financial Statements at cost.

Paveletskaya Phase II is a modern residential complex in proximity to 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 is easily accessible by private or public transport. The property is currently under construction.

Part of the commercial area of the project is designated as “apartments”. These “apartments” are premises not legally zoned for housing, but, according to common practice on the Russian market, are widely sold for residence (a person cannot register in this address, but the premises can be used for housing). The prices of “apartments” are normally lower than that of similar flats (zoned housing units).

The project consists of three phases:

Phase I – includes several residential buildings with total General Buildable Area (GBA) of 50,370 sq.m and total General Sellable Area (GSA) of 30,824 sq.m. This phase is planned to include 175 flats, 220 apartments and 5,847 sq.m of flexible commercial space.

Phase II – is planned to have GBA of 52,080 sq.m and total GSA of 27,593 sq.m. This phase is planned to include flats and 1,403 sq.m of flexible commercial space.

Phase III – is planned to have GBA of 31,060 sq.m and total GSA of 20,452 sq.m. This phase is planned to include flats and 9,842 sq.m of flexible commercial space.

AFI RESIDENCE POCHTOVAYA

Type	Residential
Company share	99.71%
GBA, (sq.m)	136,581
GSA residential / GSA commercial, (sq.m)	52,940/31,974
Parking, units	666
Valuation by JLL as at 31.12.2016, (US$ million)*	73.9
Status	Construction

*AFI Development share only

Bolshaya Pochtovaya is a mixed-use project (dominantly residential) on a land area of 5.65 hectares. The development is located in the Central Administrative district of Moscow. The land plot borders the Yauza river, which significantly enhances the views from the project. The project is located in an attractive neighbourhood, which benefits from developed social infrastructure: transport, shops and cultural/leisure amenities. The main construction phase was launched in March 2017.

The project will include 11 residential buildings, 4 stand-alone commercial buildings, 2 levels of underground parking and a kindergarten. The construction will be realised in four phases:

Phase I – includes several residential buildings with total General Buildable Area (GBA) of 40,788 sq.m and total General Sellable Area (GSA) of 25,969 sq.m. This phase is planned to include apartments, 8,578 sq.m of flexible commercial space and a kindergarten.

Phase II – is planned to have GBA of 37,373 sq.m and total GSA of 21,483 sq.m. This phase is planned to include apartments and 3,382 sq.m of flexible commercial space.

Phase III – is planned to have GBA of 35,629 sq.m and total GSA of 22,719 sq.m. This phase is planned to include apartments and 2,953 sq.m of flexible commercial space.

Phase IV – is planned to have GBA of 22,792 sq.m and total GSA of 14,744 sq.m. This phase is planned to include apartments and 1,002 sq.m of retail space.

AFI RESIDENCE BOTANIC GARDEN

AFI Residence Botanic Garden is a residential project, located in the North-Eastern Administrative District of Moscow. It is approximately 8 km from the Third Transportation Ring, near the major transportation route of the district Prospect Mira and within walking distance to Botanichesky Sad and Sviblovo metro stations. The future residential complex has a land plot of 3.2 Ha and a gross building (GBA) of 200,605 sq.m.

	Type	Residential
	Company share	100%
	GBA, (sq.m)	200,635
	GSA residential / GSA commercial, (sq.m)	107,350/8,611
	Parking. units	794
	Book value *	21.5
	Status	Pre-construction stage

* AFI Residence Botanic Garden is an asset of the Trading property under construction category and presented in the Financial Statements at net realizable value.

The project will include several residential buildings with ground-floor commercial space, two levels of underground parking and will be realised in three phases:

Phase I – includes several residential buildings with total General Buildable Area (GBA) of 120,565 sq.m and total General Sellable Area (GSA) of 64,152 sq.m. This phase is planned to include apartments and 2,432 sq.m of flexible commercial space.

Phase II – is planned to have GBA of 68,135 sq.m and total GSA of 46,364 sq.m. This phase is planned to include apartments and 734 sq.m of flexible commercial space.

Phase III – is planned to have GBA of 11,935 sq.m and total GSA of 5,445 sq.m. This phase is planned to include apartments and 5,445 sq.m of flexible commercial space.

TVERSKAYA PLAZA IC

Type	Office
Company share	100%
GBA, (sq.m)	61,810
GLA, (sq.m)	37,035
Parking, units	521
Valuation by JLL as at 31.12.2016 (US$ million)	66.0
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	Offices
Company share	95%*
GBA, (sq.m)	108,000
GLA, (sq.m)	61,350
Parking, units	1,210
Valuation by JLL as at 31.12.2016 (US$ million) *	64.5 -100% (61.3 – 95%)
Status	Concept stage

*The Company had 95% in the project as of 31.12.2016. The remaining 5% share was purchased by the Company from its partner in March 2017, the current share is 100%.

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 a supporting retail zone on the ground floor.

KOSSINSKAYA

Type	Mixed-use retail/office
Company share	100%
GBA, (sq.m)	108,528
GLA, (sq.m)	70,000
Parking, units	1,200
Valuation by JLL as at 31.12.2016, (US$ million)	28.3
Status	Pipeline

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

Hotels

AQUAMARINE HOTEL (MOSCOW)

Type	City-hotel
Company share	100%
GBA, (sq.m)	8,848
Number of rooms	159
Status	Operating

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 Ozerkovskaya Embankment mixed-use development.

PLAZA SPA HOTEL (KISLOVODSK)

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

* The Company had 50% in the project as of 31.12.2016. The other 50% were purchased by the Company from its partner in February 2017, the current share is 100%.

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 centre, a swimming pool, saunas, restaurants and conference facilities. Located in the Caucasus mineral waters region, the Plaza Spa Kislovodsk caters to guests seeking treatment for cardiovascular and nervous system conditions, 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

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

Completed projects

FOUR WINDS PLAZA

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

Four Winds Plaza is one of the most prestigious modern 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 Tverskskaya 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)	18,100
GLA, (sq.m)	5,069
Number of apartments	108
Parking, units	323
Status	Completed

Four Winds Residential is a luxury residential building, with a 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.

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

3.4 Board of Directors

AFI Development Plc is managed by the Board of Directors, which currently consists of three[3] directors with vast experience in the fields of finance, investment management and real estate.

Of the company's three directors, two are independent.

Lev Leviev, Executive Chairman of the Board

Mr Leviev has served as Executive Chairman since 22 November 2012 and prior to this, as Chairman from 1 January 2008. In addition to this, he holds a 48.13% stake in Africa Israel Investments Ltd and serves as its Chairman. He is also the owner and President of the LLD Diamonds Ltd Group and is the President of the Federation of Jewish Communities of the CIS.

Panayiotis Demetriou, Senior Independent Non-Executive Director; Chairman of the Remuneration and Nomination Committees

Mr Demetriou serves as an independent non-executive director of AFI Development PLC. He is a qualified 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.

David Tahan, Independent Non-Executive Director; Chairman of the Audit Committee (from 20 January 2017)

Mr Tahan has served as an independent non-executive director of AFI Development PLC since 20 January 2017. Mr Tahan is an investment professional, with ten years' experience at Goldman Sachs International in both the Equities and Investment Management divisions. He currently works as the Chief Investment Officer at Manray Partners Limited in London. Mr Tahan holds a Bachelor's degree in Economics from the University of Manchester, UK.

Moshe Amit, Independent Non-Executive Director; Former Chairman of the Audit and Nomination Committees (until 31 December 2016)[2]

Mr Amit served as an independent non-executive director of AFI Development PLC and was also Chairman of the Remuneration Committee. In addition, he is 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.

[3] During 2016 a number of directors resigned from the Board: Mr Klerides resigned effective from 13 July 2016, Mr Novogrocki resigned effective from 12 September 2016 and Mr Moshe Amit resigned effective from 31 December 2016. On 20 January 2017, Mr David Tahan was appointed to the Board.

Avraham Novogrocki, Non-Executive Director (until 12 September 2016)[2]

Mr Novogrocki joined the Board of Directors of AFI Development in August 2012. He is the CEO of Africa Israel Investments Ltd., former 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.

Christakis Klerides, Independent Non-Executive Director; Former Chairman of the Audit Committee, Former Senior Independent Director (until 13 July 2016)

Mr Klerides was (from 2010 to 2016) the 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.

3.5 Management team

AFI Development's Russian operations are concentrated in its 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

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 and 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 which later become a leader in the Moscow property management market.

Natalia Pirogova, Deputy CEO Finance and Economics, AFI RUS LLC

Mrs Pirogova joined the management team in October 2011 with a long and successful track record in Russian real estate, particularly with regards to M&A deals and tax issues. For the seven years prior to joining AFI Development, Natalia worked as Financial Director and Managing Partner at Fleming Family and Partners Limited and as Managing Director at Marbleton Advisers Limited.

Tzvia Leviev-Eliazarov, Deputy CEO Asset Management, Marketing and Business Development, AFI RUS LLC

Mrs Leviev-Eliazarov's core experience revolves around management of large shopping centres. Before joining AFI Development, Tzvia managed shopping centres for Africa-Israel Investments Ltd. in Israel and established long-term business relationships with a variety of international retail chains. Tzvia Leviev-Eliazarov is currently responsible for managing AFIMALL City.

Evgeny Potashnikov, First Deputy CEO, AFI RUS LLC

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

Dmitry Kurnikov, Deputy CEO Construction and Development, AFI RUS LLC

Dmitry Kurnikov joined AFI Development in April 2014. He has more than 15 years' experience in real estate development. Prior to joining AFI Development, Dmitry held senior roles in development companies BARKLI, Forum Properties, Central Properties and Insigma, where he led the development of projects including office centres "Hermitage Plaza", "Aurora Business Park", "Dvintsev", "Pavlovskiy", and elite residential complexes "Italian Quarter" and "Roman House".

4. Operational review

4.1 Market Update 2016

Market Overview – General Moscow Real Estate

Macroeconomic Environment

With an estimated GDP decline of 0.8% (IMF), the Russian economy contracted less than expected in 2016, as gains in oil prices impacted positively on the economy. Inflation continued to decline, reaching 5.4% by year-end, helped by the appreciation of the rouble during the fourth quarter.

The country's macroeconomic environment remained negatively impacted by international sanctions. Real disposable incomes continued to shrink by around 5-6%, causing further contractions in sales volumes and impeding economic growth. Despite gradual improvement towards the end of the year, the Central Bank of Russia maintained its conservative monetary policy, with the key lending rate at 10%.

As market volatility subsides, Russian real estate investment volumes continue to rise. In 2016, investment levels reached US$4.2bn, a 74% increase versus 2015. Of this investment, 80% occurred in AFI Development's core market of Moscow.

(Sources: Russia Real Estate Investment Market, Q4 2016, JLL; Oxford Economics Russia Country Economic Forecast, February 2017)

Moscow Office Market

Demand in the Moscow office market saw an improvement in 2016, reflected in the 22% year-on-year increase in take-up to 1.06 million sq. m. At the same time, the volume of new office completions reached a record low of 317,300 sq.m. The Class A segment was a key contributor to this decline, with new delivery at 70,500 sq.m; four times lower than in 2015. This high demand and low supply resulted in an improvement in the vacancy rate to 15.9%, 1.8ppts below 2015 levels (for combined Classes A and B).

Renewals and renegotiation volumes decreased in 2016, as did their contribution to total transactions, which was at 27%, down from 39% in 2015.

US dollar denominated leases accounted only for 10% of leased space in 2016 as rouble denominated leases continued to dominate the market. Strengthening of the rouble helped office rental rates to stabilise during the year.

Finally, the opening of the Moscow Central Circle line (MCC) railroad during the second half of 2016 represents another key improvement in infrastructure. The new commuter train, integrated into the main Moscow transport infrastructure, provides further access to existing offices in the Moscow-City area.

(Source: Moscow Office Market, Q4 2016, CBRE Martketview; The MCC and the Moscow Real Estate Market, December 2016, JLL, IMF)

Moscow Retail Market

Despite delivery of 473,000 sq. m of new shopping space (2015: 441,000 sq. m), rental rates for Moscow shopping centres remained broadly stable throughout 2016 (prime rent: RUR195,000; average rent: RUR74,000) with vacancy rates at year-end at 10.2%.

Continued interest in the Moscow retail market is reflected in the market entry of 34 new international retailers in 2016, the majority of which came from Italy, France and the UK.

In addition to the office market, the opening of the Moscow Central Circle line has implications for the City's retail dynamics. The opening of a MCC station near AFIMALL City has further improved access to the Mall. Areas surrounding MCC stations offer growth potential for real estate developers and are expected to drive future construction and development of retail centres.

(Source: Moscow Retail Market, Q4 2016, CBRE Martketview; Moscow Shopping Centre Market, Q4 2016, JLL; The MCC and the Moscow Real Estate Market, December 2016, JLL)

Moscow Residential Market

At the end of Q4 2016, the supply on the "Old Moscow" primary residential market (excluding "apartments") was about 2.4 million sq.m (about 37,692 residential units), an increase of 2% compared to the end of Q3 2016. The supply in "New Moscow" was about 588.2 thousand sq.m.

By the end of Q4 2016, the weighted average asking price in Moscow's newly built business class residential market amounted to RUR250,600 (US$4,030) per sq.m. Compared with the end of Q3 2016, the average price increase in roubles was 1%. In the comfort class, the weighted average asking price was RUR156,000 (US$2,510) per sq.m.

The level of mortgage financed acquisitions of residential units increased by 32.6% in 2016 versus 2015, due to continued state support through the mortgage lending support programme (introduced in 2015) and a wide spectrum of special offers by developers.

(Sources: Miel Real Estate – Overview of newly built housing of Moscow, January 2017, Blackwood – Overview of the Moscow Residential Market, Q4 2016)

4.2 Project-specific activities and update

YIELDING ASSETS

AFIMALL City

AFIMALL City is a major retail centre located in the high-rise business district of Moscow, "Moscow-City". With a total GBA of nearly 275,046 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.

Many leases that began in 2011 (the opening year of AFIMALL) expired and had to be renewed in 2016. Mall management achieved stable occupancy levels (84% at the end of 2016) through the renewal of leases or re-leasing to new tenants.

Marketing and promotional efforts at the Mall focused on attracting a family audience at weekends, as well as on targeted sales promotions in the fashion segment.

The footfall at the Mall continues to grow; average monthly footfall in December 2016 was 3% higher than in December 2015.

A number of new retailers recently opened outlets at the Mall: a furniture and home improvement hypermarket, Hoff Home (1,200 sq.m); a book shop "Knizhny Labirint" (300 sq.m); an Armani Exchange boutique (170 sq.m) and an innovative confectionary shop "Alenka" (200 sq.m) are among the most notable.

The transportation infrastructure in the Moscow City continued to improve in 2016: the new central ring railroad began operations in September, with a station "City" in close vicinity to the AFIMALL.

According to independent appraisers JLL, the market value of AFIMALL City as of 31 December 2016 was US$666.5 million.

AQUAMARINE III (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 space[4] 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 JLL, the market value of the remaining buildings of the Complex as of 31 December 2016 was US$198.5 million.

HOTELS

The Company's portfolio includes three hospitality projects, one located in Moscow and the remaining two 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.

Despite slowdown in international business activity in Moscow and growing competition, the hotel demonstrated strong performance in 2016, with average occupancy at 76%.

The balance sheet value of the project as of 31 December 2016 was US$15.3 million.

PLAZA SPA HOTEL ZHELEZNOVODSK

Plaza Spa Zheleznovodsk is a sanatorium project which was launched in the summer of 2012 and is located in 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 2016 the hotel performed well, with strong occupancy levels which reached an average of 76% for the year. The hotel continued to benefit from the growing domestic demand for quality resorts.

The balance sheet value of the project as of 31 December 2016 was US$11.1 million.

[4] After the disposal of Building 1 to ALROSA in 2013.

PLAZA SPA KISLOVODSK

The Plaza Spa is located in the city centre of Kislovodsk, in the Caucasus mineral waters region. The facility began operations 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 staff regularly attend training sessions for new methods of treatment to aid patient rehabilitation.

Similarly to Plaza Spa Zheleznovodsk, the hotel demonstrated strong performance, with average annual occupancy at 78% for the year.

Since February 2017, AFI Development owns 100% of the project, after acquiring a 50% stake from its partner.

The balance sheet value of the Company share in the project (50%) as of 31 December 2016 was US$13.8 million.

DEVELOPMENT PROJECTS

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 154,774 sq.m (2,712 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 307,226 sq.m (6,474 apartments). Each phase includes commercial premises on the ground floor that are planned to be sold to end users.

Phase 1 (“Korona”) construction and supporting infrastructure construction works are underway. Construction of both Building 1 and Building 2 are complete. All apartments sold in Building 1 have been delivered to customers, and delivery of apartments in Building 2 commenced in March 2017. At present, a Kindergarten is being built as part of Phase 1, while the development team prepares the next buildings for construction launch – these will be Building 6 (to be launched in Q2 2017) and Building 3 (to be launched in Q3 2017).

As of the date of publication of this report, 715 out of 723 contracts for sales of apartments in Building 1 have been signed, while for Building 2, 480 of 706 contracts are signed.

The balance sheet value of the project as of 31 December 2016 was US$150.2 million.

PAVELETSKAYA II (AFI RESIDENCE PAVELETSKAYA)

Paveletskaya Phase II is a modern residential complex in proximity to 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 is easily accessible by private or public transport. The property is currently under construction.

The project consists of three phases:

Phase I – includes several residential buildings with total General Buildable Area (GBA) of 50,370 sq.m and total General Sellable Area (GSA) of 30,824 sq.m. This phase is planned to include 175 flats, 220 apartments and 5,847 sq.m of flexible commercial space.

Phase II – is planned to have GBA of 52,080 sq.m and total GSA of 27,593 sq.m. This phase is planned to include flats and 1,403 sq.m of flexible commercial space.

Phase III – is planned to have GBA of 31,060 sq.m and total GSA of 20,452 sq.m. This phase is planned to include flats and 9,842 sq.m of flexible commercial space.

At AFI Residence Paveletskaya there are two types of residential units: fully residentially zoned units referred to as “flats” and commercially zoned units that, according to common market practice in Russia, are sold and referred to as “apartments” and can be used for permanent residence. Pre-sales of both “flats” and “apartments” started simultaneously with the construction launch. As of the date of publication of this report, 118 contracts for pre-sales of both “flats” and “apartments” have been signed.

The balance sheet value of the project as of 31 December 2016 was US$76.7 million.

BOLSHAYA POCHTOVAYA (AFI RESIDENCE POCHTOVAYA)

Bolshaya Pochtovaya is a mixed-use project (predominantly residential). 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 a nearby river which significantly enhances the views from the project. It boasts a GBA of 136,581 sq.m on a land area of 5.65 hectares. The construction will be realised in four phases:

Phase I – includes several residential buildings with total General Buildable Area (GBA) of 40,788 sq.m and total General Sellable Area (GSA) of 25,969 sq.m. This phase is planned to include apartments, 8,578 sq.m of flexible commercial space and a kindergarten.

Phase II – is planned to have GBA of 37,373 sq.m and total GSA of 21,483 sq.m. This phase is planned to include apartments and 3,382 sq.m of flexible commercial space.

Phase III – is planned to have GBA of 35,629 sq.m and total GSA of 22,719 sq.m. This phase is planned to include apartments and 2,953 sq.m of flexible commercial space.

Phase IV – is planned to have GBA of 22,792 sq.m and total GSA of 14,744 sq.m. This phase is planned to include apartments and 1,002 sq.m of retail space.

During 2016 the Company completed all preparatory steps required to launch the main construction stage. After receiving a permit in December 2016, the construction of the first phase was launched in Q1 2017. The marketing of apartments is scheduled to start in Q2 2017.

Based on an independent valuation of the Company portfolio by JLL as of 31 December 2016, the fair value of Bolshaya Pochtovaya (Company share) is US$73.9 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 Prospect Mira, within walking distance of Botanicheskuiy Sad and Sviblovo metro stations. The future residential complex has a land plot of 3.2 Ha and a gross building (GBA) of 200,635[5] sq.m: 107,350 sq.m of residential area, 8,611 sq.m of commercial premises and 794 underground and above ground parking lots.

Following revision of the project in 2016, AFI Development obtained an updated construction permit and launched the main construction phase in March 2017.

The balance sheet value of the project as of 31 December 2016 was US$21.5 million.

TVERSKAYA PLAZA IC

Tverskaya Plaza Ic is a Class A office development 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 521 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 Developments 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 Jones Lang LaSalle as of 31 December 2016, the fair value of Tverskaya Plaza Ic is US$66.0 million.

TVERSKAYA PLAZA IV

Plaza IV is a Class A office development with supporting ground level retail zones, located at 11, Gruzinsky Val. The project has a GBA of 108,000 sq.m (including underground parking) and an estimated GLA of 61,350 sq.m

The Company has completed necessary steps for securing the land lease agreement with Moscow authorities.

Based on an independent valuation of the Company portfolio by Jones Lang LaSalle, as of 31 December 2016, the fair value of the Company share in Plaza IV (95%) was US$61.3 million.

KOSSINSKAYA

Kossinskaya is mixed-use building totalling 108,528 sq.m with nine aboveground floors and a single underground level. The property was constructed in 2005.

Based on an independent valuation of the Company portfolio by JLL as of 31 December 2016, the fair value of Kossinskaya is US$28.3 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.

[5] According to the updated City development plan

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.

5. Principal business risks and uncertainties affecting the Company

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

Risk management framework

The Board of Directors is ultimately responsible for the establishment and oversight of the Company's risk management framework and is 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 management monitoring of 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 management to take corrective actions as necessary and submit follow up reports to the Audit Committee and the Board, 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 only investing in liquid securities and with counterparties that have a high credit rating. Management actively monitors credit ratings and given that the Group has only 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 Company's Audited Financial Statements for year 2014.

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 aims to avoid recourse to AFI Development on loans taken by subsidiaries.

As at 31 December 2016, there were two outstanding guarantees: one for the amount of US$1 million in favour of VTB Bank PJSC under a loan facility agreement of Bellgate Construction Limited (AFIMALL City) and the second for the amount of US$ 192 million, also in favour of VTB Bank PJSC, under a loan facility agreement of Krown Investments LLC (Ozerkovskaya III).

In February 2017, AFI Development provided an additional guarantee in favour of VTB Bank PJSC for the loan amounting to US$22.5 million, taken by its subsidiary Sanatory Plaza LLC to finance the acquisition of the 50% stake in the Plaza Spa Kislovodsk project (including repayment of debt to the exiting partner’s company). This guarantee will remain in place until all security agreements under this loan are entered into and registered, expected by the end of April 2017.

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.

Management monitors AFI Development’s liquidity position on a daily basis and 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 notes 3 and 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, 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 the UK Listing Rules) in the financial year ended 31 December 2016 or in the period since 31 December 2016.

6. Corporate Governance and compliance with the UK Listing Rules

In this section of the report the Company provides disclosures and statements of compliance with various UK Listing Rules applicable to it, in particular as required under the UK Listing Rule 9.8.4 R.

6.1 Compliance with the UK Listing Rule 9.2.2AR

The Board of Directors states as follows:

During 2016 the controlling shareholder of AFI Development Plc has changed. From the beginning of the year till 7 September 2016, the controlling shareholder was Africa Israel Investments Limited ("the old controlling shareholder"), with 64.88% interest in the Company. On 7 September 2016 the old controlling shareholder disposed of all its holdings in the Company to Flotonic Limited ("the new controlling shareholder"), which was holding a 64.88% interest in AFI Development Plc as of 31 December 2016.

The Company has entered into a Relationship Agreement under the UK Listing Rule 9.2.2A R (2)(a) with its old controlling shareholder, Africa Israel Investments Limited, on 16 September 2014 (the agreement replaced the previous relationship agreement made between the parties in 2007). Following the change of controlling shareholder, the Company entered into a Relationship Agreement with the new controlling shareholder on 27 October 2016.

The Board of Directors is satisfied that the Company has complied with the independence provisions in the Relationship Agreements with both controlling shareholders during 2016.

So far as the Company is aware, the independence provisions included in both Relationship Agreements have been complied with during 2016 by both the old and the new controlling shareholders and any of their associates.

All independent directors supported the above statement.

At the Annual General Meeting of Shareholders held on 26 October 2016, the Company had a separate meeting of independent shareholders of the Company's B-shares (the premium listed shares) to approve the re-election of its independent directors, as required by the UK Listing Rules 9.2.2E R. All independent directors were approved by the meeting of independent shareholders. The Company is therefore in compliance with the UK Listing Rule 9.2.2E R.

6.2 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 UK Listing Rules however, the Company is required to comply with the UK Corporate Governance Code[6] 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 UK Corporate Governance Code published in September 2014 (the "Code") applied to the Company during the period under review; the updates to the UK

[6] 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

Corporate Governance Code published in April 2016 apply to the Company for the financial year commencing 1 January 2017.

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, was not independent on appointment (as required by section A.3.1 of the Code) by virtue of the fact that he is an Executive Chairman and is, indirectly, a major shareholder of the Company. Mr Leviev holds a controlling stake in Flotonic Limited, 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.

6.3 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.

The Full Year 2016 financial statements were approved by the Board of Directors on 6 April 2017, and published on 7 April 2017. The Board estimates that the Group will generate sufficient operating cash flows so as to meet the Loan Facilities interest payments. The Board and the management explore all options in relation to repaying the Loan Facilities when they fall due in 2018, which may or may not include the disposal of certain assets or projects or refinance of AFIMALL City loan. Management considers its available options and is developing a plan on how to approach the loans at maturity and secure further financing to continue in operational existence for the foreseeable future. After having reviewed a cash flow projection for the period ending 31 December 2018, having discussed it with management and the Company auditors, the directors reached a reasonable expectation that that the Group will be in a position to refinance or negotiate the loans at maturity, secure further financing for its projects under construction and development and achieve the sales volumes and prices as budgeted and forecasted to generate enough cash to cover its working capital requirements in order to continue its operations in the foreseeable future. Considering all the above conditions and assumptions, the directors concluded that the Company had adequate resources to continue in operational existence for at least the coming 12 months. For this reason, they adopted the going concern basis in preparing the accounts.

6.4 Viability Statement

The Board assessed the prospects of the Company over a period of five years in December 2016 and a 20 months cash flow projection in April 2017. The Board approves detailed Company business plans for each calendar year, which normally include five years projections, the period that the Board considers most appropriate.

Where appropriate, sensitivity and scenario analysis are used to stress-test the resilience of the Company and its business model to the potential impact of the principal risks, or a combination of those risks.

The Board confirms that its assessment of the principal risks facing the Company, including those that would threaten its business model, future performance, solvency and/or liquidity, and which are set out in the Principal Risks and Uncertainties section of this report, was robust.

The Board confirms that it has a reasonable expectation that the Company will be able to continue in operation and meet its liabilities as they fall due over the period of at least 12 months.

6.5 Working processes at the Board of Directors

Balance of Directors

Throughout 2016, the Company had a strong non-executive representation on the Board. Although the minimum number of directors has been reduced in the Company's Articles of Association from five to three in October 2016, of the three[7] directors currently on the Board, there are two non-executive directors, both of whom are independent. The two independent non-executive directors are Panayiotis Demetriou and David Tahan. Christakis Klerides served as Senior Independent Director till his resignation from the Board on 13 July 2016. On 14 July 2016 Panayiotis Demetriou was appointed as Senior Independent Director. None of the directors that the Board determined as independent has been an employee of the Company, has had a material business relationship with the Company, has received additional remuneration from the Company apart from director's fee, has had close family ties with any of the Company's advisers, directors or senior employees, holds cross-directorships or has significant links with other directors, represents a significant shareholder or has served on the Board for more than nine years.

The biographies of directors are provided in this report in the 'Board of Directors' section above and can also be reviewed on the website of the Company at: http://www.afi-development.com/en/about/board-of-directors

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 Chief Executive 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 Chief Executive in the Company's structure is the CEO of AFI RUS LLC, the main operating subsidiary of the Company. The Chief Executive, Mr Mark Groysman, occupies this position since 2011. Mr Groysman is responsible for all aspects of the operation and management of the business in the Russian Federation. 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.

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; to review and approve financial statements and to report to shareholders. There is a formal schedule of matters specifically reserved to the Board for decisions[8]. The Board is responsible for the strategy, approval of annual budgets, approval of interim and final financial results, maintaining

[7] During 2016 a number of directors resigned from the Board: Mr Klerides resigned effective from 13 July 2016, Mr Novogrocki resigned effective from 12 September 2016 and Mr Moshe Amit resigned effective from 31 December 2016. On 20 January 2017 Mr David Tahan was appointed to the Board.

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

the system of internal control, compliance and risk management, approving 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.

Attendance at Board Meetings in 2016 was as follows:

Name	Board	Audit Committee	Remuneration Committee	Nomination Committee
Lev Leviev	11	-	-	-
Avraham Novogrocki	14	-	-	0
Christakis Klerides	8	2	1	0
Moshe Amit	16	5	1	0
Panayiotis Demetriou	16	3	1	0
Dates held	19.01.2016			
	04.03.2016			
	17.03.2016	17.03.2016	17.03.2016	
	29.03.2016			
	18.04.2016			
	16.05.2016	16.05.2016		
	09.06.2016			
	30.06.2016			
	07.07.2016			
	14.07.2016			
	21.07.2016			
	25.07.2016			
	24.08.2016	24.08.2016		
	12.09.2016			
	23.09.2016			
	21.11.2016	21.11.2016		
	19.12.2016	19.12.2016		
No. of meetings held during 2016	17	5	1	0

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

There was an unusually high number of Board meetings in 2016 due to close monitoring and decision making by the Board in the debt restructuring process that took place between AFI Development and its main lender, Bank VTB PJSC.

The matters discussed at the board meetings included:

- 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 21 December 2016 the non-executive directors met without the Chairman present to appraise the Chairman's performance in 2016.

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 Appraisal

In 2016 AFI Development conducted performance evaluations for the Board, its committees and individual directors in-house.

The appraisal of the Chairman's performance was conducted in December 2016 by the non-executive directors, under the leadership of Mr Panayiotis Demetriou, the Senior Independent Director.

Other significant commitments of the Chairman

The Company's Executive Chairman, Mr Lev Leviev, holds a 48.13% stake in Africa Israel Investments Ltd and also serves as its Chairman. In addition he is the owner and the President of the LLD Diamonds Ltd, and the President of the Federation of Jewish Communities of the CIS.

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

At the beginning of 2016, the Nomination Committee comprised three directors: Moshe Amit (Chairman), Christakis Klerides and Avraham Novogrocki. Following resignations of Board members throughout the year, as of 31 December 2016 the Committee comprised Panayiotis Demetriou and Moshe Amit, the latter being replaced, on 20 January 2017, by David Tahan. All members of the Committee throughout the year, except Mr Novogrocki, were 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.

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 2016, female representation across the workforce of AFI Development was approximately 70%, while at the middle management level the figure was approximately 51%. In addition, 33% of the senior management team of AFI RUS LLC, the Company's main operating subsidiary, are female.

During 2016 the Nomination Committee did not meet.

Remuneration Committee

At the beginning of 2016, the Remuneration Committee comprised three directors: Panayiotis Demetriou (Chairman), Christakis Klerides and Moshe Amit. Following resignations of Board members throughout the year, as of 31 December 2016 the Committee comprised Panayiotis Demetriou and Moshe Amit, the latter being replaced, on 20 January 2017, by David Tahan. All committee members are and have been 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 senior management, 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, pension contributions and any compensation payments.

The remuneration of non-executive directors is determined by the Board, following a recommendation 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 UK Corporate Governance Code. As of 31 December 2016, the Company had one executive director, Mr Lev Leviev.

The Remuneration Committee met on one occasion in 2016. It discussed and made recommendations to the Board on the review of remuneration packages of executive directors and senior executives.

The Remuneration Committee did not appoint any external consultants during 2016.

Audit Committee

The Audit Committee comprises two 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. Throughout the year, the members of the Audit Committee were Christakis Klerides (Chairman till his resignation from the Board on 13 July 2016), Moshe Amit (Chairman from 14 July 2016 till his resignation on 31 December 2016), Panayiotis Demetriou (from 14 July 2016). On 20 January 2017 Mr David Tahan was appointed Chairman of the Audit Committee. All members of the Committee are and have been 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, accounting 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.

In 2016 the Committee recommended to extend the appointment of KPMG Limited as the Company external auditors and to approve its remuneration. KPMG Limited serve as the Company auditors since its IPO in 2007 and the Committee is fully satisfied with its work and that the remuneration of the auditors is adequate and competitive (the Company did not conduct a tender for external audit since 2007, but plans to do so in 2017). During the year KPMG Limited provided some non-audit services: these were on-going insignificant tax advisory, provided by KPMG Cyprus and working capital statement and report for the Class 1 shareholders circular (published in July 2016), provided by KPMG UK. The Cyprus tax advisory did not, in the opinion of the Audit Committee, influence the auditors' independence or objectivity, as these small services was purchased from KPMG Limited due to their deep familiarity with the operations of the Company and it would be more expensive to purchase it from a third party provider. For the working capital services, the Audit Committee believes that the independence of the auditors was safeguarded by the fact that he report was signed off by the London office (while the auditing office is KPMG Cyprus). At the same time it should be noted that the circular was prepared within a very tight timeframe and the Company's auditors were the first choice available.

External auditors are present at every meeting of the Audit Committee. The auditors' reports are reviewed and discussed by the Committee members to ensure the Committee understands all issues and, if required, appropriate action can be taken.

The Audit Committee held five meetings during 2016. The Board is satisfied that at all stages during 2016 at least one member of the Audit Committee had recent and relevant financial experience, while Mr Klerides possessed accounting competence.

The matters reviewed and considered by the Audit Committee in 2016 included:

- The Internal Audit reports on the Odinburg Project – Sales and Project foundation & control;
- The Internal Audit report on Corporate Governance;
- The Internal Audit report on the operational management of the Plaza Spa Kislovodsk project.

During 2016 the Committee was involved in discussions with the external auditors on the consequences of the disposal transaction of three properties to VTB Bank PJSC and led the Board decision not to proceed with the disposal of three properties when an alternative agreement was reached with VTB Bank PJSC.

Dividends

During 2016, the Company did not pay any dividends. In the future, the Company may consider making dividend payments in respect to its ordinary shares, when and if commercially prudent, after taking into account profits, cash flow and capital investment requirements. No dividends will be paid outside 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 report 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 Senior Independent Director can also be available to shareholders, in case they have concerns.

Since the foundation of AFI Development, its main shareholder of the Company had been Africa-Israel Investments Limited ("AFI Investments"), which held a 64.88% interest in AFI Development. On 7 September 2016 AFI Investments disposed of all its holding in AFI Development to Flotonic Limited, controlled by Mr Lev Leviev ("the disposal transaction").

During 2016 AFI Development maintained on-going reciprocal communications with AFI Investments on several levels, including at a Board level, as the CEO of AFI Investments, Mr Avraham Novogrocki, was 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 attended board meetings of AFI Development. Senior representatives of AFI Investments were 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.

Following the disposal transaction, Mr Lev Leviev, the Executive Chairman of the Company, has become the sole major shareholder of AFI Development.

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, regulatory and investor relations 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.

6.6 Risk Management Processes and 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 UK Financial Reporting Council "Guidance on Risk Management, Internal Control and Related Financial and Business Reporting" ("the FRC Guidance"). The Company's system of internal control supports identification, evaluation and management of the risks affecting the Company and the business environment in which it operates.

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 four main groups of controls:

1. Entity Level Controls - these are controls that may have an overall impact on the organisation and reflect the Board leadership principle of the UK Corporate Governance Code. 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 it's 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.

2. Preparation of the Financial Statements - this group of controls relates to examination of the last segment of the financial reporting 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 the 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.

3. General Controls over the Information Systems – these are control procedures relating to IT infrastructure and informational security of the Company. The controls are focused mainly at: Procedures regarding system access right controls; Procedures regarding performing changes to the system; Backup and restoration procedures; Information security procedures.

4. Controls related to the core business operations – this large group of controls is divided into three subgroups: Development activities, Investment activities and Asset management. These controls focus at business processes that have a material impact on the company's financial performance. Development activities subgroup covers processes related to development, construction and delivery of commercial and residential projects. Investment activities controls address decision making process for

investment and divestment of projects. Asset management is focused on the management of yielding commercial properties, including AFIMALL City.

During 2016, the AFI Development Group employed two full time dedicated internal controllers, who are 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 modelling 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 counsels 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 quarterly confirmation of compliance provided by Mr Mark Groysman and Mrs Natalia Pirogova, respectively the Chief Executive Officer and the Chief Financial Officer of AFI RUS LLC, based on quarterly reporting by the Head of Internal Control.

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 2016 [in addition to the ongoing monitoring as described below], the Board concluded that for the period ending on 31 December 2016 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:

1. Head of Internal Control of AFI RUS LLC provides end of quarter report to the senior management of AFI RUS LLC on performance results of the risk management and internal control system. Key findings are reported to the Audit Committee and the Board of Directors.
2. 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.
3. Year-end evaluation – the Internal Control Department of AFI RUS LLC undertakes, on behalf of the Board of Directors, a rigorous review of the effectiveness of the risk management, financial, operational and compliance internal controls. The results of the review with recommendations on improvements or amendments of controls are reported to the Board, which then makes appropriate decisions.

7. 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 2016.

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 additional duties and responsibilities conferred to such a director under the Code.

Executive directors' remuneration 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 is responsible 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 only to senior managers, directors (except non-executive directors) and key personnel of the Company or any of its subsidiaries.

The exercise price 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 options were 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 the 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 2016, the Company did not grant any share options under the Share Option Plan.

Directors' emoluments

The aggregate emoluments of each of the directors (including benefits in kind) for the financial accounting period ending 31 December 2016 were as follows:

Name	Salary/Fee, US$	Benefits in kind, US$	Annual bonuses, US$	Pension, US$	Total, US$
Lev Leviev	1,200,000	0	0	0	1,200,000
Avraham Novogrocki	0	0	0	0	0
Christakis Klerides	70,071	0	0	0	70,071
Moshe Amit	64,800	0	0	0	64,800
Panayiotis Demetriou	67,534	0	0	0	67,534

Long term incentive plan

As of 31 December 2016, there was no long term incentive plan available for the directors.

Options held by directors and senior managers

GDRs:

As of 31 December 2016, 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 2016, there were valid options over 46,098,538 B Ordinary shares. Options over 16,763,104 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 2016, the options over 14,667,716 shares with an exercise price of US$0.7208 and the option over 31,430,822 shares with an exercise price of US$0.5667 have vested and become exercisable. If an Option holder ceases to hold any office in, or be employed by, any Member of the AFI Development Group by reason of dismissal by the Option holder's employer (except as a result of the Option holder 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 Option holder shall remain entitled to exercise the option (to the extent already exercisable 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 31.12.2016, Company directors held the following share options:

Name of director	Title	Amount of shares and class	Date granted	Exercise price	Performance conditions	Vesting dates and amount of shares vesting
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

Pensions and benefits in kind

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

8. Financial Statements

8.1 Management discussion and analysis of financial condition and results of operations

Overview

As at 31 December 2016, the Company's portfolio consisted of 7 investment properties, 4 investment properties under development, 3 trading properties under development and 3 hotel projects. The portfolio comprises commercial projects focused on offices, shopping centres, hotels and mixed-use properties, as well as residential projects, in prime locations in Moscow. The total value of the Company's assets, based predominantly on independent valuation as of 31 December 2016, was US$1.4 billion[9]. About 64% of the assets book value is attributed to yielding properties.

Revenues for 2016 increased by 47.6% year-on-year to US$138.3 million, mainly as a result of residential disposals. The average exchange rate of RUB to USD increased by 10.0% during 2016. AFI Development recorded a 17.2% year-on-year increase in gross profit to US$49.4 million as a result of this. Cash, cash equivalents and marketable securities decreased by 60.7% to US$16.7 million as at 31 December 2016, due to debt repayment and financing of construction work partly from own capital, and as a result of a sale of bonds in the amount of US$18.1 million and US$4.2 million worth of bonds maturing during the period.

In 2016, AFI Development incurred a net loss of US$47.9 million, compared to net loss of US$466.7 in 2015.

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 the Russian Federation. As a result, Russian macroeconomic trends and country-specific risks significantly influence our performance.

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

	Year ended 31 December 2016, %	Year ended 31 December 2015,%
Real Gross Domestic Product growth	-0.8	-3.8
Consumer prices growth (inflation)	7.2	15.5

Source: The International Monetary Fund

Company Specific Factors

The following factors affected our performance in 2016:

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

- In Q1 and Q2 2016, the Company transferred the pre-sold apartments in Building 1 of the Odinburg project to customers, allowing it to recognise revenue from sales of trading properties in the amount of $54.5 million.
- Due to an agreement reached with VTB Bank PJSC in September 2016, the Company did not make principal payments in Q2, Q3 and Q4 under the loan agreements at the Ozerkovskaya III and AFIMALL City projects, which resulted in cash outflow reduction of US$ 25.2 million for 2016.

Disposals and Acquisitions

During 2016, the Company disposed of a building on Sadovaya Samotechnaya Street in Moscow, which was purchased in 2014 in relation to the Botanic Garden Project: The Company subsidiary ZAO "Moskovsky tkatsko-otdelochny kombinat" sold the building on 7 April 2016 for RUR86,000,000 including VAT (approximately US$1.3 million).During 2016, the Company did not make any acquisitions.

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"), 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 leased investment properties 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 hotel operations.
- *Income from hotel operations.* Income from hotel operations comprises of accommodation, treatments and other services offered at the hotels operated by the Group, as well as sales of food and beverages, and are recognised on acceptance of the service by the client.
- *Sales of trading properties*. We recognise revenue from the sales 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 current liabilities on our balance sheet at the time of sale.
- *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.

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 employees who have provided construction consulting and construction management services with respect to our investment and trading properties. 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 of 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.

Share of the after tax (loss)/profit of 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.

Gross Profit

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

Revaluation of investment property

An external, independent valuation company (with 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, coupon income on bonds 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 capitalize 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. Capitalisation of borrowing costs commences when the activities to prepare the asset are in process and expenditures and borrowing costs are incurred. Capitalisation of borrowing costs may continue until the assets are ready for their intended use.

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 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 employee costs related to such projects.

In addition, we capitalise financing costs related to development projects only during the period of construction. We do not, however, commence the capitalising of financing costs related to expenditures on a project until construction has begun. 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 four Cyprus companies 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 expense 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 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. 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

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.

Under Russian tax law, capitalisation of certain costs in relation to the design, construction and financing of projects that are capitalised for the purposes of consolidated financial statements under IFRS is not allowed. 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. However, such tax losses may only be carried forward to offset gains for a ten-year period and they may only be utilised in the Russian subsidiary/branch in which such tax losses were generated.

Measurement of fair values

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.

We have 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.

Results of Operations

Description of Statement of comprehensive income Line Items

Summary of statement of comprehensive income for 2016 and 2015

US$ million	For the year ended 31 December 2016	For the year ended 31 December 2015	Change 2016 / 2015	
Revenue				
Construction consulting/management services	0.2	0.1	0.1	48.2%
Rental income	83.6	92.9	(9.3)	(10.0)%
Sale of residential	54.5	0.7	53.8	7980.0%
	138.3	**93.7**	**44.6**	**47.6%**
Expenses				
Other income	3.5	3.1	0.4	16.9%
Operating expenses	(38.8)	(40.5)	1.7	(4.1)%
Administrative expenses	(6.6)	(10.6)	4.1	(38.1)%
including Bad debt provisions and write-offs	1.3	0.1	1.2	1218.0%
Cost of sales of residential	(49.5)	(0.6)	(48.9)	8025.3%
Other expenses	(1.3)	(1.6)	0.3	(19.3)%
				84.0%

	(92.7)	**(50.4)**	**(42.3)**	
Share of the after tax (loss)/profit of joint ventures	3.7	(1.3)	5.1	-383.1%
Gross profit	**49.4**	**42.1**	**7.3**	**17.4%**
Profit on disposal of investments in subsidiaries	1.8	-	1.8	1815.2%
Valuation loss on properties	(123.0)	(434.4)	311.3	(71.7)%
Impairment loss on inventory of real estate	-	(12.7)	12.7	(100.0)%
Results from operating activities	**(71.9)**	**(404.9)**	**333.0**	**-82.2%**
Finance income	2.1	4.2	(2.1)	(49.2)%
Finance expense	(44.6)	(46.2)	1.6	(3.4)%
FX Gain/(Loss)	63.7	(110.3)	174.0	-157.7%
Net finance income/(costs)	**21.2**	**(152.3)**	173.5	-113.9%
Profit before income tax	**(50.7)**	**(557.2)**	**506.5**	**(90.3)%**
Income tax expense	2.8	90.5	(87.8)	(97.0)%
Loss from continuing				**(89.7)%**

operations	(47.9)	(466.7)	418.7

Revenue – General Overview

To date, we have derived revenues from three sources: rental income, sale of trading properties and construction consulting and 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 2016	For the year ended 31 December 2015	Change 2016/2015	
			US$ million	%%
	Investment property			
AFIMALL City	66.2	71.3	(5.1)	(7.1)%
H2O office building	0.9	1.2	(0.3)	(23.8)%
Berezhkovskya office building	1.8	2.3	(0.6)	(24.3)%
Paveletskaya I	0.0	1.4	(1.3)	(96.8)%
Premises at Bolshaya Pochtovaya	1.0	2.7	(1.7)	(61.9)%
Premises at Plaza IV (Gruzinsky Val)	0.0	0.0	(0.0)	(9.5)%
Premises at Tverskaya Zastava Square	1.7	1.9	(0.2)	(8.9)%
Ozerkovskaya (Aquamarine) III	0.5	0.6	(0.2)	(25.1)%
Other land bank assets	0.1	0.2	(0.1)	(36.0)%
	Hotels			
Aquamarine hotel	5.0	5.1	(0.1)	(2.7)%
Plaza Spa Hotel (Zheleznovodsk)	6.3	6.2	0.1	1.6%
Total	83.6	92.9	(9.3)	(10.0)%

Sale of residential

US$ million	For the year ended 31 December	For the year ended 31 December 2015	Change 2016/2015	
			US$ million	%%

	2016			
Revenue				
Ozerkovskaya II	0.5	0.6	(0.1)	(23.3)%
4 Winds residential	-	0.1	(0.1)	100.0%
Odinburg	54.0	-	54.0	100.0%
Total	**54.5**	**0.7**	**53.8**	**7980.0%**

Sale of residential. Our income from sale of residential increased by US$53.8 million, from US$0.7 million in 2015 to US$54.5 million in 2016, due to sale of trading properties in the Odinburg project.

Operating expenses. Our operating expenses decreased by 4.1% year-on-year to US$38.8 million in 2016 (2015: US$40.5 million), as a result of cost savings.

Administrative expenses. Our administrative expenses decreased by 38.1 % year-on-year to US$6.6 million in 2016 (2015: US$10.6 million). The decrease is attributable to increase in reverse of bad debt provision from US$0.1 million in 2015 to US$1.3 million in 2016, as well as other cost saving initiatives across the Company.

Net valuation gain/(losses) on properties. Net result of investment property valuation changed from a loss of US$434.4 million in 2015 to a loss of US$123.0 million in 2016. For additional information, please refer to "Portfolio Valuation" section below.

Impairment loss on inventory of real estate. Net result of real estate impairment increased from a loss of US$12.7 million in 2015 to US$0.0 million in 2016 due to transfer of the Botanic Garden project from Inventory of real estate to Trading property under construction, and corresponding change in recognition policy. For additional information, please refer to "Portfolio Valuation" section below.

Finance income. Our finance income decreased by 49.2 % year-on-year to US$2.1 million in 2016 (2015: US$4.2 million). The decrease was a result of the change in the Company financial investments portfolio.

Finance expense. Our finance expense decreased by 3.4 % year-on-year to US$44.6 million in 2016 (2015: US$46.2 million), as a result of Russian Rouble devaluation versus the US Dollar (the average exchange rate of RUB to USD increased by 10.0% during 2016).

FX Gain/(Loss). We recorded a foreign exchange gain of US$63.7 million in 2016, against a loss of US$110.3 million in 2015. This was a result of Russian Rouble appreciation versus the US Dollar during 2016.

Income tax expense. Our current tax expense decreased to a reverse of US$0.6 million compared to accrual of US$0.8million in 2015. This was due to correction of tax expenses in a Group company for a prior year.

Profit/Loss for the year. Due to the factors described above, we recorded a US$47.9 million net loss for 2016 compared to net loss of US$466.7 million for 2015.

Liquidity and Capital Resources

Cash flows

Summary of cash flows for 2016 and 2015

US$ thousand	For the year ended 31 December 2016	For the year ended 31 December 2015
Net cash from operating activities	35,185	34,374
Net cash from/(used in) investing activities	9,126	(14,815)
Net cash from/(used in) financing activities	(58,035)	(80,003)
Effect of exchange rate fluctuations	(2,202)	233
Net increase/(decrease) in cash and cash equivalents	(15,926)	(60,211)
Cash and cash equivalents at 1 January	26,545	86,756
Cash and cash equivalents at 31 December*	10,619	26,545

* Note: the cash and cash equivalents do not include US$6.1 million (2015: US$15.9 million) fair value of marketable securities.

Net cash from operating activities

Net cash from operating activities increased to US$35.2 million in 2016, from US$34.4 million in 2015. The increase is attributable to the fact that sales of residential units in Odinburg, nominated in Russian rouble, created higher USD positive cash flow due to rouble appreciation.

Net cash from investing activities

Net cash inflow from investing activities amounted to US$ 9.1 million and is attributable to cash receipt from the sale and maturity of investments in marketable securities.

Net cash used in financing activities

Net cash used in financing activities increased to a negative US$58.0 million in 2016 from a negative US$80.0 million in 2015 due to Company repayment of part of principal amount and interests during 2016.

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.

AFI Development ended 2016 with of approximately US$16.7 million in cash, cash equivalents and marketable securities on our balance sheet and a debt[10] to equity level of 81%.

The Company's 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, the aim is to refinance properties at more favourable terms, including longer

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

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.

As of December 31, 2016 our debt portfolio was as follows:

Project	Lending bank	Max debt limit (US$ mn)	Total balance as of Dec-31, 2016 (US$ mn)	Available (US$ mn)	Nominal Interest rate	Currency	Maturity (dd.mm.yy)
AFIMALL City	VTB Bank JSC	21 billion rub	159.1 276.9	0	9.5% 3-month LIBOR + 5.02%	RUR US$	01.04.2018
Krown Investments LLC	VTB Bank JSC	220.0	191.5	0	3-month LIBOR + 7%	US$	26.01.2018

The total balance of secured debt financing reached US$627.5 million as at 31 of December 2016, including US$627.1 million of Principal Debt and US$0.4 million of accrued interest with average interest rate 7.74% per annum as at 31.12.2016 (7.28% per annum as at 31.12.2015) (for more details see note 28 to our consolidated financial statements).

As at 31 December 2016, our loans and borrowings were payable as follows:

US$ thousand	As at 31 December 2016	As at 31 December 2015
Less than one year	748	224,315
Between one and five years	627,074	389,799
Total	627,822	614,114

Portfolio Valuation

From the current reporting period onwards, Jones Lang LaSalle LLC ("JLL") have been appointed as the Company independent appraisers. As at 31 December 2016, based on the JLL independent appraisers' report, the value of AFI Development's portfolio of investment properties stood at US$915.4 million, while the value of the portfolio of investment property under development stood at US$232.9 million.

Consequently, the total value of the Company's assets, based predominantly on independent valuation as of 31 December 2016, remained unchanged year-on-year at US$1.4 billion.

	Property	Valuation 31/12/2016, US Dollars	Valuation 31/12/2015, US Dollars	*Change in valuation, %*	Balance sheet value 31/12/2016, US Dollars	Balance sheet value 31/12/2015, US Dollars
Investment property						
1	H2O	9,223,126[11]	8,925,606	3%	9,300,000	9,000,000
2	Ozerkovskaya Phase III	198,500,000	199,300,000	0%	198,500,000	199,300,000
3	Berezhkovskaya	12,136,000[12]	11,470,000	6%	16,400,000	15,500,000
4	AFIMALL City	666,500,000	685,200,000	-3%	666,500,000	685,200,000
5	Paveletskaya I	11,900,808[13]	11,504,114	3%	12,000,000	11,600,000
6	Plaza II	9,200,000	9,200,000	0%	9,200,000	9,200,000
7	Plaza Ib	3,450,000	3,400,000	1%	3,450,000	3,400,000
8	Sadovaya - Samotechnaya	-	500,000	-100%	-	500,000
	Total	**910,909,934**	**929,499,720**	**-2%**	**915,350,000**	**933,700,000**
Investment property under development						
9	Plaza Ic	66,000,000	65,500,000	1%	66,000,000	65,500,000
10	Plaza IIa	-	1,900,000	-100%	-	1,900,000
11	Plaza IV	61,275,000[14]	65,170,000	-6%	64,500,000	68,600,000
12	Kossinskaya	28,300,000	27,800,000	2%	28,300,000	27,800,000
13	Bolshaya Pochtovaya	73,885,110[15]	71,460,000	4%	74,100,000	71,460,000
	Total	**229,460,110**	**231,830,000**	**-1%**	**232,900,000**	**235,260,000**
Trading property & Trading property under development						
14	Odinburg	n/a	n/a	-	150,181,009	148,452,242
15	Ozerkovskaya II	n/a	n/a	-	1,791,074	2,062,354
16	Paveletskaya Phase II	n/a	55,477,600[16]	-	76,666,586	55,940,000
17	Botanic Garden	n/a	n/a	-	21,542,643	-
	Total	-	55,477,600	-100%	250,181,313	206,454,596
Inventory of real estate						
18	Botanic Garden	-	18,570,000	-100%	-	18,570,000
	Total	**-**	**18,570,000**	**-100%**	**-**	**18,570,000**
Land Bank Properties						
19	Ruza	n/a	n/a	n/a	**-**	3,665,000
	Total	**-**	**-**	**0%**	**-**	**3,665,000**
Hotels						
20	Aquamarine Hotel	n/a	n/a	-	15,289,552	13,075,377
21	Plaza Spa Hotel in Kislovodsk[17]	n/a	n/a	-	13,823,785	11,560,988
22	Plaza Spa Hotel Zheleznovodsk	n/a	n/a	-	11,095,402	9,093,415
23	Park Plaza hotel in Kislovodsk	n/a	n/a	-	3,947,127	3,319,081
24	Versailles project in Kislovodsk	n/a	n/a	-	-	-
	Total	**-**	**-**	**-**	**44,155,866**	**37,048,861**
	Grand Total	**1,140,370,044**	**1,235,377,320**	**-8%**	**1,442,587,178**	**1,434,698,457**

[11] Valuation figures represent Company's share (99.17%)
[12] Valuation figures represent Company's share (74.00%)
[13] Valuation figures represent Company's share (99.17%)
[14] Valuation figures represent Company's share (95.00%)
[15] Valuation figures represent Company's share (99.71%)
[16] Valuation figures represent Company's share (99.17%)
[17] The project portfolio includes 50% owned joint ventures, which are accounted for by equity method

8.2 Management Report and Directors Responsibility Statement

BOARD OF DIRECTORS AND PROFESSIONAL ADVISERS

Board of Directors	Lev Leviev - Chairman
	Panayiotis Demetriou
	David Tahan (appointed on 20/1/17)
	Avraham Noach Novogrocki (resigned on 12/9/16)
	Christakis Klerides (resigned on 13/7/16)
	Moshe Amit (resigned on 31/12/16)
Secretary	Fuamari Secretarial Limited
Independent Auditors	KPMG Limited
Bankers	Public Joint Stock Company VTB Bank
	Public Joint Stock Commercial Savings Bank of the Russian Federation (Sberbank)
	Otkritie FC Bank
Registered Office	Spyrou Araouzou 165, Lordos Waterfront Building, 3035 Limassol, Cyprus

MANAGEMENT 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 2016.

PRINCIPAL ACTIVITIES AND NATURE OF OPERATIONS OF THE COMPANY

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 Flotonic Limited. As described in more detail in note 34 "Group composition" up to 7 September 2016, the Company was a 64.88% subsidiary of Africa Israel Investments Ltd ("Africa-Israel"), which is listed in the Tel Aviv Stock Exchange ("TASE").

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, 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 in prime locations in Moscow. 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 2016, the Company's portfolio consisted of 7 investment properties, 4 investment properties under development, 3 trading properties under construction, and 3 hotel projects.

FINANCIAL RESULTS

The Group's results are set out in the consolidated income statement on page 70. The loss of the Group for the year before taxation amounted to US$50,697 thousand (2015: US$557,188 thousand). The loss after taxation attributable to the Group's owners amounted to US$47,872 thousand (2015: US$464,087 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 or accumulated losses.

MAIN RISKS, UNCERTAINTIES AND USE OF FINANCIAL INSTRUMENTS

The Group is exposed to market price risk, interest rate risk, credit risk, liquidity risk. The most significant risks faced by the Group and the steps taken to manage these risks and the Group's financial risk management objectives and policies 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.

GOING CONCERN

As described in note 2i the consolidated financial statements have been prepared on a going concern basis, which assumes that the Group will be in a position to refinance or negotiate the loans at maturity, secure further financing for its project under construction and development and achieve the sales volumes and prices as budgeted to generate enough cash to cover its working capital requirements in order for the Group to be in a position to continue its operations in the foreseeable future.

SHARE CAPITAL

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

- 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.

IMPLEMENTATION AND COMPLIANCE WITH THE CODE OF CORPORATE GOVERNANCE

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 UK Listing Rules however, the Company is required to comply with the UK Corporate Governance 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 UK Corporate Governance Code published in September 2014 (the “Code”) applied to the Company during the period under review; the updates to the UK Corporate Governance Code published in April 2016 apply to the Company for the financial year commencing 1 January 2017.

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, was not independent on appointment (as required by section A.3.1 of the Code) by virtue of the fact that he is an Executive Chairman and is, indirectly, a major shareholder of the Company. Mr Leviev holds a controlling stake in Flotonic Limited, 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.

PARTICIPATION OF DIRECTORS IN THE COMPANY'S SHARE CAPITAL

None of the directors holds shares of the company directly. Mr Lev Leveiv, the president of the Board, holds 64.88% indirectly though Flotonic limited as described in detail in note 34 "Group Composition".

BRANCHES

The Group operates five 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.I branch operating investment properties and Bastet Estates Ltd branch acting as sale agents for residential properties.

BOARD OF DIRECTORS

The members of the Board of Directors as at 31 December 2016 and at the date of this report are shown on page 64. The Directors' date of appointment or resignation, if applicable, is indicated on page 64. 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. The Directors Mr Avraham Noach Novogrocki, Mr Christakis Klerides and Mr Moshe Amit resigned during the current year as indicated on page 64. Mr David Tahan was appointed on 20 January 2017.There were no significant changes in the assignment of responsibilities and remuneration of the Board of Directors during the current year.

OPERATING ENVIRONMENT OF THE COMPANY

Any significant events that relate to the operating environment of the Company are described in note 33 to the consolidated financial statements.

EVENTS AFTER THE REPORTING PERIOD

Events which took place after the reporting date and which have a bearing on the understanding of the financial statements are described in note 40 of the consolidated financial statements.

RELATED PARTY TRANSACTIONS

Disclosed in note 39 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, 6 April 2017

STATEMENT BY THE MEMBERS OF THE BOARD OF DIRECTORS AND THE COMPANY OFFICIALS RESPONSIBLE FOR THE DRAFTING OF THE CONSOLIDATED FINANCIAL STATEMENTS IN ACCORDANCE WITH THE PROVISIONS OF CYPRUS LAW 190(I)/2007 ON TRANSPARENCY REQUIREMENTS

We, the members of the Board of Directors and the Company officials responsible for the drafting of the consolidated financial statements of AFI Development Plc (the 'Company') for the year ended 31 December 2016, the names of which are listed below, confirm that, to the best of our knowledge:

a) The consolidated financial statements on pages 70 to 129:

(i) have been prepared in accordance with the International Financial Reporting Standards (IFRS) as adopted by the European Union and the requirements of the Cyprus Companies Law,

(ii) 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 consolidated financial statements taken as a whole,

b) 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

c) the Management Report provides a fair review of the developments and performance of the business and the position of the Company and the undertakings included in the consolidated financial statements taken 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 director

Lev Leviev – Chairman ....

Non-executive independent Directors

Panayiotis Demetriou ....

David Tahan ....

Company officers:

Chief executive officer

Mark Groysman ....

Chief financial officer

Natalia Pirogova ....

6 April 2017

8.3 Audited Report and Consolidated Financial Statements

CONSOLIDATED INCOME STATEMENT

For the year ended 31 December 2016:

	Note	2016 **US$ '000**	2015 **US$ '000**
Revenue	7	138,296	93,726
Other income	8	3,545	3,125
Operating expenses	9	(38,836)	(40,505)
Carrying value of trading properties sold	22	(49,475)	(609)
Administrative expenses	10	(6,589)	(10,640)
Other expenses	11	(1,330)	(1,649)
Total expenses		(96,230)	(53,403)
Share of the after tax profit/(loss) of joint ventures	17	3,742	(1,321)
Gross Profit		49,353	42,127
Profit on disposal of investment property		1,801	-
Decrease in fair value of properties	15,16	(123,045)	(434,364)
Impairment loss on properties	20, 23	-	(12,651)
Net valuation loss on properties		(123,045)	(447,015)
Results from operating activities		(71,891)	(404,888)
Finance income		65,802	4,496
Finance costs		(44,608)	(156,796)
Net finance costs	12	21,194	(152,300)
Loss before tax		(50,697)	(557,188)
Tax benefit	13	2,755	90,509
Loss for the year		(47,942)	(466,679)
Loss attributable to:			

Owners of the Company		(47,872)	(464,087)
Non-controlling interests		(70)	(2,592)
		(47,942)	(466,679)
Earnings per share			
Basic and diluted earnings per share (cent)	14	(4.57)	(44.30)

The notes on pages 77 to 129 are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2016:

	2016 US$ '000	2015 US$ '000
Loss for the year	(47,942)	(466,679)
Other comprehensive income/(expense)		
Items that are or may be reclassified subsequently to profit or loss		
Realised translation difference on disposal of subsidiaries transferred to income statement	-	(275)
Foreign currency translation differences for foreign operations	27,782	(23,907)
Other comprehensive income/(expense) for the year	27,782	(24,182)
Total comprehensive income/(expense) for the year	(20,160)	(490,861)
Total comprehensive income/(expense) attributable to:		
Owners of the Company	(20,252)	(488,158)
Non-controlling interests	92	(2,703)
	(20,160)	(490,861)

The notes on pages 77 to 129 are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2016:

				Attributable to the owners of the Company			Non-controlling interests	Total equity
	Share capital	Share premium	Capital reserve	Translation reserve	Retained Earnings/ Accumulated losses	Total		
	US$ '000	US$ '000	US$ '000	US$ '000	US$ '000	US$ '000	US$ '000	US$ '000
Balance at 1 January 2015	1,048	1,763,409	-	(314,880)	(158,982)	1,290,595	(8,817)	1,281,778
Total comprehensive expense for the period								
Loss for the period	-	-	-	-	(464,087)	(464,087)	(2,592)	(466,679)
Other comprehensive expense	-	-	-	(24,071)	-	(24,071)	(111)	(24,182)
Total comprehensive expense for the period	-	-	-	(24,071)	(464,087)	(488,158)	(2,703)	(490,861)
Transactions with owners of the Company								
Contributions and distributions								
Share option expense	-	-	-	-	2,283	2,283	-	2,283
Changes in ownership interest								
Acquisition of non-controlling interests (note 27)	-	-	(9,201)	-	-	(9,201)	7,601	(1,600)
Balance at 31 December 2015	1,048	1,763,409	(9,201)	(338,951)	(620,786)	795,519	(3,919)	791,600
Balance at 1 January 2016	1,048	1,763,409	(9,201)	(338,951)	(620,786)	795,519	(3,919)	791,600
Total comprehensive income/(expense) for the period								
Loss for the period	-	-	-	-	(47,872)	(47,872)	(70)	(47,942)
Other comprehensive income	-	-	-	27,620	-	27,620	162	27,782
Total comprehensive income/(expense) for the period	-	-	-	27,620	(47,872)	(20,252)	92	(20,160)
Transactions with owners of the Company								
Contributions and distributions								
Share option expense	-	-	-	-	857	857	-	857
Balance at 31 December 2016	1,048	1,763,409	(9,201)	(311,331)	(667,801)	776,124	(3,827)	772,297

The notes on pages 77 to 129 are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION AS AT 31 DECEMBER 2016

	Note	2016 **US$ '000**	2015 **US$ '000**
Assets			
Investment property	15	915,350	933,700
Investment property under development	16	232,900	238,925
Property, plant and equipment	18	31,215	26,280
Long-term loans receivable	19	15,763	14,316
Inventory of real estate	20	-	18,570
VAT recoverable	21	9	33
Non-current assets		1,195,237	1,231,824
Trading properties	22	6,854	2,062
Trading properties under construction	23	243,327	204,392
Other investments	24	6,088	15,921
Inventory		665	477
Short-term loans receivable	19	7	101
Trade and other receivables	25	42,427	29,017
Current tax assets	13	2,542	1,622
Cash and cash equivalents	26	10,619	26,545
Current assets		312,529	280,137
Total assets		1,507,766	1,511,961
Equity			
Share capital	27	1,048	1,048
Share premium	27	1,763,409	1,763,409
Translation reserve	27	(311,331)	(338,951)
Capital reserve	27	(9,201)	(9,201)
Accumulated losses	27	(667,801)	(620,786)
Equity attributable to owners of the Company		776,124	795,519
Non-controlling interests	35	(3,827)	(3,919)
Total equity		772,297	791,600
Liabilities			
Long-term loans and borrowings	28	627,074	389,799
Deferred tax liabilities	29	14,934	25,567
Deferred income	32	10,455	8,543
Non-current liabilities		652,463	423,909
Short-term loans and borrowings	28	748	224,315
Trade and other payables	30	30,957	18,163
Advances from customers	31	51,301	53,974
Current liabilities		83,006	296,452
Total liabilities		735,469	720,361
Total equity and liabilities		1,507,766	1,511,961

The consolidated financial statements were approved by the Board of Directors on 6 April 2017.

....

Lev Leviev — Chairman

David Tahan — Director

The notes on pages 77 to 129 are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2016

	Note	2016 US$'000	2015 US$'000
Cash flows from operating activities			
Loss for the year		(47,942)	(466,679)
Adjustments for:			
Depreciation	18	696	963
Net finance (income)/costs	12	(21,574)	151,904
Share option expense		857	2,283
Decrease in fair value of properties	15,16	123,045	434,364
Impairment losses on properties	20,23	-	12,651
Share of (profit)/loss in joint ventures	17	(3,742)	1,321
Profit on disposal of investment property	-	(1,801)	-
Profit on sale of property, plant and equipment		(17)	(16)
Tax benefit	13	(2,755)	(90,509)
		46,767	46,282
Change in trade and other receivables		837	(1,420)
Change in inventories		(84)	(3)
Change in trading properties and trading properties under construction	22,23	(10,546)	(35,497)
Change in advances and amounts payable to builders of trading properties under construction		12,657	(3,552)
Changes in advances from customers		(12,262)	29,455
Change in trade and other payables		613	(1,264)
Change in VAT recoverable on trading		(2,596)	2,947
Change in deferred income		172	(1,753)
Cash generated from operating activities		35,558	35,195
Taxes paid		(373)	(821)
Net cash from operating activities		35,185	34,374
Cash flows from investing activities			
Proceeds from sale of other investments		22,301	15,239
Proceeds from disposal of investment property		1,099	-
Proceeds from sale of property, plant and equipment		102	17
Interest received		4,625	4,122
Change in advances and amounts payable to builders		(2,080)	(2,879)
Payments for construction of investment property under development	16	(4,554)	(10,906)
Payments for the acquisition/renovation of investment property	15	(370)	(2,013)
Change in VAT recoverable		(124)	2,617
Acquisition of property, plant and equipment	18	(262)	(56)
Dividends received from joint ventures	17	380	3,250
Acquisition of other investments	24	(12,642)	(24,147)
Payments for loan receivable		(508)	(154)
Proceeds from repayment of loans receivable		1,159	95
Net cash from/(used in) investing activities		9,126	(14,815)

The notes on pages 77 to 129 are an integral part of these consolidated financial statements.

	Note	2016 US$'000	2015 US$'000
Cash flows from financing activities			
Acquisition of non-controlling interests		-	(1,600)
Proceeds from loans and borrowings	28	-	10,000
Repayment of loans and borrowings		(13,090)	(43,318)
Interest paid		(44,945)	(45,085)
Net cash used in financing activities		(58,035)	(80,003)
Effect of exchange rate fluctuations		(2,202)	233
Net decrease in cash and cash equivalents		(15,926)	(60,211)
Cash and cash equivalents at 1 January		26,545	86,756
Cash and cash equivalents at 31 December	26	10,619	26,545

The notes on pages 77 to 129 are an integral part of these consolidated financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

1. INCORPORATION AND PRINCIPAL ACTIVITY

AFI Development PLC (the "Company") was incorporated in Cyprus on 13 February 2001 as a limited liability company under the name Donkamill Holdings Limited. In April 2007 the Company was transformed into public company and changed its name to AFI Development PLC. The address of the Company's registered office is 165 Spyrou Araouzou Street, Lordos Waterfront Building, 5th floor, Flat/office 505, 3035 Limassol, Cyprus. As of 7 September 2016 the Company is a 64.88% subsidiary of Flotonic Limited, a private holding company registered in Cyprus, 100% owned by Mr Lev Leviev. Prior to that, the Company was a 64.88% subsidiary of Africa Israel Investments Ltd ("Africa-Israel"), which is listed in the Tel Aviv Stock Exchange ("TASE"). The remaining shareholding of "A" shares is held by a custodian bank in exchange for the GDRs issued and listed in the London Stock Exchange ("LSE"). On 5 July 2010 the Company issued by way of a bonus issue, 523,847,027 "B" shares, which were admitted to a premium listing on the Official List of the UK Listing Authority and to trading on the main market of LSE. On the same date, the ordinary shares of the Company were designated as "A" shares.

These consolidated financial statements comprise the Company and its subsidiaries (together referred to as the "Group") and the Group's interest in jointly controlled entities. The principal activity of the Group is real estate investment and development.

The principal activity of the Company is the holding of investments in subsidiaries and joint ventures as presented in note 34 "Group Composition".

2. BASIS OF ACCOUNTING

i. Going concern basis of accounting

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

The Group has recognised a net loss after tax of US$48 million for the year ended 31 December 2016 driven by a decrease in the value of Group's property assets by US$123 million and the continuous decline of cash and cash equivalents and marketable securities down to US$16.7 million. These were a continuation of the year ended 31 December 2015 results, where AFI Development PLC reported net losses of US$467 million, which predominately related to a decrease in the value of the Group's property assets by approximately US$500 million to US$1,400 million. Cash and cash equivalents and marketable securities also declined by US$50.8 million during 2015 to US$42.5 million as at 31 December 2015.

Furthermore, as described in the below paragraphs, between the period from 29 March 2016, when the Company received the VTB Bank letter, and up until the signing of an addendum to the loan agreements on the 27 September 2016, the Company went through an extensive series of negotiations with VTB Bank on the loan facilities of Ozerkovskaya III and AFIMAL City. In addition, the maturity of the loans, early 2018 will require the Group to make a lump sum payment of the principal of the loans with a current balance of $627,533 thousand. These conditions, along with other matters set forth below, indicate the existence of material uncertainty which may cast significant doubt about the Group's ability to continue as a going concern.

As described in more detail in the company announcements and its interim financial statements for the three quarters ended 31 March, 30 June and 30 September 2016 a series of events and negotiations with VTB bank for its the Ozerkovskaya III and AFIMALL City Loan Facilities took place.

On 29 March 2016 the Company received a letter from the Bank VTB PJSC ("the Bank"). The letter stated that the Bank had reached a conclusion that Bellgate Construction Limited and Krown Investments LLC (the borrowers under the AFIMALL City and the Ozerkovskaya III loan facilities respectively) had experienced, in the opinion of the Bank, material adverse changes in their financial conditions and there had appeared other circumstances that indicated that their obligations under the loan facility agreements could be not met on time. According to the letter, the Bank proposed that the Company "implement steps aimed at removing possible negative consequences of the aforesaid circumstances, no later than 30 calendar days from today", otherwise the Bank will exercise its right under the loan facility agreements to claim early repayment of the loans.

Following the above letter and further to a series of negotiations and discussions between the Company and the Bank, the Group has ended up with two possible alternatives to follow, the "Disposal Transaction" or the "Personal Guarantee" described in brief below.

"The Disposal Transaction" announced on 15 July 2016 involved an agreement which would release the AFI Development group from all of its obligations in respect of the loans taken by Krown Investments Limited and Bellgate Constructions Limited, which amount to US$619.1 thousand as at 14 July 2016, in exchange for the Disposal to VTB Bank PJSC ("VTB") of the following properties:

- AFIMALL City Shopping Centre, a shopping and entertainment centre in the business district of Moscow;
- Ozerkovskaya III, a completed Class A office complex in Moscow; and
- Aquamarine Hotel, a modern 4-star hotel, located in the Ozerkovskaya complex

In this respect the Company issued a class1 circular on the 15 July 2016 and the transaction was approved at the General Meeting held on 1 August 2016.

"The Personal Guarantee" as announced on 2 August 2016, was in parallel to the Disposal Transaction where the Company had been informed that at a meeting on 1 August 2016 between the Executive Chairman of the Company, Mr Lev Leviev and VTB, Mr Leviev executed a unilateral Guarantee Deed - a personal guarantee and indemnity deed under English law from Mr Leviev to VTB, pursuant to which Mr Leviev has agreed to guarantee the obligations of Krown under the Ozerkovskaya III Loan Facility for a period of 12 months (the "Guarantee Deed"). . In addition the Group executed addenda to the loan facility agreements and respective security agreements with VTB, according to which the due date for the Principal Payments have been deferred to 30th September 2016 (the "Deferrals") and not to enforce for prior breaches of such facilities (the "Standstill").

Further to the above, on the 27 September 2016, the Company and VTB signed an addendum to the Ozerkovskaya III and AFIMALL City Loan Facilities. The addenda, as disclosed in detail in note 28, Loans and Borrowings, provided the deferral of the quarterly principal payments due on the Loan Facility Agreements to maturity of each of the Loans and the removal of the existing covenants to the Ozerkovskaya III Loan Facility, in consideration for which VTB has sought additional security in respect of the Loans which now includes cross default provisions between each of the Loans and a suretyship from Bellgate Constructions Limited (“Bellgate”), which holds the AFIMALL City project, in respect of the Ozerkovskaya III Loan Facility.

In addition, Mr Leviev has, on the same date, provided VTB with a Guarantee, pursuant to which Mr Leviev has undertaken to guarantee, for a period of 10 months, the obligations of Krown under the Ozerkovskaya III Loan Facility. The Guarantee, which is enforceable for 12 months, provides additional security to VTB in respect of the Ozerkovskaya III Loan Facility. Prior to this and as described in note 19i “Share Capital and Reserves” Mr Leviev acquired 679,748,454 shares in the Company, previously held by Africa Israel Investments Ltd, which represents 64.88% of the Company’s share capital.

As a result of the above amendments to the Loan Facility Agreements and the Guarantee beingentered into, the Board of Directors of AFI Development decided not to proceed with the Disposal transaction announced on 15 July 2016 and the loans were reclassified from short term to long term liabilities.

Management anticipates that any additional financing budgeted based on its estimated operating cash flows will be secured by new bank facilities and loans, some of which are well into negotiations with banks including VTB. Management expects to continue the construction of projects classified as “Trading properties under construction” as described in Note 23, which are “Odinburg”, “Paveleskaya phase II” and “Pochtovaya” and commence the construction of “Botanic Garden”.

Management estimates that the Group will generate sufficient operating cash flows so as to meet the Loan Facilities interest payments. Management explores all options in relation to repaying the Loan Facilities when they fall due in 2018, which may or may not include the disposal of certain assets or projects or refinance of AFIMALL City loan. Management considers its different options and is developing a plan on how to approach the loans at maturity and secure further financing to continue in operational existence for the foreseeable future.

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

ii. Statement of compliance

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) 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 6 April 2017.

iii. Functional and presentation currency

These consolidated financial statements are presented in United States Dollars which is the Company’s functional currency. All amounts have been rounded to the nearest thousand, unless 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 36 – 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 2016 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 29 – utilisation of tax losses
- Note 38 – 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 chief financial officer.

The valuation team regularly reviews significant unobservable inputs and valuation adjustments. If third party information, such as broker quotes or pricing services, is used to measure fair values, then the valuation team assesses the evidence obtained from the third parties to support the conclusion that 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 entirely 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. STANDARDS ISSUED BUT NOT YET EFFECTIVE

Adoption of new and revised International Financial Reporting Standards and Interpretations

As from 1 January 2016, the Group adopted all changes to International Financial Reporting Standards (IFRSs) as adopted by the EU which are relevant to its operations.

IFRS 14 "Regulatory Deferral Accounts" was effective for annual periods beginning on or after 1 January 2016 but was not adopted by the EU as it was decided not to launch the endorsement process of this interim standard and to wait for the final standard.

The following Standards, Amendments to Standards and Interpretations have been issued but are not yet effective for annual periods beginning on 1 January 2016. Those which may be relevant to the Company are set out below. The Company does not plan to adopt these Standards early.

Standards and Interpretations adopted by the EU

- IFRS 9 "Financial Instruments" (effective for annual periods beginning on or after 1 January 2018). IFRS 9 replaces the existing guidance in IAS 39. IFRS 9 includes revised guidance on the classification and measurement of financial instruments, a new expected credit loss model for calculating impairment on financial assets, and new general hedge accounting requirements. It also carries forward the guidance on recognition and derecognition of financial instruments from IAS 39.

- IFRS 15 "Revenue from contracts with customers" (effective for annual periods beginning on or after 1 January 2018). IFRS 15 establishes a comprehensive framework for determining whether, how much and when revenue is recognised. It replaces existing revenue recognition guidance, including IAS 18 Revenue, IAS 11 Construction Contracts and IFRIC 13 Customer Loyalty Programs.

Standards and Interpretations not adopted by the EU

- IAS 7 (Amendments) “Disclosure Initiative” (effective for annual accounting periods beginning on or after 1 January 2017). The amendments require disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flow and non-cash changes.

- IAS 12 (Amendments) “Recognition of Deferred Tax Assets for Unrealised Losses” (effective for annual accounting periods beginning on or after 1 January 2017). The amendments clarify the accounting for deferred tax assets for unrealised losses on debt instruments measured at fair value.

Standards and Interpretations not adopted by the EU (continued)

- Annual Improvements to IFRSs 2014-2016 Cycle (effective for annual periods beginning on or after 1 January 2017 (IFRS 12) and 1 January 2018 (IFRS 1 and IAS 28)). The annual improvements impact three standards. The amendments to IFRS 1 remove the outdated exemptions for first-time adopters of IFRS. The amendments to IFRS 12 clarify that the disclosure requirements for interest in other entities also apply to interests that are classified as held for sale or distribution. The amendments to IAS 28 clarify that the election to measure at fair value through profit or loss an investment in associate or a joint venture that is held by an entity that is a venture capital organisation, or other qualifying entity, is available for each investment in an associate or joint venture on an investment-by-investment basis, upon initial recognition.

- IFRS 2 (Amendments) “Classification and Measurement of Share-based Payment Transactions” (effective for annual periods beginning on or after 1 January 2018). The amendments cover three accounting areas: a) measurement of cash-settled share-based payments; b) classification of share-based payments settled net of tax withholdings; and c) accounting for a modification of a share-based payment from cash-settled to equity-settled. The new requirements could affect the classification and/or measurements of these arrangements – and potentially the timing and amount of expense recognised for new and outstanding awards.

- IFRS 4 (Amendments) “Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts” (effective for annual periods beginning on or after 1 January 2018). The amendments intend to address concerns about the different effective dates of IFRS 9 and the forthcoming new insurance contracts standard (expected as IFRS 17). The amendments provide two options for entities that issue insurance contracts within the scope of IFRS 4: a) an option permitting entities to reclassify from profit or loss to other comprehensive income some of the income or expenses arising from designated financial assets (overlay approach) or b) an optional temporary exemption from applying IFRS 9 whose predominant activity is issuing contracts within the scope of IFRS 4 (deferral approach).

- IFRS 15 (Clarifications) “Revenue from Contracts with Customers” (effective for annual periods beginning on or after 1 January 2018). The amendments in Clarifications to IFRS 15 address three of the five topics identified i.e. identifying performance obligations, principal versus agent considerations, and licensing. The clarifications provide some transition relief for modified contracts and completed contracts. Additionally, the IASB concluded that it was not necessary to amend IFRS 15 with respect to the collectability or measuring non-cash consideration.

Standards and Interpretations not adopted by the EU (continued)

- IAS 40 (Amendments) “Transfers of Investment Property” (effective for annual periods beginning on or after 1 January 2018). The amendments clarify when a company should transfer a property asset to, or from, investment property. A transfer is made when, and only when, there is an actual change in use i.e. an asset meets or ceases to meet the definition of investment property and there is evidence of the change in use. A change in management intention alone does not support a transfer. In addition, it is clarified that the revised examples of evidence of a change in use in the amended version of IAS 40 are not exhaustive.

• IFRIC 22 “Foreign Currency Transactions and Advance Consideration” (effective for annual periods beginning on or after 1 January 2018). The interpretation clarifies that the transaction date is the date on which the company initially recognises the prepayment or deferred income arising from the advance consideration. For transactions involving multiple payments or receipts, each payment or receipt gives rise to a separate transaction date.

• IFRS 16 “Leases” (effective for annual periods beginning on or after 1 January 2019). IFRS 16 introduces a single, on-balance lease sheet accounting model for lessees. A lessee recognises a right-of-use asset representing its right to use the underlying asset and a lease liability representing its obligation to make lease payments. There are optional exemptions for short-term leases and leases of low value items. Lessor accounting remains similar to the current standard – i.e. lessors continue to classify leases as finance or operating leases. IFRS 16 replaces existing leases guidance including IAS 17 Leases, IFRIC 4 Determining whether an Arrangement contains a Lease, SIC-15 Operating Leases—Incentives and SIC-27 Evaluating the Substance of Transactions Involving the Legal Form of a Lease.

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 IFRSs 9, 15 and 16 which could affect the consolidated financial statements. The extent of the impact has not been determined.

5. SIGNIFICANT ACCOUNTING POLICIES

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 into the respective functional currencies of Group entities at the 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 into the functional currency at the exchange rate when the fair value was determined. Non-monetary items that are measured based on historical cost in a foreign currency are translated at the exchange rate at the date of the transaction. Foreign currency differences are generally recognised in profit or loss.

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 2016	60.6569	(16.8)
31 December 2015	72.8827	29.5
Average rate during:		
Year ended 31 December 2016	67.0349	10.0
Year ended 31 December 2015	60.9579	58.7

<u>Financial Instruments</u>

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 when the entity becomes a party to the contractual provisions of the instrument.

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 currently has a legally enforceable 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 method.

Non derivative financial liabilities-measurement

Non-derivative financial liabilities are initially measured at fair value less any directly 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 investment property that was previously classified as property, plant and equipment is sold, any related amount included in the revaluation reserve is transferred to retained earnings.

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.

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 borrowing costs

Borrowing costs are capitalised if they are directly attributable to the acquisition, construction or production of a qualifying asset as part of the cost of that asset. Capitalisation of borrowing costs commences when the activities to prepare the asset are in process and expenditures and borrowing costs are being incurred. Capitalisation of borrowing 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 borrowing 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	10-33⅓%
Motor vehicles	33⅓%

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 borrowing costs. Net realisable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

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 and net realisable value.

<u>Deferred income</u>

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.

<u>Impairment</u>

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 because of financial difficulties; or
- observable data indicating that there is a measureable decrease in the expected cash flows from a group of financial assets.

For an investment in an equity security, objective evidence of impairment includes a significant or prolonged decline in its fair value below its cost.

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 event 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 had been recognised.

Assets held for sale

Non-current assets, or disposal groups comprising assets and liabilities, are classified as held-for sale 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, investment property or investment property under development, 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 income 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 include 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 a business combination, or 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 the tax payable or receivable in respect of previous years. The amount of current tax payable or receivable is the best estimate of the tax amount expected to be paid or received that reflects uncertainty related to income taxes, if any. It is measured using tax rates enacted or substantively enacted at the reporting date. Current tax also includes any tax arising from dividends.

Current tax assets and liabilities are offset only if they relate to income taxes levied by the same taxation authority and the taxation authority permits the entity to make or receive a single net payment. In Group's financial statements, a current tax asset of one entity in the group is offset against a current tax liability of another entity in the group if, and only if, the entities concerned have a legally enforceable right to make or receive a single net payment and the entities intend to make or receive such a net payment or to recover the asset and settle the liability simultaneously.

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 in a transaction that is not a business combination and that affects neither accounting nor taxable profit or loss and temporary differences related to investments in subsidiaries and joint arrangements to the extent that the Group is able to control the timing of reversal of the temporary differences and it is probable that they will not reverse in the foreseeable future.

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. Future taxable profits are determined based on business plans for individual subsidiaries in the Group. 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, and only if, the entity has a legally enforceable right to set off current tax liabilities and assets; and the deferred tax liabilities and assets relate to income taxes levied by the same tax authority on either the same taxable entity or different taxable entities, but these entities intend to settle current tax liabilities and assets on a net basis, or their tax assets and liabilities will be realised simultaneously for each future period in which these differences reverse.

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 single 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 re-sale.

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.

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

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

Reportable segments

	Development projects				Asset management		Hotel Operation		Land bank		Other		Total	
	Commercial projects		Residential projects											
	2016 US$'000	2015 US$'000	2016 US$'000	2015 US$'000	2016 US$'000	2015 US$'000	2016 US$'000	2015 US$'000	2016 US$'000	2015 US$'000	2016 US$'000	2015 US$'000	2016 US$'000	2015 US$'000
External revenues	-	-	56,544	4,900	67,878	74,010	11,298	11,346	2,361	3,325	215	145	138,296	93,726
Inter-segment revenue	-	-	6,077	5,485	915	469	4	2	5,295	5,813	6,397	6,787	18,688	18,556
Segment revenue	-	-	62,621	10,385	68,793	74,479	11,302	11,348	7,696	9,138	6,572	6,932	156,984	112,282
Segment (loss) profit before tax	-	-	(688)	(48,127)	(8,411)	(437,077)	3,069	2,458	(41,620)	(65,364)	(6,196)	(6,480)	(53,846)	(554,590)
Interest income	-	-	2	1	8	3	1	-	2,134	3,735	-	-	2,145	3,739
Interest expense	-	-	-	-	(44,012)	(45,733)	-	-	(24)	(50)	-	-	(44,036)	(45,783)
Depreciation	-	-	(53)	(37)	(79)	(116)	(498)	(732)	(6)	(16)	(60)	(62)	(696)	(963)
Share of profit/(loss) of joint-ventures	-	-	-	-	-	-	3,742	(1,321)	-	-	-		3,742	(1,321)
Other material non-cash items:														
Impairment loss on properties	-	-	-	(12,651)	-	-	-	-	-	-			-	(12,651)
Decrease in fair value of properties	-	-	(3,970)	(35,203)	(91,254)	(325,359)	-	-	(27,821)	(73,802)	-		(123,045)	(434,364)
Segment assets	-	-	355,567	255,591	912,240	916,855	27,158	23,610	185,693	281,230	624	496	1,481,282	1,477,782
Capital expenditure	-	-	60,278	38,056	370	7,020	-	-	818	4,538	-	-	61,466	49,614
Segment liabilities	-	-	66,971	64,187	667,779	643,102	-	-	-	12,319	387	628	735,137	720,236

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

	2016 **US$'000**	2015 **US$'000**
Revenues		
Total revenue for reportable segments	156,984	112,282
Elimination of inter-segment revenue	(18,688)	(18,556)
Consolidated revenue	138,296	93,726
Profit before tax		
Total profit before tax for reportable segments	(53,846)	(554,590)
Unallocated amounts:		
Other profit or loss	(593)	(1,277)
Share of the after tax loss of joint ventures	3,742	(1,321)
Profit on disposal of investment in subsidiaries	-	-
Consolidated loss before tax	(50,697)	(557,188)
Assets		
Total assets for reportable segments	1,481,282	1,477,782
Other unallocated amounts	26,484	34,179
Consolidated total assets	1,507,766	1,511,961

Liabilities		
Total liabilities for reportable segments	735,137	720,236
Other unallocated amounts	332	125
Consolidated total liabilities	735,469	720,361

	Reportable segment totals US$'000	Adjustments US$'000	Consolidated totals US$'000
Other material items 2016			
Interest income	2,145	-	2,145
Interest expense	44,036	-	44,036
Capital expenditure	61,466	-	61,466
Depreciation	696	-	696
Decrease in fair value of properties	123,045	-	123,045

	Reportable segment totals US$'000	Adjustments US$'000	Consolidated totals US$'000
Other material items 2015			
Interest income	3,739	-	3,739
Interest expense	45,783	-	45,783
Capital expenditure	49,614	-	49,614
Depreciation	963	-	963
Decrease in fair value of properties	434,364	-	434,364
Impairment loss on properties	12,651	-	12,651

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

	2016 US$ '000	2015 US$ '000
Investment property rental income	72,299	81,561
Sales of trading properties (note 22)	54,484	674
Hotel operation income	11,298	11,346
Construction consulting/management fees	215	145
	138,296	93,726

8. OTHER INCOME

Other income consists of:	2016 US$ '000	2015 US$ '000
Penalties charged to tenants	147	345
Reimbursement of depositary fees	480	750
Reimbursement of property tax	1,770	-
Profit on sale of property, plant and equipment	17	16
Sundries	1,131	2,014
	3,545	3,125

9. OPERATING EXPENSES

	2016 US$ '000	2015 US$ '000
Maintenance, utility and security expenses	12,147	13,743
Agency and brokerage fees	623	701
Advertising expenses	5,496	3,672
Salaries and wages	10,276	10,724
Consultancy fees	504	499
Depreciation	578	849
Insurance	635	622
Rent	1,429	1,566
Property and other taxes	6,338	7,863
Other operating expenses	810	266
	38,836	40,505

10. ADMINISTRATIVE EXPENSES

	2016 US$ '000	2015 US$ '000
Consultancy fees	1,841	894
Legal fees	814	475
Auditors' remuneration	519	695
Valuation expenses	94	124
Directors' remuneration	1,361	1,472
Salaries and wages	25	6
Depreciation	118	114
Insurance	208	193
Provision for Doubtful Debts (reversal)	(1,304)	(99)
Share option expense	857	2,283
Donations	674	2,811
Other administrative expenses	1,382	1,672
	6,589	10,640

11. OTHER EXPENSES

	2016 US$ '000	2015 US$ '000
Prior years' VAT non recoverable (note 21)	121	125
Sundries	1,209	1,524
	1,330	1,649

12. FINANCE INCOME AND FINANCE COSTS

	2016 US$ '000	2015 US$ '000
Interest income	2,145	3,739
Net change in fair value of financial assets	-	408
Translation reserve reclassified upon disposal of subsidiaries	-	275
Loans payable written off	-	74
Foreign exchange gain	63,657	-
Finance income	65,802	4,496
Interest expense on loans and borrowings	(44,036)	(45,783)
Net change in fair value of financial assets	(174)	-
Other finance costs	(380)	(396)
Loans receivable written off	(18)	-
Foreign exchange loss	-	(110,617)
Finance costs	(44,608)	(156,796)
Net finance income/(costs)	21,194	(152,300)

The net foreign exchange gain recognised during 2016 is a result of the weakening of the US Dollar to the Russian Rouble by 17%, during 2016. The recognised gain 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 2016 the Group did not capitalise any amount (2015 Nil) of financing costs to the projects that are in construction phase.

13. TAX BENEFIT

	2016 US$ '000	2015 US$ '000
Current tax (benefit)/expense		
Current year	282	844
Adjustment for prior years	(865)	(91)
	(583)	753
Deferred tax benefit		
Origination and reversal of temporary differences	(2,172)	(91,262)
Total tax benefit	(2,755)	(90,509)

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 and branches are subject to 20% corporate rate.

	%	2016 US$ '000	%	2015 US$ '000
Loss for the year after tax		(47,942)		(466,679)
Total tax benefit		(2,755)		(90,509)
Loss before tax		(50,697)		(557,188)
Tax using the Company's domestic tax rate	(12.5)	(6,332)	(12.5)	(69,463)
Effect of tax rates in foreign jurisdictions	(5.4)	(2,754)	(7.6)	(42,580)
Tax exempt income	(79.0)	(40,060)	(4.9)	(27,544)
Non-deductible expenses	89.16	45,201	6.5	36,012
Change in estimates related to prior years	(1.7)	(865)	-	-
Current year losses for which no deferred tax asset recognised	4.05	2,055	2.3	13,066
	(5.4)	(2,755)	(16.2)	(90,509)

The current tax asset of US$2,542 thousand as at 31 December 2016 (2015: asset US$1,622 thousand), represents the net amount of income tax overpayment in respect of current and prior periods.

14. EARNINGS PER SHARE

	2016 US$ '000	2015 US$ '000
Basic earnings per share		
Loss attributable to ordinary shareholders	(47,872)	(464,087)
	Shares in thousands	Shares in thousands
Weighted average number of ordinary shares		
Weighted average number of shares	1,047,694	1,047,694

Earnings per share (cent)	(4.57)	(44.30)

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

Reconciliation of carrying amount

	2016 US$ '000	2015 US$ '000
Balance 1 January	933,700	1,375,416
Renovations/additional cost	370	2,013
Disposals	(500)	-
Fair value adjustment	(92,801)	(332,361)
Effect of movement in foreign exchange rates	74,581	(111,368)
Balance 31 December	915,350	933,700

Investment property comprises mainly retail and commercial property which is operated by the Group and is leased out to tenants.

The investment property was revalued by independent appraisers on 31 December 2016. The cumulative adjustments, for all projects, are shown in “Fair value adjustment” in the table above.

The increase/(decrease) due to the effect of the foreign exchange rates is a result of the weakening of the US Dollar to the Russian Rouble by 17%, during 2016 (2015: strengthening 30%).

The main reason for the fair value loss are market driven changes in the valuation assumptions reflecting the continuing pressure on rental rates per square metre. In the retail segment the increasing switch of retail rents to roubles in most shopping centres has also undermined market rents. At the AFIMALL there was a divergence between the existing and new leases, with significant discounts having to be offered to lease currently vacant space, compared with higher rental rates agreed with the existing tenants. In 2016 a number of existing leases expired and were prolonged at lower base rental rates reflecting discounts, which influenced negatively the Estimated Rental Value “ERV” of the Mall though decreasing the amount of discounts provided in the end the same net income. In the office segment the process of switching rents from US dollars to roubles continued, however market rental rates remained stable while overall vacancy rates slightly decreased.

Measurement of fair value

Fair value hierarchy

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

The fair value measurement for investment property of US$915,350 thousand (2015: US$933,700 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 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.	• Average Rental rates per sq.m.: Office prime class-$640, class A $510, class B $200-$290, Retail $100-$10,000 • Expected market rental growth office 0-5% average, retail 0-3% average, no ERV growth for AFIMALL • Vacancy rate (class prime A 5% class B 10-12.1%) • Risk-adjusted discount rates (14%-18%) • All-Risk Yield 9.5%-15.5%	The estimated fair value would increase/(decrease) if: • 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 rates were lower (higher) • All-risk yields were lower/(higher)

Investment properties at fair value are categorised in the following:

	2016 **US$ ’000**	2015 **US$ ’000**
Retail properties	666,500	685,200
Office space properties	248,850	248,500
	915,350	933,700

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

AFIMALL City

Capitalisation Rates	Increase of 1 %	Rate used in fair value calculation as at 31/12/2016 10%	Decrease of 1%
Fair value (US$ '000)	630,000	666,500	711,200
Average rental rates per sq.m	Decrease of 5%	Rate used in fair value calculation as at 31/12/2016 US$1,103 sq.m	Increase of 5%
Fair value (US$ '000)	644,300	666,500	688,800
	Decrease of 10%		Increase of 10%
	622,100	666,500	711,000
Occupancy rates	Decrease of 2%	Rate used in fair value calculation as at 31/12/2016 92.5%	Increase of 2%
Fair value (US$ '000)	651,600	666,500	681,500

16. INVESTMENT PROPERTY UNDER DEVELOPMENT

Reconciliation of carrying amount	2016 **US$ '000**	2015 **US$ '000**
Balance 1 January	238,925	431,474
Construction costs	4,554	10,906
Transfer to trading properties under construction (note 23)	-	(69,300)
Fair value adjustment	(30,244)	(102,003)
Effect of movements in foreign exchange rates	19,665	(32,152)
Balance 31 December	232,900	238,925

The investment property under development was revalued by independent appraisers on 31 December 2016. The cumulative adjustments, for all projects, are shown in line "Fair value adjustment" in the table above. The main reasons for the fair value adjustments, are described in note 15 above.

The increase/(decrease) due to the effect of the foreign exchange rates is a result of the weakening of the US Dollar to the Russian Rouble by 17%, during 2016 (2015: strengthening 30%).

Fair value hierarchy

The fair value measurement for investment property under development of US$232,900 thousand (2015: US$238,925 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 above 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. In addition, the following inputs for investment property under development.

Geographical location	Fair value	Discount rate	Rate of return for representative year
	US$ '000	%	%
Russia	232,900	18-24	9.5-13.5

17. SHARE OF INVESTMENT IN JOINT VENTURES

The Group's joint ventures comprise the:

50% interest in Nouana Limited and Craespon Management Ltd with their subsidiary Sanatorium Plaza LLC, owner of a hotel in Kislovodsk.

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:

	2016 **US$ '000**	2015 **US$ '000**
Percentage ownership interest	50%	50%
Non-Current assets	18,277	15,326
Current assets (including cash and cash equivalents – 2016:$6,924 thousand, 2015: $7,498 thousand)	7,791	8,210
Non-Current liabilities (including non-current financial liabilities excluding trade and other payables and provisions- 2016:$32,347 thousand, 2015: $35,014 thousand)	(34,100)	(36,450)
Current liabilities (including current financial liabilities)	(1,783)	(1,440)
Net liabilities (100%)	(9,815)	(14,354)
Group's share of net liabilities (50%)	(4,908)	(7,177)
Fair value adjustments at acquisition	4,705	3,916
Interest in joint ventures	(203)	(3,261)
Restriction of share of loss	203	3,261
Carrying amount of interest in joint ventures	-	-
Revenue	18,272	18,098
Depreciation	(174)	(173)
Interest expense	(2,676)	(2,844)
Income tax expense	(1,948)	(2,002)
Profit/(loss) and total comprehensive income (100%)	7,483	(2,642)

Group's share of profit and total comprehensive income (50%)	3,742	(1,321)
Dividends received by the Group	380	3,250

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 2016	3,319	24,552	1,987	840	30,698
Additions	-	48	77	137	262
Disposals	-	(101)	(13)	(179)	(293)
Effect of movement in foreign exchange rates	628	5,226	375	165	6,394
Balance at 31 December 2016	3,947	29,725	2,426	963	37,061
Accumulated depreciation					
Balance at 1 January 2016	-	1,972	1,740	706	4,418
Charge for the year	-	524	124	48	696
Disposals	-	(86)	(13)	(109)	(208)
Effect of movement in foreign exchange rates	-	453	351	136	940
Balance at 31 December 2016	-	2,863	2,202	781	5,846
Carrying amount					
At 31 December 2016	3,947	26,862	224	182	31,215

	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 2015	4,242	32,144	2,568	1,124	40,078
Additions	-	33	23	-	56
Transfer from trading properties (note 22)	-	212	-	-	212
Disposals	-	(226)	(1)	(33)	(260)
Effect of movement in foreign exchange rates	(923)	(7,611)	(603)	(251)	(9,388)
Balance at 31 December 2015	3,319	24,552	1,987	840	30,698
Accumulated depreciation					
Balance at 1 January 2015	-	2,031	2,092	854	4,977
Charge for the year	-	712	162	89	963
Disposals	-	(226)	-	(33)	(259)
Effect of movement in foreign exchange rates	-	(545)	(514)	(204)	(1,263)
Balance at 31 December 2015	-	1,972	1,740	706	4,418
Carrying amount					
At 31 December 2015	3,319	22,580	247	134	26,280

19. LOANS RECEIVABLE

	2016 US$ '000	2015 US$ '000
Long-term loans		
Loans to joint ventures (note 39)	15,745	14,246
Loans to non-related companies	18	70
	15,763	14,316
Short-term loans		
Loans to joint ventures (note 39)	-	98
Loans to non-related companies	7	3
	7	101

Terms and loan repayment schedule

Terms and conditions of outstanding loans were as follows:

	Currency	Nominal ıterest rate	Year of maturity	2016 US$ '000	2015 US$ '000
Unsecured loans to joint ventures	USD	11.5%	2020	11,300	9,942
	RUR	14%	2020	4,445	4,304
	RUR	2.35%	2016	-	98
Unsecured loans to non-related companies	RUR	-	2017	7	49
	RUR	8.8%	2016	-	15
	RUR	2.5%	2020	10	6
	RUR	0.1-5.5%	2019	8	3
				15,770	14,417

20. INVENTORY OF REAL ESTATE

Represented the rights to the project "AFI Residence Botanic Garden" which was land for future development in the North-Eastern Administrative District of Moscow and presented at net realisable value. As at 31 December 2016 the project was reclassified to Trading Properties under Construction based on Board approval to commence construction of the project during the year 2017.

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

	2016 US$ '000	2015 US$ '000
Balance 1 January	2,062	2,979
Transfer from trading properties under construction (note 23)	53,480	-
Reclassification to property, plant and equipment	-	(212)
Disposals	(49,475)	(609)
Effect of movements in exchange rates	787	(96)
Balance 31 December	6,854	2,062

Trading properties comprise unsold apartments and parking spaces. The transfer from trading properties under construction represents the completion of the construction of a number of flats, offices and parking places of "Odinburg" project. During the year the sale of 700 flats, 3 offices and 47 parking places were recognised, upon transferring of the rights to the buyers according to the signed acts of transfer, in the income statement.

23. TRADING PROPERTIES UNDER CONSTRUCTION

	2016 US$ '000	2015 US$ '000
Balance 1 January	204,392	133,036
Transfer from inventory of real estate (note 20)	21,543	-
Transfer from investment property under development (note 16)	-	69,300
Transfer to trading properties (note 22)	(53,480)	-
Construction costs	54,428	33,670
Impairment loss	-	(13,400)
Effect of movements in exchange rates	16,444	(18,214)
Balance 31 December	243,327	204,392

Trading properties under construction comprise "Odinburg", "Paveletskaya Phase II" and "AFI Residence Botanic Garden" projects which involve primarily the construction of residential properties.

As at 31 December 2016 the project "AFI Residence Botanic Garden" was reclassified from Inventory of real estate based on Board approval to commence construction of the project during the year 2017, for further details refer to note 20.

The properties were tested for impairment at year end based on internal valuation. No impairment loss was recognised in the profit or loss so as to present the properties at their lower of cost or net realisable value.

24. OTHER INVESTMENTS

The movement in other investments is analysed to acquisition of US$12.6 million, sale of bonds of US$18.1 million and maturity of bonds for US$4.2 million during the year. These are carried at fair value and any changes during the year are recognised in the profit or loss as finance income or expenses.

25. TRADE AND OTHER RECEIVABLES

	2016 US$ '000	2015 US$ '000
Advances to builders	27,019	18,383
Amounts receivable from related parties (note 39)	267	337
Trade receivables net	3,427	3,381
Other receivables	3,955	3,037
VAT recoverable (note 21)	4,067	858
Tax receivable	3,692	3,021
	42,427	29,017

Trade receivables net

Trade receivables are presented net of an accumulated provision for doubtful debts of US$8,285 thousand (2015: US$11,402 thousand).

26. CASH AND CASH EQUIVALENTS

Cash and cash equivalents consist of:

	2016 US$ '000	2015 US$ '000
Cash at banks	10,356	26,374
Cash in hands	263	171
Cash and cash equivalents as per statement of cash flows	10,619	26,545

27. SHARE CAPITAL AND RESERVES

Share capital	2016 US$ '000	2015 US$ '000
1 Share capital		
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 2016.

2 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 bonus issue.

3 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 administrating 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 2016 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 2015 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. Up until 31 December 2016 2,095,388 options were cancelled, and the remaining 14,667,716 options have 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. All options have vested and have a contractual life of 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.

4 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.

5 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 2016.

6 Capital reserve

Represents the effect of the acquisition of the 10% non-controlling interests in Bioka Investments Ltd and its subsidiary Nordservice LLC previously held at 90%.

28. LOANS AND BORROWINGS

	2016 US$ '000	2015 US$ '000
Non-current liabilities		
Secured bank loans	627,074	389,799
Current liabilities		
Secured bank loans	459	224,076
Unsecured loans from other non-related companies	289	239
	748	224,315

a.The outstanding loans on 31 December 2016 comprise of two loans as follows:

AFIMALL City Loan Facility

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"). This loan facility agreement offered a credit line totalling RUR 21 billion, which was drawn down in 5 tranches, each with a designated purpose: the majority of the funds were designated to refinance existing loans previously issued by the Bank. The remaining funds were 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 had discretion over the currency of each tranche, and the credit line was drawn down 65% in US dollars and 35% 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 5.02% (6.7% up to 2/9/2013) for loans drawn down in US dollars.

Based on the loan agreement 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.

As of 31 December 2016, Bellgate is in compliance with the covenants of this loan.

Ozerkovskaya III loan facility

On 25 January 2013, Krown Investments LLC ("Krown"), a 100% subsidiary, acquired a 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 was originally 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 Ozerkovskaya (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.

In January 2015, prior to maturity, the subsidiary signed an addendum to the loan facility agreement with the Bank, extending the term of the loan to 26 January 2018. In addition to extending the term of the loan, the new addendum amended the payment schedule, interest rate conditions and introduced new covenants. The payment schedule anticipated repayments of the principal starting from the 4th quarter of 2015, while the new covenants included 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, being a partial repayment of the outstanding loan amount, thus reducing the total to US$195 million. Approximately 90% of the principal is to be paid at maturity.

Based on the independent valuation as at 31 December 2015, of the Ozerkovskaya III project, Krown, has not met the Loan to Value covenant and the Bank had the right to require a partial repayment of the principal of the loan sufficient to rectify the breach of the covenants, within 90 calendar days from the date of the Bank notification. The DSCR ratio covenant of the Krown loan agreement has not been met either, based on the performance results of Q4 2015. Krown was, therefore, in breach of both covenants in its loan facility agreement. Based on this, the total amount of the outstanding loan (US$192 million) was reclassified to current liabilities as at 31 December 2015.

Further to the breach of covenants and the events described in note 2i “Going concern basis of accounting” the following addendums were signed with VTB Bank on 27 September 2016.

Krown Investments LLC (“Krown”) and VTB have signed an addendum to the Ozerkovskaya III Loan Facility pursuant to which:

(i) the existing covenants (being the debt service coverage ratio and the loan to value covenants) which Krown is currently in breach of, have been removed;

(ii) all quarterly principal payments due under the facility including the quarterly principal payment due on 30 June 2016 and which has not been paid, will be deferred to maturity, being 26 January 2018; and

(iii) the Company will provide additional security to VTB in consideration of the above.

All other terms of the facility, including interest payments, remain the same.

Pursuant to the additional security, a new share pledge by the Company over 100% of the share capital of Bellgate has been entered into with VTB (the "Bellgate Share Pledge"). The Bellgate Share Pledge continues to cover the obligations of Bellgate pursuant to the AFIMALL City Loan Facility (with any liability arising now being satisfied by, inter alia, the transfer of the pledged shares to VTB), and now also covers the obligations of Krown in respect of the Ozerkovskaya III Loan Facility. In addition, within 60 calendar days of this addendum, the Company and VTB executed the following agreements which will provide additional security, being a:

- Share pledge agreement over 100% of the share capital of each of Titon LLC (which holds the Company's interest in the Kossinskaya project) and Semprex LLC (which holds the Company's interest in the Aquamarine Hotel);
- Mortgage agreement over the Kossinskaya project;
- Suretyship agreements with each of Titon LLC, Rognestar Finance Limited (the parent company of Titon LLC), Bellgate, Semprex LLC and Aquamare Tre Ltd (the parent company of Semprex LLC) for the full amount of the Ozerkovskaya III Loan Facility;
- Second ranking mortgage agreement over AFIMALL City and the Aquamarine Hotel; and
- Pledge agreement over the equipment used to operate the Kossinskaya project.

Bellgate Construction Limited (“Bellgate”), which holds AFIMALL City Shopping Centre, a shopping and entertainment centre in Moscow City, the business district of Moscow, and VTB have signed on 27 September 2016 an addendum to the AFIMALL City Loan Facility pursuant to which:

(i) all quarterly principal payments due under the facility, including the quarterly principal payment due on 30 June 2016 and which has not been paid, will be deferred to maturity, being 1 April 2018; and
(ii) the Company will provide additional security to VTB in consideration of the above.

All other terms of the facility, including covenants and interest payments, remain the same.

Within 60 calendar days of this addendum, the Company and VTB also executed the following agreements:

- Second ranking pledge agreement over 100% of the share capital of each of Krown and Titon LLC (which holds the Kossinskaya project);
- Pledge agreement over 100% of the share capital of each of Semprex LLC and AFI FM LLC (the property management company for the AFIMALL City Shopping Centre);
- Suretyship agreements with each of Krown, AFI FM LLC, Inscribe Limited (parent company of AFI FM LLC), Titon LLC, Rognestar Finance Limited and Aquamare Tre Ltd for the full amount of the AFIMALL City Loan Facility;
- Second ranking mortgage agreement over each of the Ozerkovskaya III project and the Kossinskaya project; and
- Second ranking pledge agreement over the equipment used to for operate the Kossinskaya project.

The Guarantee and New Loan

In addition to the addendum to the Loan Facility Agreements described above, Mr Leviev has, on the same date, provided VTB with the Guarantee, being a personal guarantee and indemnity deed under English law from Mr Leviev to VTB, pursuant to which Mr Leviev has undertaken to guarantee, for a period of 10 months, the obligations of Krown under the Ozerkovskaya III Loan Facility. The Guarantee, which is enforceable for 12 months, provides additional security to VTB in respect of the Ozerkovskaya III Loan Facility.

Should VTB enforce the Guarantee, the payment by Mr Leviev of any amounts under the Guarantee will lead to a discharge of Krown's respective payment obligations under the Ozerkovskaya III Loan Facility and any such payment made by Mr Leviev to VTB under the Guarantee will be deemed the granting of a new loan between the Company and Mr Leviev (the "New Loan"). If, as a result of the enforcement of the Guarantee, the Ozerkovskaya III Loan Facility is repaid in full by Mr Leviev, all claims of VTB under the security documents in respect of Krown's secured obligations under the Ozerkovskaya III Loan Facility will fall away.

The New Loan will accordingly only become effective in the event that VTB enforces the Guarantee and Mr Leviev makes a payment to VTB. The New Loan, if drawn, would be unsecured, accrue interest at an annual rate of 7% plus three month LIBOR payable quarterly, be a maximum amount of US$220 million, being equal to the maximum value of the Ozerkovskaya III Loan Facility, and repayable in full on or before 26 January 2018. The interest rate and maturity date of the New Loan are the same as the Ozerkovskaya III Loan Facility.

As a result of the above amendments to the Loan Facility Agreements and the Guarantee being entered into the loans were reclassified from short term to long term liabilities.

b. Terms and debt repayment schedule

Terms and conditions of outstanding loans were as follows:

	Currency	Nominal interest rate	Year of maturity	2016 US$ '000	2015 US$ '000
Secured loan from VTB Bank to Bellgate	RUR	9.5%	2018	159,102	132,413
Secured loan from VTB Bank to Bellgate	USD	3m USD LIBOR+ 5.02%	2018	276,886	283,386
Secured loan from VTB Bank to Krown	USD	3m USD LIBOR+ 7%	2018	191,545	193,376
Secured loan from Julius to AFID Finance	USD	Bank refinancing rate+0.75%	on demand	-	4,700
Other	RUR	3-12%	on demand	289	239
				627,822	614,114

The loans and borrowings are payable as follows:

	2016 US$ '000	2015 US$ '000
Less than one year	748	224,315
Between one and five years	627,074	389,799
More than five years	-	-
	627,822	614,114

29. DEFERRED TAX ASSETS AND LIABILITIES

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

	2016 US$ '000	2015 US$ '000
Investment property	73,531	100,109
Investment property under development	3,165	47
Property, plant and equipment	952	571
Inventory of real estate	-	1,115
Trading properties	(391)	(1,203)
Trading properties under construction	16,056	9,359
Trade and other receivables	(5,777)	(6,326)
Trade and other payables	1,737	1,020
Loans and borrowings	-	(13)
Other items	(40)	(21)
Tax losses carried forward	(74,299)	(79,091)
Deferred tax liability	14,934	25,567

30. TRADE AND OTHER PAYABLES

	2016 US$ '000	2015 US$ '000
Trade payables	8,490	7,815
Payables to related parties (note 39)	427	657
Amount payable to builders	13,795	3,297
VAT and other taxes payable	5,681	4,613
Other payables	2,564	1,781
	30,957	18,163

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

Payables to related parties

Include an amount of US$28 thousand (31/12/15: US$27 thousand) payable to Danya Cebus Rus LLC, related party of the Group, for contracts signed in relation to the construction of Group's projects.

31. ADVANCES FROM CUSTOMERS

Represent advances received from customers for the sale of residential properties at "Odinburg" project. During the period the Group has sold 248 flats and 20 parking places and received additional down payments from customers.

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 in 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			
	Loans Receivable	Trade and other receivables	Other investments, Including derivatives	Cash and cash equivalents	Other financial liabilities	Total	Level 1	Level 2	Level 3	Total
31 December 2016	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	-	-	6,068	-	-	6,068	6,068	-	-	6,068
Financial assets not measured at fair value										
Loans receivable	15,770	-	-	-	-	15,770				
Trade and other receivables	-	7,649	-	-	-	7,649				
Cash and cash equivalents	-	-	-	10,619	-	10,619				
	15,770	7,649	-	10,619	-	34,038				
Financial liabilities not measured at fair value										
Interest bearing loans and borrowings	-	-	-	-	(627,822)	(627,822)	-	(614,771)	-	(614,771)
Trade and other payables	-	-	-	-	(25,276)	(25,276)				
	-	-	-	-	(653,098)	(653,098)				

	Carrying amount						Fair value			
	Loans Receivable	Trade and other receivables	Other investments, Including derivatives	Cash and cash equivalents	Other financial liabilities	Total	Level 1	Level 2	Level 3	Total
31 December 2015	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	-	-	15,901	-	-	15,901	15,901	-	-	15,901
Financial assets not measured at fair value										
Loans receivable	14,417	-	-	-	-	14,417				
Trade and other receivables	-	6,755	-	-	-	6,755				
Cash and cash equivalents	-	-	-	26,545	-	26,545				
	14,417	6,755	-	26,545	-	47,717				
Financial liabilities not measured at fair value										
Interest bearing loans and borrowings	-	-	-	-	(614,114)	(614,114)	-	(583,635)	-	(583,635)
Trade and other payables	-	-	-	-	(13,550)	(13,550)				
	-	-	-	-	(627,664)	(627,664)				

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 overseas 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 tenants and investments in debt securities.

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 properties 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 sales of flats and parking lots as well as renting of vacant spaces are made to customers and tenants with an appropriate credit history and monitors on a continuous basis the ageing profile of its receivables.

Impairment

At 31 December 2016, the ageing of trade and other receivable that were not impaired was as follows:

	2016 US$ '000	2015 US$ '000
Neither past due nor impaired	2,027	1,802
Past due 1-30 days	166	33
Past due 31-90 days	729	971
Past due 91-120 days	4,727	3,948
	7,649	6,754

Management believes that the unimpaired amounts that are past due by more than 30 days are still collectible in full, based on historical payment behaviour 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 2015	354	12,699
Reversal of impairment loss recognised	(99)	-
Exchange difference effect	(200)	(1,309)
Balance at 31 December 2015	55	11,390
Impairment loss/(reversal) recognised	366	(1,669)
Exchange difference effect	34	(1,460)
Balance at 31 December 2016	455	8,261

Debt securities

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.

Cash and cash equivalents

The Group held cash at bank of US$10,356 thousand at 31 December 2016 (2015: US$26,374). The cash and cash equivalents are held with bank and financial institution counterparties with a high credit rating. 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.

Guarantees

The Company's policy is to provide financial guarantees only to wholly-owned subsidiaries.

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 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.

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 2016:

- 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 initially for US$205 million, current balance US$192 million, acquired for refinancing the construction costs for Ozerkovskaya III project.

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 2016	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	627,533	(683,605)	(23,378)	(23,640)	(636,587)	-
Unsecured loans	289	(289)	(289)	-	-	-
Trade and other payables	25,276	(25,276)	(25,276)	-	-	-

31 December 2015	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	613,875	(703,977)	(42,696)	(37,766)	(47,463)	(576,052)
Unsecured loans	239	(239)	(239)	-	-	-
Trade and other payables	13,550	(13,550)	(13,550)	-	-	-

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 to the extent that there is a mismatch between the currencies in which loans receivable, sales, purchases of material and construction services and borrowings are denominated and the respective functional currencies of Group companies. The functional currencies of Group companies are primarily the Russian Roubles and US Dollars. The currencies in which these transactions are primarily denominated are Russian Roubles, US Dollars and Euro.

Exposure to currency risk

The summary quantitative date about the Group's exposure to currency risk as reported to the management of the Group is as follows:

31 December 2016	RUR$'000	US$'000	EUR$'000
Cash and cash equivalents	48	3,230	156
Loans receivable	-	11,504	-
Trade receivables	2,935	608	33
Loans and borrowings	(6,726)	(468,431)	-
Trade payables	(210)	(10,496)	(176)

31 December 2015	RUR$'000	US$'000	EUR$'000
Cash and cash equivalents	66	14,973	209
Loans receivable	-	13,203	46
Trade receivables	-	3,942	-
Loans and borrowings	(8,974)	(472,383)	-
Trade payables	151	(14,536)	(25)

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 Russian Rubble, US dollar or Euro against all other currencies at 31 December would have affected the measurement of financial instruments denominated in a foreign currency and affected equity and profit or loss by the amounts shown below.

This analysis assumes that all other variables, in particular interest rates, remain constant and ignores any impact of forecast sales, purchases of material and construction services. The analysis is performed on the same basis for 2015.

	Profit for the year **US$ '000**	Equity **US$ '000**
31 December 2016		
Russian Roubles	626	-
US dollar	(51,509)	-
Euro	(12)	-
31 December 2015		
Russian Roubles	824	-
US dollar	(50,534)	-
Euro	7	-

A 10% weakening of the Russian Rubble, US dollar or Euro against all other currencies at 31 December 2015 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

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 Group to cash flow interest rate risk. Borrowings issued at fixed rates expose the Group to fair value interest rate risk. Group's management monitors the interest rate fluctuations on a continuous basis and acts accordingly

Profile

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

	Carrying amount	
	2016	2015
	US$ '000	US$ '000
Fixed rate instruments		
Financial assets	29,994	47,195
Financial liabilities	(159,391)	(132,652)
	(129,397)	(85,457)
Variable rate instruments		
Financial assets	-	-
Financial liabilities	(468,431)	(481,462)
	(468,431)	(481,462)

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 2015.

	Equity	Profit for the year
	US$ '000	US$ '000
31 December 2016		
Variable rate instruments	-	(4,684)
31 December 2015		
Variable rate instruments	-	(4,815)

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 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 Rouble, 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.

<u>Taxation contingencies in the Russian Federation</u>

The taxation system in the Russian Federation continues to evolve and is characterised by frequent changes in legislation, official pronouncements and court decisions, which are sometimes contradictory and subject to varying interpretation by different tax authorities.

Taxes are subject to review and investigation by a number of authorities, which have the authority to impose severe fines, penalties and interest charges. A tax year generally remains open for review by the tax authorities during the three subsequent calendar years. Recent events within the Russian Federation suggest that the tax authorities are taking a more assertive and substance-based position in their interpretation and enforcement of tax legislation.

Transfer pricing legislation enacted in the Russian Federation starting from 1 January 2012 provides for major modifications making local transfer pricing rules closer to OECD guidelines, but creating additional uncertainty in practical application of tax legislation in certain circumstances.

These transfer pricing rules provide for an obligation for the taxpayers to prepare transfer pricing documentation with respect to controlled transactions and prescribe the basis and mechanisms for accruing additional taxes and interest in case prices in the controlled transactions differ from the market level.

The transfer pricing rules apply to cross-border transactions between related parties, as well as to certain cross-border transactions between independent parties, as determined under the Russian Tax Code (no threshold is set for the purposes of prices control in such transactions). In addition, the rules apply to in-country transactions between related parties if the accumulated annual volume of the transactions between the same parties exceeds a particular threshold (RUB 1 billion in 2014 and thereon).

The compliance of prices with the arm's length level could be as well subject to scrutiny on the basis of unjustified tax benefit concept.

In addition, a number of new laws introducing changes to the Russian tax legislation have been recently adopted. In particular, starting from 1 January 2015 changes aimed at regulating tax consequences of transactions with foreign companies and their activities were introduced, such as concept of beneficial ownership of income, taxation of controlled foreign companies, tax residency rules, etc. These changes may potentially impact the Group's tax position and create additional tax risks going forward. This legislation and practice of its application is still evolving and the impact of legislative changes should be considered based on the actual circumstances.

All these circumstances may create tax risks in the Russian Federation that are substantially more significant than in other countries. Management believes that it has provided adequately for tax liabilities based on its interpretations of applicable Russian tax legislation, official pronouncements and court decisions. However, the interpretations of the tax authorities and courts, especially due to reform of the supreme courts that are resolving tax disputes, could differ and the effect on these consolidated financial statements, if the authorities were successful in enforcing their interpretations, could be significant.

34. GROUP COMPOSITION

	Name:	**Country:**
Ultimate controlling party:	Lev Leviev	Israel
Holding company:	Flotonic Limited	Cyprus

Significant Subsidiaries	Ownership interest 2016	2015	Country of incorporation
1. AFI RUS LLC	100	100	Russian Federation
2. Avtostoyanka Tverskaya Zastava LLC	100	100	Russian Federation
3. Krown Investments LLC	100	100	Russian Federation
4. Moskovskiy Kartonazhno-poligraphicheskiy Kombinat (MKPK) PJSC	99.17	99.17	Russian Federation
5. Bellgate Constructions Limited	100	100	Cyprus
6. Regionalnoe AgroProizvodstvennoe Objedinenie (RAPO) LLC	100	100	Russian Federation
7. Scotson Limited	100	100	Cyprus
8. Titon LLC	100	100	Russian Federation
9. MTOK CJSC	99.71	99.71	Russian Federation
10. Triumvirate I S.a r.l	100	100	Russian Federation
11. Nordservice LLC	100	90	Russian Federation
12. Plaza SPA LLC	100	100	Russian Federation
13. Semprex LLC	100	100	Russian Federation
14. Zheldoruslugi LLC	95	95	Russian Federation
15. Bizar LLC	74	74	Russian Federation
16. AFI D Finance SA	100	100	British Virgin Islands

On 7 September 2016, Mr Leviev, the Company’s controlling shareholder, and Africa Israel Investments Ltd ("AI") completed an agreement according to which, Mr Leviev acquired AI's entire holding of securities of AFI Development (the "Purchased Securities"). The transaction provided that in consideration for the Purchased Securities Mr Leviev paid AI, through Flotonic Limited a fully owned private company, NIS550 million, an effective price of US$0.2148 per share. As a result, Flotonic Limited now holds 336,948,796 Global Depository Receipts (issued over “A” ordinary shares) and 342,799,658 Depository Interests (issued over “B” ordinary shares), representing in aggregate 64.88% of the Company's issued share capital.

Additionally, Mr Leviev has personally granted a call option to AI in respect of 51,933,807 GDRs and 52,835,598 B ordinary shares (approximately 10% of the Company's issued share capital) at a price of US$0.216 per 1 GDR and US$0.295 per 1 “B” ordinary share. The call option has been assigned by AI to trustees on behalf of AI bondholders and the trustees may exercise the Call Option within three years from the date of completion of the Purchase Transaction upon instructions of the AI bondholders.

35. NON-CONTROLLING INTERESTS

There were no individually significant subsidiaries which have material NCI.

36. OPERATING LEASES

Leases as lessee

Non-cancellable operating lease rentals are payable as follows:

	2016 **US$ '000**	2015 **US$ '000**
Less than a year	6,017	4,764
Between one and five years	17,613	22,017
More than five years	27,042	32,747
	50,672	59,528
Amount recognised as an expense during the year	1,429	1,566

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, see note 15. The future minimum lease payments under non-cancellable leases are as follows:

	2016 **US$ '000**	2015 **US$ '000**
Less than a year	68,426	85,343
Between one and five years	134,456	127,608
More than five years	29,301	25,412
	232,183	238,363
Amount recognised as income during the year	72,299	81,561

37. CAPITAL COMMITMENTS

Up to 31 December 2015 the Group has entered into a number of contracts for the construction of investment or trading properties:

Project name	Commitment	
	2016 **US$ '000**	2015 **US$ '000**
Odinburg	2,158	33,645
Kossinskaya	839	244
TVZ Plaza IC	1,122	730
Serebryakova	21,856	5,060
Pavaletskaya II	28,196	32,200
TVZ Plaza IV	24	89
TVZ Plaza II	761	384
Bolshaya Pochtovaya	115	1,538
Starokaluzhskoye shosse	5	
	55,076	73,890

38. CONTINGENCIES

There were not any contingent liabilities as at 31 December 2016.

39. RELATED PARTIES

Outstanding balances with related parties:

	2016 US$ '000	2015 US$ '000
Assets		
Amounts receivable from joint ventures	11	10
Amounts receivable from ultimate holding company	-	203
Amounts receivable from other related companies	256	124
Long term loans receivable from joint ventures	15,745	14,246
Short term loans receivable from joint ventures	-	98
Liabilities		
Amounts payable to joint ventures	102	6
Amounts payable to ultimate holding company	-	492
Amounts payable to other related companies	325	159
Deferred income from related company	145	125

Transactions with the key management personnel:

	2016 US$ '000	2015 US$ '000
Key management personnel compensation comprised:		
Short-term employee benefits	2,631	2,798
Share option scheme expense	857	2,283

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

Other related party transactions:

	2016 US$ '000	2015 US$ '000
Revenue		
Joint venture – consulting services	173	145
Joint venture – interest income	1,339	1,422
Related company – rental income	699	802
Expenses		
Related company – administrative expenses	157	-
Ultimate holding company – administrative expenses	-	330
Joint venture – operating expenses	54	59

Other related party transactions.

	2016 US$ '000	2015 US$ '000
Construction services capitalised:		
Related company – construction services	-	954

40. SUBSEQUENT EVENTS

Subsequent to 31 December 2016 there were no events that took place which have a bearing on the understanding of these financial statements except of the following:

- In February 2017, AFI Development Plc announced that its subsidiary, Sanatory Plaza LLC ("Plaza"), has received a loan from VTB Bank PJSC ("VTB") to finance the acquisition of the other 50% stake in the Plaza Spa Kislovodsk project ("the Project") from its partner in the project, which was completed on 28 February 2017. The Group already owned 50% stake in the project and with this acquisition now owns 100%. The loan, in the amount of US$22.5 million, was provided in US dollars for 5 years (the term can be extended for additional 5 years subject to agreement between the parties), it bears an annual interest rate of 3 months Libor + 4.5%, has quarterly principal payments (ranging from US$260 thousand in Q3 2017 to US$822 thousand in Q3 2021), and a balloon payment of US$11.254 million at maturity. The interest is to be paid quarterly. The loan was used primarily to repay the outstanding debt of Plaza to the companies of AFI Development's partner in the project, in the amount of US$16.9 million, prior to the acquisition of the equity stake. The remainder of the loan was used to finance the acquisition itself: the 50% equity stakes in both Nouana Limited and Craespon Management Limited (which together control 100% of Plaza) were purchased by AFI Development's subsidiaries for US$5.6 million in cash.
- In March 2017, AFI Development Plc announced that it had completed the acquisition of the remaining 5% stake in the Tverskaya Plaza IV project from its partner, for US$1.5 million in cash. AFI Development Plc acquired 5% of the shares in Beslaville Management Limited, a subsidiary holding rights to the project, increasing its share from 95% to 100%. This acquisition resulted in the recognition of US$1,725 thousand gain in the profit or loss.
- In March 2017 the Company's subsidiary, AFI RUS Management LLC, signed a facility agreement for a credit line of RUR470 million from Sberbank PJSC, with a 2 years term, to finance construction of the Odinburg project.

8.4 Parent Company Separate Financial Statements

STATEMENT BY THE MEMBERS OF THE BOARD OF DIRECTORS AND THE COMPANY OFFICIALS RESPONSIBLE FOR THE DRAFTING OF THE SEPARATE FINANCIAL STATEMENTS IN ACCORDANCE WITH THE PROVISIONS OF CYPRUS LAW 190(I)/2007 ON TRANSPARENCY REQUIREMENTS

We, the members of the Board of Directors and the Company officials responsible for the drafting of the separate financial statements of AFI Development Plc (the 'Company') for the year ended 31 December 2016, the names of which are listed below, confirm that, to the best of our knowledge:

a) The separate financial statements on pages 131 to 149:

(i) have been prepared in accordance with the International Financial Reporting Standards (IFRS) as adopted by the European Union and the requirements of the Cyprus Companies Law,

(ii) 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 separate financial statements taken as a whole,

b) the adoption of a going concern basis for the preparation of the separate financial statements continues to be appropriate based on the foregoing and having reviewed the forecast financial position of the Company.

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 ………………………………………………………

Non-executive independent directors

Panayiotis Demetriou ………………………………………………………

David Tahan ………………………………………………………

Company officers

Chief executive officer

Mark Groysman ………………………………………………………

Chief financial officer

Natalia Pirogova ………………………………………………………

6 April 2017

PARENT COMPANY SEPARATE INCOME STATEMENT AND STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2016

	Note	2016 US$ '000	2015 US$ '000
Revenue	4	478,382	3,250
Other income		482	849
Other expenses		(82)	-
Administrative expenses	5	(6,912)	(9,654)
(Impairment)/reversal of impairment of investment in subsidiaries	7	(560,663)	(502,445)
Loss on disposal of investment in subsidiaries	7	-	(236)
		(567,657)	(512,335)
Results from operating activities		(88,793)	(508,236)
Finance income		254	742
Finance costs		(8,777)	(7,480)
Net finance costs	6	(8,523)	(6,738)
Loss for the year		(97,316)	(514,974)
Other comprehensive income		-	-
Total comprehensive expense for the year		(97,316)	(514,974)

The notes on pages 135 to 149 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 2016

	Share capital US$ '000	Share premium US$ '000	Accumulated losses US$ '000	Total US$ '000
Balance at 1 January 2015	1,048	1,763,409	93,239	1,857,696
Total comprehensive income for the year	-	-	(514,974)	(514,974)
Transactions with owners of the Company				
Contributions and distributions				
Share option expense	-	-	2,283	2,283
Balance at 31 December 2015	1,048	1,763,409	(419,452)	1,345,005
Balance at 1 January 2016	1,048	1,763,409	(419,452)	1,345,005
Total comprehensive income for the year	-	-	(97,316)	(97,316)
Transactions with owners of the Company				
Contributions and distributions				
Share option expense	-	-	857	857
Balance at 31 December 2016	1,048	1,763,409	(515,911)	1,248,546

The notes on pages 135 to 149 are an integral part of these parent company separate financial statements.

PARENT COMPANY SEPARATE STATEMENT OF FINANCIAL POSITION

As at 31 December 2016

	Note	2016 US$ '000	2015 US$ '000
Assets			
Investment in subsidiaries	7	1,242,182	1,313,453
Trade and other receivables	8	210,947	210,635
Refundable tax		2,215	2,215
Cash and cash equivalents	9	2,057	6,905
Total current assets		215,219	219,755
Total assets		1,457,401	1,533,208
Equity			
Share capital		1,048	1,048
Share premium		1,763,409	1,763,409
Accumulated losses		(515,911)	(419,452)
Total equity	10	1,248,546	1,345,005
Liabilities			
Loans and borrowings	11	109,337	86,975
Total non-current liabilities		109,337	86,975
Short-term loans and borrowings	11	-	97,390
Trade and other payables	12	99,518	3,838
Total current liabilities		99,518	101,228
Total liabilities		208,855	188,203
Total equity and liabilities		1,457,401	1,533,208

The financial statements were approved by the Board of Directors on 6 April 2017.

Lev Leviev	David Tahan
Chairman	Director

The notes on pages 135 to 149 are an integral part of these parent company separate financial statements.

PARENT COMPANY SEPARATE STATEMENT OF CASH FLOWS

For the year ended 31 December 2016

	Note	2016 US$ '000	2015 US$ '000
Cash flows from operating activities			
Loss for the year		(97,316)	(514,974)
Adjustments for:			
Unrealised exchange (gain)/loss	6	(46)	36
Loss on disposal of investments in subsidiaries	7	-	236
Impairment of investment in subsidiaries	7	560,663	502,445
Dividend income	4	(478,382)	(3,250)
Interest income	6	(208)	(742)
Interest expense	6	8,756	7,390
Share option expense	5	857	2,283
		(5,676)	(6,576)
Change in trade and other receivables		(448)	(5,367)
Change in trade and other payables		554	807
Net cash from/(used) in operating activities		(5,570)	(11,136)
Cash flows from investing activities			
Additional contribution of capital to existing subsidiaries	7	(3,001)	(18,592)
Proceeds from repayment of loans receivable		3,300	-
Dividends received	4	-	3,250
Interest received	6	235	986
Net cash used in investing activities		534	(14,356)
Cash flows from financing activities			
Repayment of loans and borrowings	11	(6,050)	(3,979)
Proceeds from loans and borrowings	11	6,225	2,000
Interest paid	11	-	(4,761)
Net cash from/(used in) financing activities		175	(6,740)
Effect of exchange rate fluctuations on cash held		13	10
Net decrease in cash and cash equivalents		(4,848)	(32,222)
Cash and cash equivalents at 1 January		6,905	39,127
Cash and cash equivalents at 31 December	9	2,057	6,905
The cash and cash equivalents consists of:			
Cash at banks		2,057	6,905

The notes on pages 135 to 149 are an integral part of these parent company separate financial statements.

`

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

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

2. BASIS OF ACCOUNTING

(i) Going concern

The financial statements have been prepared on a going concern basis, as detailed in note 2(i) of the consolidated financial statements.

(ii) 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 2016 in order to obtain a proper understanding of the financial position, the financial performance and the cash flows of the Company and the Group.

(iii) 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.

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

As from 1 January 2016, the Group adopted all changes to International Financial Reporting Standards (IFRSs) as adopted by the EU which are relevant to its operations.

IFRS 14 "Regulatory Deferral Accounts" was effective for annual periods beginning on or after 1 January 2016 but was not adopted by the EU as it was decided not to launch the endorsement process of this interim standard and to wait for the final standard.

The following Standards, Amendments to Standards and Interpretations have been issued but are not yet effective for annual periods beginning on 1 January 2016. Those which may be relevant to the Company are set out below. The Company does not plan to adopt these Standards early.

Standards and Interpretations adopted by the EU

- IFRS 9 "Financial Instruments" (effective for annual periods beginning on or after 1 January 2018).
- IFRS 15 "Revenue from contracts with customers" (effective for annual periods beginning on or after 1 January 2018).

Standards and Interpretations not adopted by the EU

- IAS 7 (Amendments) "Disclosure Initiative" (effective for annual accounting periods beginning on or after 1 January 2017).
- IAS 12 (Amendments) "Recognition of Deferred Tax Assets for Unrealised Losses" (effective for annual accounting periods beginning on or after 1 January 2017).
- Annual Improvements to IFRSs 2014-2016 Cycle (effective for annual periods beginning on or after 1 January 2017 (IFRS 12) and 1 January 2018 (IFRS 1 and IAS 28)).
- IFRS 2 (Amendments) "Classification and Measurement of Share-based Payment Transactions" (effective for annual periods beginning on or after 1 January 2018).
- IFRS 4 (Amendments) "Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts" (effective for annual periods beginning on or after 1 January 2018).
- IFRS 15 (Clarifications) "Revenue from Contracts with Customers" (effective for annual periods beginning on or after 1 January 2018).
- IAS 40 (Amendments) "Transfers of Investment Property" (effective for annual periods beginning on or after 1 January 2018).
- IFRIC 22 "Foreign Currency Transactions and Advance Consideration" (effective for annual periods beginning on or after 1 January 2018).
- IFRS 16 "Leases" (effective for annual periods beginning on or after 1 January 2019).

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.

(v) 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

The Company periodically evaluates the recoverability of investments in subsidiaries 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 may be impaired, the estimated future undiscounted cash flows associated with these subsidiaries would be compared to their carrying amounts to determine if a write-down to fair value is necessary.

(vi) 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 bank deposits. Interest income is recognised as it accrues in profit or loss, using the effective interest method.

Finance costs comprise interest expense on borrowings. 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

- 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.
- 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) Cash and cash equivalents

For the purpose of the statement of cash flows, cash and cash equivalents comprise cash at bank.

(ii) 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

	2016	2015
	US$ '000	US$ '000
Dividend income	478,382	

	3,250

During the year, the Company transferred its investment in subsidiary Bellgate Constructions Limited to another subsidiary, Vardia Limited for a total consideration of US$500,000 thousand. Being a common control transaction the difference between the cost of investment and the disposal price was recognised as a deemed dividend received.

During the year 2015 the Company received dividends from its subsidiary AFI Development Hotels Limited which were recognised as income upon declaration and approval.

5. ADMINISTRATIVE EXPENSES

	2016 US$ '000	2015 US$ '000
Consultancy and brokerage fees	1,723	758
Donations	640	2,796
Legal fees	623	343
Share option expense	857	2,283
Directors' remuneration	1,361	1,472
Auditors' remuneration	320	463
Valuation expenses	91	123
Insurance	168	151
Other administrative expenses	1,129	1,265
	6,912	9,654

6. NET FINANCE COSTS

	2016 US$ '000	2015 US$ '000
Interest income	208	742
Net foreign exchange gain	46	-
Finance income	254	742
Interest expense on loans and borrowings	(8,756)	(7,390)
Other finance costs	(21)	(22)
Net foreign exchange loss	-	(68)
Finance costs	(8,777)	(7,480)
Net finance costs	(8,523)	(6,738)

7. INVESTMENT IN SUBSIDIARIES

	2016 US$ '000	2015 US$ '000
Balance at 1 January	1,313,453	1,686,863
Additional investment in existing subsidiaries	511,010	129,271
Disposal of investment in subsidiaries	(21,618)	(236)
(Impairment)/reversal of impairment	(560,663)	(502,445)
Balance at 31 December	1,242,182	1,313,453

During the year, based on an internal restructuring plan, the Company transferred its 100% holding in its subsidiary Bellgate Constructions Limited to subsidiary Vardia Limited for a total consideration of US$500,000 thousand. Being a common control transaction the difference of US$478,382 between the cost of investment and the disposal price was recognised as a deemed dividend received in profit or loss. Following this internal restructuring plan, the Company contributed on 30 December 2016 the amount of US$500,000 thousand to its subsidiary AFI D Finance S.A, which was previously received as deemed dividend.

At 31 December 2016 the Company recognised an impairment loss of US$560,663 thousand (31/12/2015: US$502,445 thousand) due to a decrease in the fair value of the properties held by its subsidiaries as at that date, the deemed dividend received and an estimate of impairment of the receivables of AFI D Finance S.A. in which the Company impaired its investment. Refer to the Russian Business Environment section in this note for further details of the unfavourable conditions which contributed to the drop in fair value of the subsidiaries' projects.

The details of the subsidiaries are as follows:

Investment	Country of incorporation	Principal activities	2016 US$ '000	2015 US$ '000
Investment in holding companies	Cyprus	Holding of investments/Financing	218,979	229,166
Investment in real estate companies	Russian Federation	Real estate development	215,569	218,042
Investment in financing companies	BVI	Financing	807,634	866,245
			1,242,182	1,313,453

The exposure to the Russian Business Environment in relation to the investment in real estate investment and development entities in Russia is presented in note 14 of these financial statements.

8. TRADE AND OTHER RECEIVABLES

	2016 US$ '000	2015 US$ '000
Receivables from related parties (Note 13)	210,378	210,359
Other receivables	569	276
	210,947	210,635

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 14 of the financial statements.

8. CASH AND CASH EQUIVALENTS

	2016 US$ '000	2015 US$ '000
Cash and cash equivalents consists of:		
Cash at banks	2,057	6,905

9. SHARE CAPITAL AND RESERVES

	2016 US$ '000	2015 US$ '000
Share capital		
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

On 7 September 2016, Mr Leviev, the Company's controlling shareholder, and Africa Israel Investments Ltd ("AI") completed an agreement according to which, Mr Leviev acquired AI's entire holding of securities of AFI Development (the "Purchased Securities"). The transaction provided that in consideration for the Purchased Securities Mr Leviev paid AI, through Flotonic Limited a fully owned private company, NIS550 million, an effective price of US$0.2148 per share. As a result, Flotonic Limited now holds 336,948,796 Global Depository Receipts (issued over "A" ordinary shares) and 342,799,658 Depository Interests (issued over "B" ordinary shares), representing in aggregate 64.88% of the Company's issued share capital.

Additionally, Mr Leviev has personally granted a call option to AI in respect of 51,933,807 GDRs and 52,835,598 B ordinary shares (approximately 10% of the Company's issued share capital) at a price of US$0.216 per 1 GDR and US$0.295 per 1 "B" ordinary share. The call option has been assigned by AI to trustees on behalf of AI bondholders and the trustees may exercise the Call

Option within three years from the date of completion of the Purchase Transaction upon instructions of the AI bondholders.

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 administrating 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 2016 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 2016 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. Up until 31 December 2016 2,095,388 options were cancelled, and the remaining 14,667,716 options have 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. All options have vested and have a contractual life of 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 2016 (2015: Nil).

11. LOANS AND BORROWINGS

	2016 US$ '000	2015 US$ '000
Long term liabilities		
Loans from AFID Finance SA (Note 34)	109,337	86,975
Short term liabilities		
Loans from Krown Investments LLC (Note 13)	-	97,390
Maturity of non current borrowings:		
Within one year	-	97,390
Between one and five years	109,337	86,975
	109,337	184,365

The loan outstanding on 31 December 2016 represents an unsecured loan from the Company's subsidiary, AFI D Finance S.A. The loan bears interest of 6% per annum and is repayable on 31 December 2021.

The loan payable to Krown Investments LLC, which carried interest of CBR * 0.8 per annum and was repayable on 31 December 2016, was fully settled by the transfer of the Company's rights to a loan receivable from Bellgate Constructions Ltd, for further details refer to note 12.

The exposure of the Company to interest rate risk in relation to financial instruments is reported in note 14 of the financial statements.

12. TRADE AND OTHER PAYABLES

	2016 US$ '000	2015 US$ '000
Payables to related parties (Note 13)	99,316	3,625
Other payables	202	213
	99,518	3,838

Payables to related parties include an obligation of US$95,139 thousand to AFI D Finance S.A. arising from an assignment agreement according to which AFID Finance S.A. assigned to the company a loan receivable from Bellgate Constructions Limited which was later set off with a loan payable to Krown Investments LLC, refer to note 11. The outstanding balance bears no interest and is repayable no later than 31 December 2017.

13. RELATED PARTIES

The transactions with related parties are as follows:

(i) Transactions with the Key Management Personnel

	2016 US$ '000	2015 US$ '000
Key management personnel compensation comprised:		
Short-term employee benefits	1,200	1,200
Share option scheme expense	857	2,283

(ii) Other related party transactions

	2016 US$ '000	2015 US$ '000
Interest expense charged from subsidiaries	(8,756)	(7,390)
Consulting fees charged by related company	(157)	-
Consulting fees charged from holding company	-	(330)
Management fees charged from subsidiaries	(769)	(723)
Other administrative expenses charged by related company	(11)	(11)

The balances with related parties are as follows:

(iii) Receivables from related parties (Note 8)

	2016 US$ '000	2015 US$ '000
Receivables from subsidiaries	210,378	210,359

Receivables from subsidiaries include an amount of US$201,953 thousand from AFI D Finance S.A. representing loans assigned by the Company to the subsidiary during the year 2015.

The balances with related parties are as follows:

(iv) Loans to related parties (Note 12)

	2016 US$ '000	2015 US$ '000
Payables to subsidiaries	98,984	3,135
Payables to related company	332	-
Payables to holding company	-	490
	99,316	3,625

(v) Payables to related parties (Note 11)

	2016 US$ '000	2015 US$ '000
Name		
AFI D Finance S.A.	109,337	86,975
Krown Investments LLC	-	97,390
	109,337	184,365

14. 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.

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 negotiations with lending banks, the Company aims to avoid recourse to AFI Development on loans taken by subsidiaries.

As at 31 December 2016, there were two outstanding guarantees: one for the amount of US$1 million in favour of VTB Bank PJSC under a loan facility agreement of Bellgate Construction Limited (AFIMALL City) and the second for the amount of US$192 million, also in favour of VTB Bank PJSC, under a loan facility agreement of Krown Investments LLC (Ozerkovskaya III).

In February 2017, AFI Development provided an additional guarantee in favour of VTB Bank PJSC for the loan amounting to US$22.5 million, taken by its subsidiary Sanatory Plaza LLC to finance the acquisition of the 50% stake in the Plaza Spa Kislovodsk project (including repayment of debt to the exiting partner's company). This guarantee will remain in place until all security agreements under this loan are entered into and registered, expected by the end of April 2017.

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.

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.

Russian Subsidiaries' Business Environment

The real estate projects of the Company's subsidiaries 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 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 Rouble, 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.

Continuation of the above-mentioned events, and/or an increase in the severity thereof, could have an adverse effect on various facets of the Company's subsidiaries' activities and/or data appearing in the financial statements, among others, as follows:

- An unfavourable impact on the revenues due to a decline in the demand in the commercial sector and residential sector;
- An increase in the costs with respect to its activities in Russia;
- A decrease in the value of the real estate properties as a result of the decrease in the revenues and/or an increase in the risk premium in the economy and, in turn, an increase in the discount rate taken into account when determining the value;
- An increase in the financing expenses and/or an adverse impact on the available sources of financing;
- From an accounting standpoint, a devaluation of the ruble could have a negative impact on the Company's shareholders' equity.

Russian Subsidiaries' Business Environment

The Company is monitoring the economic developments in Russia, in general, and in the real estate market, in particular. It is noted that due to the uncertainty prevailing in light of the events described above, the Company is reviewing the development plans and timetables of a number of its projects. Due to the inability to predict the duration or the manner of the future development of political and economic events, the Company is not able, at this stage, to estimate the future impact of these matters on its Russian subsidiaries.

15. FAIR VALUES

The fair values of the Company's financial assets and liabilities approximate their carrying amounts at the reporting date.

16. CONTINGENT LIABILITIES

The Company had no contingent liabilities as at 31 December 2016.

17. EVENTS AFTER THE REPORTING PERIOD

Subsequent to 31 December 2016 there were no events that took place which have a bearing on the understanding of these financial statements except of the following:

- In February 2017, AFI Development Plc announced that its subsidiary, Sanatory Plaza LLC (“Plaza”), has received a loan from VTB Bank PJSC (“VTB”) to finance the acquisition of a 50% stake in the Plaza Spa Kislovodsk project (“the Project”) from its partner in the project, which was completed on 28 February 2017. The loan, in the amount of US$22.5 million, was provided in US dollars for 5 years (the term can be extended for additional 5 years subject to agreement between the parties), it bears an annual interest rate of 3 months Libor + 4.5%, has quarterly principal payments (ranging from US$260 thousand in Q3 2017 to US$822 thousand in Q3 2021), and a balloon payment of US$11.254 million at maturity. The interest is to be paid quarterly. The loan was used primarily to repay the outstanding debt of Plaza to the companies of AFI Development’s partner in the project, in the amount of US$16.9 million, prior to the acquisition of the equity stake. The remainder of the loan was used to finance the acquisition itself: the 50% equity stakes in both Nouana Limited and Craespon Management Limited (which together control 100% of Plaza) were purchased by AFI Development’s subsidiaries for US$5.6 million in cash.
- In March 2017, AFI Development Plc announced that it had completed the acquisition of the remaining 5% stake in the Tverskaya Plaza IV project from its partner, for US$1.5 million in cash. AFI Development Plc acquired 5% of the shares in Beslaville Management Limited, a subsidiary holding rights to the project, increasing its share from 95% to 100%.
- In March 2017 the Company’s subsidiary, AFI RUS Management LLC, signed a facility agreement for a credit line of RUR470 million from Sberbank PJSC, with a 2 years term, to finance construction of the Odinburg project.

8.5 Independent Auditors' Report

To the Members of AFI Development Plc

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

Opinion

We have audited the accompanying consolidated financial statements of AFI Development Plc ("the Company") and its subsidiaries (the "Group"), and the separate financial statements of AFI Development Plc (the "Parent Company"), which are presented on pages 70 to 149 and comprise the consolidated statement of financial position and the separate statement of financial position of the Parent Company as at 31 December 2016, and the consolidated statements of income statement, comprehensive income, changes in equity and cash flows and the separate statements of income statement, comprehensive income, changes in equity and cash flows of the Parent Company for the year then ended, and a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements and the separate financial statements give a true and fair view of the financial position of the Group and the Parent Company as at 31 December 2016, 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 (IFRS-EU) and the requirements of the Cyprus Companies Law, Cap. 113, as amended from time to time (the "Companies Law, Cap. 113").

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the "Auditors' Responsibilities for the audit of the financial statements" section of our report. We are independent of the Company in accordance with the Code of Ethics for Professional Accountants of the International Ethics Standards Board for Accountants (IESBA Code), and the ethical requirements in Cyprus that are relevant to our audit of the consolidated financial statements and the separate financial statements, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Material Uncertainty Related to Going Concern

We draw attention to note 2(i) in the consolidated financial statements which indicates that the Group incurred a net loss of US$47,942 thousand during the year ended 31 December 2016, driven by a decrease in the value of Group's property assets by US$123,045 thousand and the continuous decline of the Group's cash and cash equivalents and marketable securities down to US$16,687 thousand. Furthermore, the maturity of the Group's loans and borrowings, early 2018 will require the Group to make a lump sum payment of the principal of the loans with a current balance of US$627,533 thousand. As stated in note 2(i), these events or conditions, along with other matters as set forth in note 2(i), indicate that a material uncertainty exists that may cast significant doubt on the Company's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements and the separate financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements and the separate financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. In addition to the matter described in the "Material uncertainty related to going concern" section, we have determined the matters described below to be the key audit matters to be communicated in our report.

Valuation of properties	
See Notes 15 and 16 to the consolidated financial statements	
The key audit matter	How the matter was addressed in our audit
The Group's properties include investment property portfolio of US$915,350 thousand and investment property under development portfolio of US$232,900 thousand representing 80.3% of the Group's total assets as at 31 December 2016. The valuation of the Group's properties is inherently subjective due to, among other factors, the individual nature of each property, its location and the expected future rental revenue for that particular property. For developments, factors include projected costs to complete and timing until practical completion. The existence of significant estimation uncertainty, could result in a material misstatement, warrants specific audit focus in this area.	Our audit procedures included assessing whether the valuation approach used was in accordance with Royal Institution of Chartered Surveyors (RICS) and suitable for use in determining the carrying value for the purpose of the consolidated financial statements under IFRSs. We evaluated the competence, objectivity and independence of the Group's external property valuers and also considered fee arrangements between the valuers and other engagements which might exist. We carried out procedures, on a sample basis, to satisfy ourselves of the accuracy of the property information supplied to valuers by the Group. For properties under development we assessed the consistency of the information for construction contracts and budgets which were supplied to the valuers to the Group's records. We assessed using also our own experts the appropriateness of the valuation methodologies and assumptions used based on our experience and knowledge of the market and by comparing them to market data. We held discussions on key findings with the external property valuers and challenging various key inputs such as discount, vacancy and exit capitalisation rates used on each property within the property portfolio.
Revenue recognition	
See note 7 to the consolidated financial statements	
The key audit matter	How the matter was addressed in our audit
The Group recognised during the current year revenue from sale of trading properties (residential flats, offices, parking spaces) of US$54,484 thousand. Recognition of such type of sales occurs when the significant risks	Our audit procedures included, considering the appropriateness of the Group's revenue recognition accounting policies and compliance with the policies in terms of applicable accounting standards. We

and rewards of ownership of flats have been transferred to the buyer. Due to the judgement involved there is a risk of recognising revenue in the wrong accounting period. Due to the abovementioned risk factor we consider the timing of revenue recognition to constitute a key audit matter.	performed audit procedures connected with the year-end timing of revenue recognition. Our substantive test of revenue included substantiating transactions with underlying documentation (signed contracts and “acts of transfer”) to obtain evidence for the transfer of ownership to buyers and assessing the revenue recognised with the signed contracts.
Provisioning for taxation	
Refer to note 3 assumptions and estimation uncertainty – tax; and note 5 significant accounting policies – tax; and note 13 Tax Benefit, note 29 Deferred Tax Assets and Liabilities, note 33 Financial Instruments – Fair values and Risk Management - Taxation contingencies in the Russian Federation.	
The key audit matter	How the matter was addressed in our audit
Provisioning for taxation requires complex judgements to be taken in respect of the various tax jurisdictions in which the Group operates. The provisions are judgemental as a result of their nature and technical complexity.	Our audit work included assessing the adequacy of the design and implementation of controls over accounting for taxation. We evaluated the appropriateness of management’s assumptions and estimates in their assessment and valuation of the tax risks within the Group including review of correspondence on the status of tax compliance and tax audits in the various jurisdictions in which the Group operates, and benchmarking against our assessment of the range of potential outcomes in respect of the uncertain tax treatments adopted. We involved KPMG tax specialists within the audit team to provide detailed knowledge and expertise in assessing tax treatments in certain jurisdictions.

Other Information

The Board of Directors is responsible for the other information. The other information comprises the information included in the Annual Report, but does not include the consolidated financial statements and our auditor's report thereon.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon, except as required by the Companies Law, Cap.113.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. Our report in this regard is presented in the “Report on other legal requirement” section.

Responsibilities of the Board of Directors for the consolidated financial statements and the separate financial statements

The Board of Directors is responsible for the preparation of consolidated financial statements and separate financial statements that give a true and fair view in accordance with IFRS-EU 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 financial statements and separate financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements and the separate financial statements, the Board of Directors is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless there is intention to either liquidate the Company or to cease operations, or there is no realistic alternative but to do so.

The Board of Directors is responsible for overseeing the Group's financial reporting process.

Auditors' Responsibilities for the audit of the consolidated financial statements and the separate financial statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements and the separate financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements and separate financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional scepticism throughout the audit. We also o:

- Identify and assess the risks of material misstatement of the consolidated financial statements and the separate financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit 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 Company's and Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Board of Directors.
- Conclude on the appropriateness of the Board of Director's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's and the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements and the separate financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of

our auditors' report. However, future events or conditions may cause the Group and the Company to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated financial statements and the separate financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinion.

We communicate with the Board of Directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the Board of Directors with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the Board of Directors, we determine those matters that were of most significance in the audit of the consolidated financial statements and the separate financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditors' report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Report on Other Legal Requirements

Pursuant to the additional requirements of the Auditors and Statutory Audits of Annual and Consolidated Accounts Laws of 2009, L.42(I)/2009, as amended from time to time ("Law 42(I)/2009"), 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 these books.
- The Company's consolidated financial statements and 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 financial statements and separate financial statements give the information required by the Companies Law, Cap. 113, in the manner so required.
- In our opinion, the Management report on pages 65 to 68, the preparation of which is the responsibility of the Board of Directors, has been prepared in accordance with the requirements of the Companies Law, Cap.113, and the information given is consistent with the financial statements.
- In the light of the knowledge and understanding of the business and the Company's environment obtained in the course of our audit, we have not identifies material misstatements in the management report.

Pursuant to the London Stock Exchange Listing Rules we are required to review:

- The Directors' statement in relation to going concern and longer-term viability; and
- The part of the Corporate Governance Statement relating to the Company's compliance with the eleven provisions of the 2014 UK Corporate Governance Code specified for our review.

We have nothing to report in respect of the above.

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 Law 42(I)/2009 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.

The engagement partner on the audit resulting in this independent auditors' report is Maria H. Zavrou.

Maria H. Zavrou, FCCA
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

6 April 2017