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Annual Financial Report
AFI DEVELOPMENT PLC
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AFI D PLC_Annual Financial Report 2018

Relevant announcement is attached.

Attachment:

1. **Announcement_AFI DEVELOPMENT PLC_Annual Financial Report 2018**

Regulated

Publication Date: 17/04/2019

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16 April 2019

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

PRELIMINARY STATEMENT OF RESULTS FOR THE YEAR ENDED 31 DECEMBER 2018

SOLID GROWTH IN REVENUE AND PROFIT SUPPORTED BY RESIDENTIAL SALES

AFI Development, a leading real estate company focused on developing property in Russia, has today announced its preliminary audited financial results for the year ended 31 December 2018.

Financial highlights:

- **Revenue** for the year, including proceeds from the sale of trading properties, increased by 65% year-on-year to US$296.0 million (2017: US$179.1 million):
  - The sale of residential properties contributed US$169.6 million to total revenue, a 174% increase year-on-year (2017: US$61.8 million), mostly due to revenue recognition from delivery of apartments in AFI Residence Paveletskaya in Q2 2018 and the implementation of IFRS 15[1]
  - Rental and hotel operating income increased 7% year-on-year to US$125.5 million (2017: US$117.0 million)
  - AFIMALL City revenue contribution increased to US$86.8 million (2017: US$82.7 million), a 5% increase year-on-year
- **Gross profit** up 47% year-on-year to US$89.4 million (2017: US$61.0 million)
- **Net profit** of US$31.5 million in 2018, compared to a loss of US$4.7 million in 2017
- **Total gross value of property portfolio** of US$1.25 billion, down from US$1.42 billion in 2017
- **Cash, cash equivalents and marketable securities** stood at US$100.2 million at 31 December 2018

Operational highlights

- At **Odinburg**, the construction and sales of Building 3 (phase II) have commenced. Building 3 (Phase I) and Building 6 (Phase II) are under construction and currently being marketed to customers. As of 31 March 2019, 697 apartments (99% of total) were sold in Building 2, 680 (74% of total) in Building 3 (Phase I) and 206 (92% of total) in Building 6
- At **AFI Residence Paveletskaya**, all apartments in Phase I have been delivered to customers. The construction of Phase II and Phase III apartments is currently ongoing. As of 31 March 2019, 558

[1] AFI Development has adopted IFRS 15 'Revenue from Contracts with Customers' from 1 January 2018. The "sale of residential properties" figure includes the revenue from sales of residential properties transferred over time calculated under IFRS 15.

contracts for the pre-sales of apartments and "special units" had been signed (88% of Phase I and Phase II combined)

- At **Bolshaya Pochtovaya**, construction and marketing of the project progressed according to plan and as of 31 March 2019, 251 apartments (62% of Phase I and Phase II combined) had been pre-sold to customers
- The construction and pre-sale of properties at **Botanic Garden** remain on track. As of 31 March 2019, 348 apartments (43% of Phase I) had been pre-sold to customers.
- In Q1 2019, the Company started construction works at the **Tverskaya Plaza Ic**, a grade A office development in central Moscow
- At **AFIMALL City,** the NOI for 2018 increased slightly by 1% year-on-year to US$63.7 million (2017: US$63.0 million).

Commenting on today's announcement, Eli Avrahampour, Chairman of AFI Development, said:

"We are pleased to report another year of growth in revenue and gross profit, driven primarily by a continued strong performance in residential sales, the successful delivery of apartments in AFI Residence Paveletskaya in the first half of the year and the adoption of IFRS 15.

As we enter the new financial year, we are mindful of the ongoing uncertainty in Russia, in terms of the evolving legal, business and economic environment, which is expected to place downward pressure on the profitability of the Company's yielding properties and residential projects. In particular, high rouble volatility, recent tax increases and inflation will increase construction costs, while the implementation of the new escrow schemes and increased lending rates pose further challenges for the property development market. We also face rising competition stemming from the launch of the state-funded housing program.

That said, we remain cautiously optimistic and believe that AFI Development will meet the challenges in both the residential and commercial segments, supported by our market experience and competitive projects."

FY 2018 Results Conference Call

AFI Development will hold a conference call for analysts and investors to discuss its full year 2018 results, following their publication.

The details for the conference call are as follows:

Date:	**Wednesday, 17 April 2019**	
Time:	**15:00 UK (17:00 Moscow)**	
Dial-in Tel:	**International:**	**+44 (0) 20 3003 2666**
	UK toll free:	**0808 109 0700**
	US toll-free:	**1 866 966 5335**
	Russia toll-free:	**8 10 8002 4902044**
Password:	**'AFI Development' or 'AFID'**	

Please dial in 5/10 minutes prior to the commencement time giving your name, company and stating that you are dialling into the AFI Development conference call quoting the reference AFI.

The FY 2018 investor presentation will be published on the Company's website: http://www.afi-development.com/en/investor-relations/reports-presentations at 11.00 UK (13.00 Moscow) on 17 April 2019.

For further information, please contact:

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Sandra Novakov
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This announcement contains inside information.

About AFI Development

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

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

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

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

Forward-looking Statements

This document and the documents following may contain certain "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 with respect to these items.

Forward-looking statements are sometimes, but not always, identified by their use of a date in the future or such words as "anticipates", "aims", "due", "could", "may", "should", "expects", "believes", "intends", "plans", "targets", "goal" or "estimates." By their very 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, changes in the economies and markets in which the Company operates; changes in the regulatory and competition frameworks 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 affect the Company; and changes in interest and exchange rates.

Any written or verbal forward-looking statements, made in this document or made subsequently, which are attributable to the Company or persons acting on their behalf are expressly qualified in their entirety by the factors referred to above. The Company does not intend to update any forward-looking statements.

Chairman's Statement

For the Russian economy in general, 2018 was marked by the negative influence of US sanctions introduced in April, which were targeted against specific commodity producers and state-owned banks. The sanctions caused a weakening of the rouble, particularly towards the year-end, and triggered a rise in inflation. In response, the Central Bank of Russia ("CBR") raised its key lending rate by 25bps in September and December 2018 (currently at 7.75%). Inflation remains low, by Russian standards (4.3%, CBR), while the GDP grew modestly by 1.63% (OECD).

AFI Development performed steadily during the year due to continued progress at our four ongoing residential projects in Moscow and the Moscow region under construction and marketing, and our yielding properties under operation. The sale of residential properties and parking units continued to play a significant role in our revenue generation, alongside revenue earned from rent and hotel operations.

Revenue for the Company in 2018 grew 65% year-on-year to US$296.0 million, supported by strong residential sales which contributed US$169.6 million to total revenue. This is largely due to the implementation of IFRS 15[2].

Yielding properties performed well throughout 2018, with strong contribution from our flagship project, the AFIMALL City, which generated US$86.8 million in revenue, up 5% from the prior year. Overall, rental and hotel operating income for the year was US$125.5 million, a 7% increase year-on-year.

The Company recorded a gross profit of US$89.4 million in 2018, while net profit was US$31.5 million.

Valuation

As at 31 December 2018, based on the Jones Lang LaSalle LLC ("JLL") independent appraisers' reports and on accounting book value of properties, the value of AFI Development's portfolio of investment properties stood at US$742.6 million, while the value of the portfolio of investment property under development stood at US$141.9 million.

The total value of the Company's assets, mainly based on independent valuation as of 31 December 2018 and book values of residential development projects, was US$1.25 billion, compared to US$1.42 billion as at 31 December 2017. The drop in values was triggered by the exchange rate fluctuation effect (the rouble depreciated by 20.61% YoY) and reduction in the book values of residential projects due to delivery of apartments in AFI Residence Paveletskaya in Q2 2018 and the implementation of IFRS 15.

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

Liquidity

We ended 2018 with approximately US$100.2 million of cash, cash equivalents and marketable securities on our balance sheet (-5% YoY), and a debt[3] to equity level of 68%. This position reflects the Company's ability to continue balancing liquidity requirements from a number of sources.

For commercial projects, our financing strategy aims to maximise the level 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.

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[2] AFI Development has adopted IFRS 15 Revenue from Contracts with Customers from 1 January 2018. The "sale of residential properties" figure includes the revenue from sales of residential properties recognised over time calculated under IFRS 15.

[3] Debt includes all loans and borrowings. For further details please see note 27 to the Financial Statements.

For residential projects, our financing strategy is to finance the ongoing construction from pre-sales, while for the new phases of our projects, which will be developed under the newly introduced mandatory escrow-schemes, the construction will be financed by bank project finance at market terms.

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

Key Events Subsequent to 31 December 2018

The Company did not have any significant events subsequent to 31 December 2018.

Portfolio Update

AFIMALL City

During 2018, AFIMALL City continued to demonstrate growth in footfall, revenue and NOI.

Average daily footfall in December 2018 was 21% higher compared to December 2017, reflecting the development of the Moscow City area (such as improving transportation infrastructure, and opening of new office space).

Revenue grew 5% year-on-year to US$ 86.8 million and NOI increased 1% year-on-year to US$63.7. Occupancy stood at 93% at the end of the year.

In January 2019, the Russian government announced that three federal ministries, namely the Ministry of Economic Development, the Ministry of Communications and the Ministry of Industry and Trade will relocate to Moscow City in 2019, occupying about 70,000-80,000 sq.m of office space.

AQUAMARINE III (OZERKOVSKAYA III)

In February 2018, AFI Development successfully completed the disposal transaction of two buildings in the complex for RUR7.89 billion (circa US$135 million). The Company currently owns one remaining building in the complex (GBA 18,759 sq.m including underground parking), which is leased to Deutsche Bank, Brown-Forman and other tenants.

HOTELS

AFI Development's hospitality portfolio, which consists of one Moscow city-hotel (Aquamarine) and two resorts in the Caucasus mineral waters region (Plaza Spa Kislovodsk and Plaza Spa Zheleznovodsk), performed well in 2018. Notably, the Aquamarine hotel benefited from the football World Cup held in Russia in the summer of 2018.

ODINBURG

At Odinburg, construction work and marketing continued throughout the year. The construction and sales of Building 3 (phase II) have commenced, while Building 3 (Phase I) and Building 6 (Phase II) are under construction and currently being marketed to customers.

As of 31 March 2019, 697 apartments (99% of total) were sold in Building 2, 680 (74% of total) in Building 3 (Phase I) and 206 (92% of total) in Building 6.

AFI RESIDENCE PAVELETSKAYA

In December 2015, AFI Development successfully launched the main construction phase of the project. The pre-sale of apartments and "special units"[4] began simultaneously with the onset of construction.

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

In 2018, construction and marketing of AFI Residence Paveletskaya proceeded according to schedule. Delivery of Phase I apartments to customers was completed while construction of Phase II and Phase III apartments remains ongoing. As of 31 March 2019, 558 contracts for pre-sales of both apartments and "special units" have been signed (88% of Phase I and Phase II combined).

BOLSHAYA POCHTOVAYA

The main construction phase and pre-sale of apartments was launched in Q1 2017 at Bolshaya Pochtovaya. During 2018, construction and marketing of the apartments progressed to schedule and as of 31 March 2019, 251 apartments (62% of Phase I and Phase II combined) had been pre-sold to customers.

BOTANIC GARDEN

The main construction phase and pre-sale of apartments at Botanic Garden, which began in Q1 2017, continues to progress as expected. As of 31 March 2019, 348 apartments (43% of Phase I) have been pre-sold to customers.

TVERSKAYA PLAZA Ic

The project, located in 2nd Brestskaya street in the office district near the Belorussky Railway station, is planned as a grade A office building. Construction of the building commenced in Q1 2019.

TVERSKAYA PLAZA II

In Q2 2017, the Company obtained development rights for a project at Tverskaya Plaza II. This has been approved for development by the Moscow construction authorities as a "recreational centre", with a gross buildable area of 22,000 sq.m.

Outlook

A weaker rouble and additional taxation are expected to place downward pressure on the profitability of both the Company's yielding properties, AFIMALL City in particular, and the residential projects. The impact of these two factors is already reflected in the valuation of our portfolio with a valuation loss on properties of US$11.5 million for 2018.

Broadly speaking, the tax increases introduced in 2019 will drive up the investment cost for all projects under development. The introduction of new escrow schemes for residential development poses uncertainty as to the magnitude of its effects on costs and cash flows. For details on taxation increases and the new mandatory escrow schemes please refer to the Market Update section below.

We see that sanctions have caused the CBR to increase its key lending rate in 2018 and we believe further increases in 2019 are likely. The CBR key lending rate, in turn, will drive the cost of mortgage finance higher. Approximately 55-65% of our residential sales are mortgage financed and therefore, we expect the demand for our residential units to decline. Furthermore, if the CBR further increases its key lending rates, our cost of rouble financing will also increase.

New competition in residential segment from the state renovation programme will most probably affect future sales. We remain cautiously optimistic and believe that AFI Development will meet the challenges in both residential and commercial segments, supported by our market experience and competitive projects.

BOARD OF DIRECTORS

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

Mr Elias Ebrahimpour (Eli Avrahampour), Non-Executive Chairman of the Board

Mr Panayiotis Demetriou, Senior Non-Executive Independent Director

Mr Avraham Noach Novogrocki, Non-Executive Independent Director

Elias Ebrahimpour (Eli Avrahampour), Chairman

15 April 2019

MANAGEMENT DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Overview

As at 31 December 2018, the Company's portfolio consisted of 7 investment properties, 4 investment properties under development, 4 trading properties under development and 4 hotel projects (3 of them are active and 1 is frozen). The portfolio comprises commercial projects focused on offices, shopping centres, hotels and mixed-use properties, as well as residential projects, in Moscow and other regions of Russia. The total value of the Company's assets, based predominantly on independent valuation as of 31 December 2018, was US$1.25 billion[5], compared to US$1.42 billion as at 31 December 2017. Revenues for 2018 increased by 65.3% year-on-year to US$296.0 million, mainly as a result of initial application of IFRS 15 Revenue from Contracts with Customers from 1 January 2018. The average exchange rate of the Russian rouble to US dollar increased by 7.5% during 2018. Mainly due to these two factors, AFI Development recorded a 46.6% year-on-year increase in gross profit to US$89.4 million. Cash, cash equivalents and marketable securities decreased by 5.5% to US$100.2 million as at 31 December 2018.

In 2018, AFI Development incurred a net profit of US$31.5 million, compared to net loss of US$4.7 million in 2017.

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 2018, %	Year ended 31 December 2017,%
Real Gross Domestic Product growth	1.7	1.8
Consumer prices growth (inflation)	2.8	4.2

Source: The International Monetary Fund

[5] 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.

Company Specific Factors

The following factors affected our performance in 2018:

- From 1 January 2018 the Company has adopted and applied IFRS 15 Revenue from Contracts with Customers. The effect of this is mainly attributed to the earlier recognition of revenue from sales of residential properties under the “DDU” (pre-sales) contracts which contributed US$154.9 million to revenue for 2018 (for details on IFRS 15 please refer to note 5 to the consolidated financial statements);
- At the AFI Residence Paveletskaya project, Phase I was delivered to customers in H1 2018, which enabled the Company to recognise revenue from sales of trading properties in the amount of US$23.9 million for 2018.
- In December 2017 the Company refinanced the AFIMALL City loan and repaid the Ozerkovskaya III loan in January 2018. For further details please see note 27 to the consolidated financial statements.

Key Portfolio Updates

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 274,877 sq.m (including parking), and GLA of nearly 107,036 sq.m,, the project has a shopping gallery of around 460 shops, an 11-screen movie theatre and 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.

The average daily footfall in December 2018 was up 21% from December 2017, reflecting further development of the Moscow City area such as improving transportation infrastructure, and the opening of new office space.

Revenue grew 5% year-on-year to US$ 86.8 million in 2018, while NOI increased 1% year-on-year to US$63.7. Occupancy stood at 93% at the end of 2018.

According to independent appraisers JLL, the market value of AFIMALL City as of 31 December 2018 was US$637.3 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 four Class A buildings and common underground parking. 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 creates an aspirational environment among Moscow’s commercial developments.

At the end of 2017, the Company agreed to dispose of buildings 2 and 4 to one of the leading Russian banks for RUR7.89 billion (circa US$135 million). The transaction was successfully completed in February 2018.

The Company currently owns one remaining building in the complex with a GBA of 18,759 sq.m including underground parking, which is leased to Deutsche Bank, Brown-Forman and other tenants.

Following the restructuring of the loans of Aquamarine III and of AFIMALL City with VTB Bank PJSC, the loan for Aquamarine III was fully repaid in January 2018.

According to independent appraisers JLL, the market value of the remaining building of the Complex as of 31 December 2018 was US$57.4 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 a Class A office centre, Aquamarine III, and the 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.

In July 2018, the Company concluded a franchising agreement with Intercontinental Hotel Group to allow the Aquamarine Hotel to be rebranded as Crowne Plaza. The Company believes that, in light of increasing competition in central Moscow, branding is crucial to successful long-term competitiveness of the Hotel and its financial performance. The Hotel will be renamed "Crowne Plaza Tretyakovskaya".

Due to the 2018 Football World Cup in Russia, the Hotel performed very well in 2018, with average occupancy of 79%.

The balance sheet value of the project as of 31 December 2018 was US$13.0 million.

PLAZA SPA HOTEL (ZHELEZNOVODSK)

Plaza Spa Zheleznovodsk is a sanatorium project launched in the summer of 2012 and is located in Zheleznovodsk, in the Caucasus mineral waters region. The hotel comprises 134 guest rooms over 11,701 sq.mof gross buildable area. The spa provides diagnostic assessment and treatment of urological diseases.

During 2018, the hotel performed in line with expectations with average occupancy levels at 69%.

The balance sheet value of the project as of 31 December 2018 was US$9.6 million.

PLAZA SPA HOTEL (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 across 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.

In 2018, the hotel performed well with average annual occupancy at 68% for the year.

The balance sheet value of the project as of 31 December 2018 stood at US$40.8 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 more than 33 hectares, located 11 km west of Moscow in the town Odintsovo.

The development is planned to include a multi-functional infrastructure comprising two schools, two kindergartens, a medical centre and other facilities.

The project involves the 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 153,839sq.m (2,850 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 307,200 sq.m (6,573 apartments).

Each phase includes commercial premises on the ground floor that are planned to be sold to end users.

The construction of Phases I and II are currently underway. The construction and sales of Building 3 (phase II) have recently commenced. Building 3 (Phase I) and Building 6 (Phase II) are under construction and currently being marketed to customers.

The balance sheet value of the project as of 31 December 2018 amounted to US$90.3 million.

PAVELETSKAYA II (AFI RESIDENCE PAVELETSKAYA)

AFI Residence Paveletskaya 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 a total GBA of 52,928 sq.m and total GSA of 31,841 sq.m. This phase will comprise 175 apartments, 220 special units and 5,900 sq.m of flexible commercial space.
- Phase II – will have a GBA of 49,860 sq.m and total GSA of 27,620 sq.m. This phase is planned to include apartments, special units and flexible commercial space. A kindergarten with an area of 2,220 sq.m is also planned in the project.
- Phase III – will have a GBA of 31,061 sq.m and total GSA of 20,000 sq.m. This phase is planned to include 9,842 sq.m of apartments and flexible commercial space.

In December 2015, AFI Development successfully launched the main construction phase of the project. The pre-sale of apartments and "special units"[6] began, alongside the launch of construction.

In 2018, construction work and marketing at AFI Residence Paveletskaya proceeded according to schedule. Phase I apartments were fully delivered to customers and the construction of Phase II and Phase III is currently ongoing.

The balance sheet value of the project as of 31 December 2018 was US$53.2 million.

BOLSHAYA POCHTOVAYA

Bolshaya Pochtovaya is a mixed-use project (predominantly residential) located in an attractive neighbourhood in the central administrative district of Moscow. The area benefits from developed infrastructure including 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 a total GBA of 40,788 sq.m and total GSA of 25,969 sq.m. This phase is planned to include apartments, 8,400 sq.m of flexible commercial space and a kindergarten.

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

- Phase II – will have a GBA of 37,373sq.m and total GSA of 21,483 sq.m., including apartments and 3,382 sq.m of flexible commercial space.
- Phase III – is will have a 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 – will have a GBA of 22,792 sq.m and total GSA of 14,744 sq.m, including apartments and 1,002 sq.m of retail space.

The main construction phase and pre-sale of apartments was launched in Q1 2017 at Bolshaya Pochtovaya. During 2018, the construction and marketing of the projected progressed according to plan.

The balance sheet value of the project as of 31 December 2018 amounted to US$75.6 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, and within walking distance of Botanicheskuiy Sad and Sviblovo metro stations. The future residential complex has a land plot of 3.2 Ha and a GBA of 206,790 sq.m: 111,191 sq.m of residential area, 6,909 sq.m of commercial premises and 678 underground and above ground parking lots.

The project is being constructed in two phases:

- Phase I – includes several residential buildings with a GBA of 138,655 sq.m and total GSA of 71,773 sq.m. This phase is to include apartments and 6,909 sq.m of flexible commercial space.
- Phase II – will have a GBA of 68,135 sq.m and total GSA of 46,327 sq.m. This phase will comprise apartments and 697 sq.m of flexible commercial space.

The main construction phase and pre-sale of apartments at Botanic Garden began in Q1 2017 with the development and marketing of the project progressing as expected.

The balance sheet value of the project as of 31 December 2018 was US$ 77.8 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 50,200 sq.m, including underground parking of approximately 238 parking spaces, and an estimated GLA of 40,000 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.

Following some improvement in the Moscow office market, and given the excellent location of the project, AFI Development has launched construction of the project in Q1 2019.

Based on an independent valuation of the Company's portfolio by JLL as of 31 December 2018, the fair value of Tverskaya Plaza Ic is US$61.1 million.

TVERSKAYA PLAZA II

In Q2 2017, the Company obtained development rights for the project, which has been approved for development by the Moscow construction authorities as a "recreational centre" with a GBA of 22,000 sq.m.

Plaza II is a retail-entertainment project envisaging construction of a 7-storey building with one underground level, with a total GBA of 22,000 sq.m, and providing a GLA of 14,000 sq.m.

Based on an independent valuation of the Company portfolio by JLL, as of 31 December 2018, the fair value of the Company share in Plaza II was US$18.0 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 92,285 sq.m (including underground parking) and an estimated GLA of 75,292 sq.m

Based on an independent valuation of the Company portfolio by JLL, as of 31 December 2018, the fair value of the Company share in Plaza IV was US$54.0 million.

KOSSINSKAYA

Kossinskaya is mixed-use building spanning 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 2018, the fair value of Kossinskaya is US$25.7 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 the future development of these projects, the Company remains well placed to benefit from further recovery in the regional real estate markets. Given its strong track record in bringing projects to completion, this represents a significant competitive advantage for AFI Development.

AFI Development's strategy with respect to its land bank is to activate projects only upon securing necessary financing and having full confidence in the demand levels of prospective tenants or buyers.

Key Events Subsequent to 31 December 2018

The Company did not have any significant events subsequent to 31 December 2018.

Disposals and Acquisitions

The Company did not have any disposals or acquisitions in 2018.

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.*** 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.
- ***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 under sales agreements***. 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.
- ***Sales of trading properties under DDU contracts.*** The Company has initially applied IFRS 15 Revenue from Contracts with Customers from 1 January 2018 which effects earlier recognition of revenue from sales of residential properties under DDU contracts and recognition of significant financial component on payments received in advance from customers for residential properties under DDU contracts. DDU contracts are advance sale contracts for trading properties which are signed while the development of the respective residential property is still ongoing. The revenue from sale of trading properties under such DDU contracts is recognised over time as the construction progresses. The Company has determined that this results in revenue and associated costs to fulfil the contracts being recognised over time, i.e. before the ownership of flats is actually transferred to the customer. The transaction price for such contract is determined by adjusting the promised amount of consideration which is received in advance, for the effect of significant finance component. The contract liability is presented in the statement of financial position as Advances from customers.
- ***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.

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 from interest on our bank deposits and gains from other investments.

Finance expenses

Our finance expense comprises loss on other investments, if any, 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 and EURO 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 eight 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 and EURO denominated payables and receivables of our Russian and foreign 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 Russian VAT legislation, VAT can also be claimed during the period of construction provided that all required documentation is presented to the VAT authorities.

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. 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.

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 2018 and 2017

US$ million	For the year ended 31 December 2018	For the year ended 31 December 2017	Change 2018/2017	
			US$ million	%%
Revenue				
Construction consulting/management services	0.0	0.2	(0.2)	-98.5%
Rental income	125.5	117.0	8.5	7.2%
Non-core activity revenue	0.9	0.0	0.9	100%
Sale of residential	14.7	61.8	(47.2)	-76.3%
Sale of residential – transferred over time	154.9	0.0	154.9	100%
	296.0	**179.1**	**117.0**	**65.3%**
Other income	3.3	3.8	(0.5)	-14.3%
Expenses				
Operating expenses	(63.4)	(57.1)	(6.3)	11.1%
Administrative expenses	(5.5)	(6.0)	0.5	-8.0%
(including Bad debt provisions and write-offs)	(0.1)	(0.1)	(0.0)	-18.2%
Cost of sales of residential	(11.7)	(58.4)	46.7	-80.0%
Cost of sales of residential – transferred over time	(124.8)	0.0	(124.8)	100%
Other expenses	(4.5)	(2.4)	(2.2)	90.4%
	(206.6)	**(120.0)**	**(86.6)**	**72.2%**
Share of the after tax (loss)/profit of joint ventures	0.0	2.0	(2.0)	-100.0%
Gross profit	**89.4**	**61.0**	**28.4**	**46.6%**
Profit on disposal of investments in subsidiaries	(0.0)	(3.9)	3.9	-100.0%
Profit on purchase of 50% of JV	0.0	7.5	(7.5)	-100.0%
Valuation gain/(loss) on properties	(11.5)	2.0	(13.5)	-668.4%
Impairment loss on inventory of real estate	-	-	-	0.0%
Results from operating activities	**77.9**	**66.6**	**11.3**	**17.0%**
Finance income	1.6	0.8	0.8	118.6%
Finance expense	(35.2)	(50.4)	15.2	-30.2%
FX Gain/(Loss)	(2.3)	12.4	(14.6)	-118.4%
Net finance income/(costs)	**(35.8)**	**(37.3)**	**1.4**	**-3.9%**
Profit before income tax	**42.1**	**29.3**	**12.8**	**43.5%**
Income tax expense	(10.5)	(34.0)	23.4	**-69.0%**
Profit (Loss) from continuing operations	**31.5**	**(4.7)**	**36.2**	**-776%**

Revenue – General Overview

To date, we have derived revenues from three sources: rental income, sale of residential 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 2018	For the year ended 31 December 2017	Change 2018/2017	
			US$ million	%%
Investment property				
AFIMALL City	85.9	81.8	4.1	5.0%
Premises at Tverskaya Zastava Square	1.9	2.0	(0.0)	-2.2%
Berezhkovskya office building	1.8	1.9	(0.1)	-5.1%
Ozerkovskaya (Aquamarine) III	4.1	1.0	3.0	298.5%
H2O office building	0.8	0.9	(0.1)	-12.5%
Premises at Tverskaya Plaza IV	0.0	0.1	(0.0)	-74.6%
Other land bank assets	0.1	0.0	0.0	58.8%
Paveletskaya I	0.1	0.0	0.0	54.6%
Hotels				
Plaza Spa Hotel (Kislovodsk)	18.5	17.1	1.4	8.2%
Plaza Spa Hotel (Zheleznovodsk)	6.2	6.5	(0.3)	-4.4%
Aquamarine hotel	6.1	5.6	0.4	7.9%
Total	**125.5**	**117.0**	**8.4**	**7.2%**

Sale of residential

US$ million	For the year ended 31 December 2018	For the year ended 31 December 2017	Change 2018/2017	
			US$ million	%%
Revenue				
Odinburg	5.7	61.4	(55.6)	-90.6%
Ozerkovskaya II	0.1	0.5	(0.4)	-82.4%
Paveletskaya II	8.8	-	8.8	100%
Total	**14.7**	**61.8**	**(47.2)**	**-76.3%**

Sale of residential - transferred over time

US$ million	For the year ended 31 December 2018	For the year ended 31 December 2017	Change 2018/2017	
			US$ million	%%
Revenue				
Paveletskaya II	39.1	-	39.1	100%
Botanic Garden	40.2	-	40.2	100%
Pochtovaya	38.4	-	38.4	100%
Odinburg	37.2	-	37.2	100%
Total	**154.9**	**-**	**154.9**	**100%**

Sale of residential. Our income from sale of residential increased by US$107.7 million in total, from US$61.8 million in 2017 to US$169.6 million in 2018, due to the IFRS 15 adoption. For more details see Note 5 to the consolidated financial statements.

Operating expenses. Our operating expenses increased by 11.1% year-on-year to US$63.4 million in 2018 (2017: US$57.1 million). More than half of operating expenses' rise is explained by amended property tax calculation methodology. Other factor causing increase in operating costs relates to our marketing efforts as for the projects AFI Residence Paveletskaya, Bolshaya Pochtovaya and Botanic Garden.

Administrative expenses. Our administrative expenses decreased by 8.0% year-on-year to US$5.5 million in 2018 (2017: US$6.0 million). The decrease is attributable to the cost saving initiatives across the Company.

Net valuation gain/ (losses) on properties. Net result of investment property valuation changed from a gain of US$2.0 million in 2017 to a loss of US$11.5 million in 2018. For additional information, please refer to "Portfolio Valuation" section below.

Finance income. Our finance income increased by 118.6% year-on-year to US$1.6 million in 2018 (2017: US$0.8 million). The increase was a result of more efficient cash management.

Finance expense. Our finance expense decreased by 30.2% year-on-year to US$35.2 million in 2018 (2017: US$50.4 million), as a result of repayment of Ozerkovskaya (Aquamarine) III loan and decrease of interest rate due to the conversion of US$ denominated loans into EUR.

FX Gain/ (Loss). We recorded a foreign exchange loss of US$2.3 million in 2018, against a gain of US$12.4 million in 2017. This was a result of Russian Rouble depreciation versus the US Dollar during 2018.

Income tax expense. Our current tax expense decreased by US$ 8.5 million to US$ 4.3 million due to the additional Russian capital gain tax from sale of non-residential premises to an end-user at Ozerkovskaya III Business Centre incurred in Q4 2017. Deferred tax expense decreased by US$ 14.9 million to US$ 6.2 million.

Profit/Loss for the year. Due to the factors described above, we recorded a US$ 31.5 million net gain for 2018 compared to net loss of US$4.7 million for 2017.

Liquidity and Capital Resources

Cash flows

Summary of cash flows for 2018 and 2017

US$ thousand	For the year ended 31 December 2018	For the year ended 31 December 2017
Net cash from operating activities	**64,438**	**104,735**
Net cash from/(used in) investing activities	**(17,805)**	**105,864**
Net cash from/(used in) financing activities	**(50,767)**	**(125,271)**
Effect of exchange rate fluctuations	(2,331)	(479)
Net increase/(decrease) in cash and cash equivalents	(6,465)	84,849
Cash and cash equivalents at 1 January	95,468	10,619
Cash and cash equivalents at 31 December*	**89,003**	**95,468**

** Note: the cash and cash equivalents do not include US$11.2 million (2017: US$10.5 million) fair value of marketable securities.*

Net cash from operating activities

Net cash from operating activities decreased to US$64.4million in 2018, from US$104.7 million in 2017. The decrease is attributable to the adoption and application of IFRS 15 Revenue from Contracts with Customers from 1 January 2018.

Net cash from investing activities

Net cash outflow used in investing activities amounted to US$ 17.8 million in 2018 against cash from investing activity amounted to US$ 105.9 in 2017 attributable to cash inflow from sale of two buildings at Aquamarine III Business Centre in 2017.

Net cash used in financing activities

Net cash used in financing activities increased to a negative US$50.8 million in 2018 from a negative US$125.3 million in 2017 due to refinancing of Bellgate loan and repayment of Ozerkovskaya III loan in January 2018. For further details please see Note 27 to the consolidated financial statements.

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 2018 with of approximately US$100.2 million in cash, cash equivalents and marketable securities on our balance sheet and a debt[7] to equity level of 68%.

[7] Debt includes all loans and borrowings. For further details please see note 27 to the consolidated financial statements.

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 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, 2018 our debt portfolio was as follows**:**

Project / Subsidiary	Lending bank	Max dept limit (US$ mn)	Balance as of Dec-31, 2018 (US$ mn)	Available (US$ mn)	Nominal Interest rate	Currency	Maturity
AFIMALL City / Bellgate Constractions Ltd	VTB Bank JSC	36.5 billion rub	135.8	-	CBR + 0.75%	RUR	27/12/2022
			324.0		4.2%	EUR	27/12/2022
Plaza Spa Hotel (Kislovodsk) / Sanatorium Plaza LLC	VTB Bank JSC	21.3	14.4	-	4.2%	EUR	21/02/2022
		11.8	11.3		4.2%	EUR	20/09/2022
Plaza Spa Hotel (Zheleznovodsk) / Sanatorium Plaza SPA LLC	VTB Bank JSC	18.6	18.0	-	4.2%	EUR	20/09/2022

The total balance of secured debt financing reached US$503.52 million as at 31 of December 2018, including US$503.4 million of Principal Debt and US$0.17 million of accrued interest with average interest rate 5.4% per annum as at 31.12.2018 (6.9% per annum as at 31.12.2017) (*for more details see note 27 to our consolidated financial statements).*

As at 31 December 2018, our loans and borrowings were payable as follows:

US$ thousand	As at 31 December 2018	As at 31 December 2017
Less than one year	16,433	86,775
Between one and five years	487,348	492,484
Total	**503,781**	**579,259**

Portfolio Valuation

In 2018 Jones Lang LaSalle LLC ("JLL") continued to serve as the Company independent appraisers. As at 31 December 2018, based on the JLL independent appraisers' report, the value of AFI Development's portfolio of investment properties stood at US$742.6 million, while the value of the portfolio of investment property under development stood at US$141.9 million.

Consequently, the total value of the Company's assets, based predominantly on independent valuation as of 31 December 2018, decreased 12% year-on-year to US$1.25 billion, compared to US$1.42 billion as at 31 December 2017. The drop in values was mostly technical, triggered by the exchange rate fluctuation effect (the rouble depreciated by 20.61% YoY) and reduction in the book values of residential projects due to delivery of apartments in AFI Residence Paveletskaya in Q2 2018 and the implementation of IFRS 15.

	Property	Valuation 31/12/2018, US Dollars	Valuation 31/12/2017, US Dollars	Change in valuation, %	Balance sheet value 31/12/2018, US Dollars	Balance sheet value 31/12/2017, US Dollars
Investment property						
1	AFIMALL City	637,300,000	696,000,000	*-8%*	637,300,000	696,000,000
2	Ozerkovskaya III	57,430,000	63,200,000	*-9%*	57,430,000	63,200,000
3	Tverskaya Plaza II	18,000,000	21,700,000	*-17%*	18,000,000	21,700,000
4	Berezhkovskaya	9,970,000	11,900,000	*-16%*	9,970,000	11,900,000
5	Paveletskaya I	9,520,000	11,712,379	*-19%*	9,520,000	11,810,000
6	H2O	6,980,000	9,808,249	*-29%*	6,980,000	9,890,000
7	Tverskaya Plaza Ib	3,390,000	3,560,000	*-5%*	3,390,000	3,560,000
	Total	**742,590,000**	**817,880,628**	***-9%***	**742,590,000**	**818,060,000**
Investment property under development						
8	Tverskaya Plaza IV	54,000,000	67,000,000	*-19%*	54,000,000	67,000,000
9	Tverskaya Plaza Ic	61,100,000	66,300,000	*-8%*	61,100,000	66,300,000
10	Kossinskaya	25,700,000	28,700,000	*-10%*	25,700,000	28,700,000
11	Starokaluzhskoye shosse	1,080,000	1,240,000	*-13%*	1,080,000	1,240,000
	Total	**141,880,000**	**163,240,000**	***-13%***	**141,880,000**	**163,240,000**
Trading property & Trading property under development						
13	AFI Residence Paveletskaya	n/a	n/a	-	53,204,937	114,983,691
14	Odinburg	n/a	n/a	-	90,326,793	108,815,920
15	Bolshaya Pochtovaya	n/a	n/a	-	75,556,973	84,336,992
16	Botanic Garden	n/a	n/a	-	77,835,579	50,364,056
17	Ozerkovskaya II	n/a	n/a	-	958,253	2,027,075
	Total	**-**	**-**	**-**	**297,882,536**	**360,527,734**
Hotels						
18	Plaza Spa Hotel Kislovodsk	n/a	n/a	-	40,841,822	44,942,392
19	Aquamarine Hotel	n/a	n/a	-	12,986,550	15,750,733
20	Plaza Spa Hotel Zheleznovodsk	n/a	n/a	-	9,575,647	11,774,505
21	Park Plaza hotel Kislovodsk	n/a	n/a	-	3,549,859	4,240,732
	Total	**-**	**-**	**-**	**66,953,879**	**76,708,362**
	Grand Total	**884,470,000**	**981,120,628**	***-10%***	**1,249,306,414**	**1,418,536,096**

Principal Business Risks and Uncertainties Affecting the Company

Risk management framework

The Board of Directors is ultimately responsible for the establishment and oversight of the Company's risk management framework as well as 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 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

In February 2018 the Board of Directors approved a new cash management and investment policy allowing the Company to invest 20% of its available cash into medium and high risk instruments, including externally managed investment products. 80% of available cash is invested into bank deposits and money market to guarantee liquidity.

The management monitors liquidity of the Company daily. The Board reviews and discusses the investment portfolio on quarterly basis.

Guarantees

The Company's policy is to provide financial guarantees 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.

All of AFI Development guarantees under a loan facility agreement of Bellgate Constructions Limited (AFIMALL City), Krown Investments LLC (Ozerkovskaya III) and OJSC MKPK (AFI Residence Paveletskaya) were terminated in 2018 due to repayment of debt. As at 31 December 2018, there were no outstanding guarantees.

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 foreign currency exchange rates, interest rates and equity prices. We do not use financial instruments, such as foreign exchange forward contracts, foreign currency options and forward rate agreements, to manage these market risks.

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 2018, 73 % of our financial liabilities were fixed rate. For more detail see note 32 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, Russian Rouble and the Euro.

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 priority is to meet construction and delivery schedule of residential premises to customers. [To preserve once received construction rights the Company is obliged to accomplish construction within a pre-set time schedule.] The Company owns a number of valid building permits and is exposed to the risk of construction rights loss in case of breach of construction time schedule.

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.

Renovation Programme

The launch of the municipal "Renovation Programme" in Moscow will create a large new state-owned player mainly in the economy and comfort-class segments. Due to significant uncertainty, currently existing on the market, as for further evolvement of this programme, the Company's management along with other market players believe that the programme can have a significant influence on the Moscow housing market. For details on the "Renovation Programme" please refer to the Market Update section above.

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 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 recognising 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

During 2018, the Company had one related party transaction, as defined in the UK Listing Rules:

On 29th August 2018 the Board of Directors of the Company approved granting of a loan in the maximum amount of EUR 5 million to Grosolim Ltd, a company controlled by Mr Leviev. The loan is to be provided at Euribor + 5.2% annual interest rate, the interest will be paid quarterly while the principal amount will be paid at 5-year maturity. The loan is secured by a personal guarantee of Mr Lev Leviev. In September 2018 one drawdown of this loan in the amount of EUR1 million was made On 12 April 2019 the Company received the repayment of total outstanding amount of the loan including accrued interest.

AFI DEVELOPMENT PLC

REPORT AND FINANCIAL STATEMENTS

For the year ended 31 December 2018

AFI DEVELOPMENT PLC

FINANCIAL STATEMENTS

For the year ended 31 December 2018

C O N T E N T S

AFI DEVELOPMENT PLC

BOARD OF DIRECTORS AND PROFESSIONAL ADVISERS

Board of Directors	Elias Ebrahimpour – Chairman (appointed on 1 January 2019) Lev Leviev – Chairman (resigned on 31th August 2018) Mark Groysman (appointed on 1st September 2018 and resigned on 1 December 2018) Avraham Noach Novogrocki (appointed on 1 December 2018) Panayiotis Demetriou David Tahan (resigned on 1 January 2019)
Secretary	Fuamari Secretarial Limited
Independent Auditors	KPMG Limited
Bankers	Joint Stock Company VTB Bank Joint Stock Commercial Savings Bank of the Russian Federation (Sberbank) Otkritie FC Bank VP Bank (Switzerland) Ltd
Registered Office	Spyrou Araouzou 165, Lordos Waterfront Building, 3035 Limassol, Cyprus

AFI DEVELOPMENT PLC

MANAGEMENT REPORT

The Board of Directors of AFI Development Plc (the "Company") presents to the members its management report together with the audited consolidated financial statements of the Company for the year ended 31 December 2018.

PRINCIPAL ACTIVITY 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.

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 2018, the Company's portfolio consisted of 7 investment properties, 4 investment properties under development, 4 trading properties under construction, 2 trading properties and 4 hotel projects.

FINANCIAL RESULTS

The Group's results are set out in the consolidated income statement on page 13. The profit of the Group for the year before taxation amounted to US$42,084 thousand (2017: US$29,327 thousand). The profit after taxation attributable to the Group's owners amounted to US$31,510 thousand (2017: loss US$4,918 thousand).

DIVIDENDS

The Board of Directors does not recommend the payment of a dividend and the profit 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 32 of the consolidated financial statements.

AFI DEVELOPMENT PLC

MANAGEMENT REPORT

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 is in a position to generate enough cash to cover its working capital requirements and debt service obligations in order 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 TO 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. For the financial year 2018, the Company applied the UK Corporate Governance Code published in April 2016 (the “Code”), on which the Company reported in its 2018 Annual report. The Company is applying the UK Corporate Governance Code published in July 2018 to the financial year 2019 and will report on this in next year’s Annual Report.

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 recommended by section A.3.1 of the Code) by virtue of the fact that he was, until 31st August 2018, an Executive Chairman while being, indirectly, a major shareholder of the Company. Mr Leviev holds a controlling stake in Flotonic Limited, the major shareholder of the Company. The directors had considered Mr Leviev to be a key member of the Company's leadership during his period in office and greatly valued his oversight and management role. It should be noted that Mr Leviev resigned from his position on the Board on 31 August 2018.

AFI DEVELOPMENT PLC

MANAGEMENT REPORT

PARTICIPATION OF DIRECTORS IN THE COMPANY'S SHARE CAPITAL

None of the Directors holds shares of the Company directly. Mr Lev Leviev, a former Executive Chairman of the Board, holds 64.88% indirectly through Flotonic Limited as described in detail in note 33 "Group Composition".

BRANCHES

The Group operates six branches and/or representative offices of Cypriot, BVI and Luxembourg entities in the Russian Federation. These are Bellgate Construction Ltd branch, which operates AFIMALL City project, Amerone Ltd branch, Bugis Finance branch, Aquamare Uno Ltd branch and Triumvirate I S.a r.I branch hold investment properties under development projects 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 2018 and at the date of this report are shown on page 1. The Directors' date of appointment or resignation, if applicable, is indicated on page 1. The term of those that have not resigned will expire on the date of the next annual general meeting of the shareholders but all of them are eligible for re-election. There were no significant changes in the assignment of responsibilities of the Board of Directors during the current year. Remuneration of Board of Directors is disclosed in note 38.

OPERATING ENVIRONMENT OF THE COMPANY

Any significant events that relate to the operating environment of the Company are described in note 32 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 39 of the consolidated financial statements.

RELATED PARTY TRANSACTIONS

Disclosed in note 38 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

Fuamari Secretarial Limited
Secretary

Nicosia, 15 April 2019

AFI DEVELOPMENT PLC

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 2018, the names of which are listed below, confirm that, to the best of our knowledge:

a) The consolidated financial statements:

(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:

Non-executive independent directors

Elias Ebrahimpour – Chairman ....

Panayiotis Demetriou ....

Avraham Noach Novogrocki ....

Company officers:

Chief executive officer

Mark Groysman ....

Chief financial officer

Alexey Miroshnikov ....

15 April 2019

INDEPENDENT AUDITORS' REPORT

TO THE MEMBERS OF

AFI DEVELOPMENT PLC

Report on the audit of the consolidated financial statements and the separate financial statements

Opinion

We have audited the accompanying financial statements of AFI Development Plc ("the Company") and its subsidiaries (the "Group"), and the separate financial statements of AFI Development Plc (the "Company"), which are presented on pages 12 to 113 and comprise the consolidated statement of financial position and the statement of financial position of the Company as at 31 December 2018, and the consolidated statements of income statement, comprehensive income, changes in equity and cash flows and the statements of income statement, comprehensive income, changes in equity and cash flows of the Company for the year then ended, and notes to the financial statements, including 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 Company as at 31 December 2018, 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 consolidated financial statements and separate financial statements" section of our report. We remained independent of the Group and Company throughout the period of our appointment 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.

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.

<table>
<tr><td colspan="2">Valuation of properties</td></tr>
<tr><td colspan="2">See Notes 16 and 17 to the consolidated financial statements</td></tr>
<tr><td>The key audit matter</td><td>How the matter was addressed in our audit</td></tr>
<tr><td>The Group’s properties include investment property portfolio of US$742,590 thousand and investment property under development portfolio of US$141,880 thousand together representing 62% of the Group’s total assets as at 31 December 2018. 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 properties under development, factors also include projected costs to complete and timing until completion.
The existence of significant estimation uncertainty, which could result in a material misstatement, warrants specific audit focus in this area.</td><td>Our audit procedures included evaluating the competence, capability, and objectivity of the Group’s external property valuers, while considering fee arrangements for other engagements between the valuers and the Group 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 management. For properties under development we assessed the consistency of the outstanding construction costs supplied to the valuers to the Group’s project budget. We assessed, on a sample basis, 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 challenged various key inputs such as discount, vacancy and exit capitalisation rates used on a sample of properties within the property portfolio.</td></tr>
</table>

Other Information

The Board of Directors is responsible for the other information. The other information comprises the management report, the preliminary statement of results, the chairman's statement, the management discussion and analysis of financial condition and results of operations and the annual report which includes the corporate governance statement and the corporate social responsibility statement but does not include the consolidated and separate financial statements and our auditor's report thereon.

Our opinion on the consolidated and separate 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 and separate financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the consolidated and separate financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed on other information that we obtained prior to the date of this auditor's report, we conclude that there is a material misstatement of this other information, we are required to report that fact.

With regards to preliminary statement of results, the chairman's statement, the management discussion and analysis of financial condition and results of operations, the annual report and the corporate social responsibility statement we have nothing to report.

With regards to the management report and the corporate governance statement, our report is presented in the "Report on other legal and regulatory requirements" section.

Responsibilities of the Board of Directors and those charged with governance 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 Group's and 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 and/ or the Group or to cease operations, or there is no realistic alternative but to do so.

The Board of Directors and those charged with governance are 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:

- 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 the 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 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 financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves true and fair view.

- Obtain sufficient appropriate evidence regarding the financial information of the entities or the business activities of the Group and the Company to express an opinion on the consolidated and separate financial statements. We are responsible for the direction, supervision and performance of the Group and Company audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance 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 those charged with governance 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 those charged with governance, 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.

Report on other legal and regulatory requirements

Other regulatory requirements

Pursuant to the requirements of Article 10(2) of European Union (EU) Regulation 537/2014 we provide the following information in our Independent Auditors' Report, which is required in addition to the requirements of ISAs.

Date of our appointment and period of engagement

We were reappointed as auditors on 20 December 2018 by the General Meeting of the Company's members to audit the consolidated and separate financial statements of the Group and the Company for the year ended 31 December 2018. Our total uninterrupted period of engagement is 18 years, covering the periods ending 31 December 2001 to 31 December 2018.

Consistency of auditor's report to the additional report to the Audit Committee

We confirm that our audit opinion is consistent with the additional report presented to the Audit Committee dated 10 April 2019.

Provision of Non-audit Services ("NAS")

We have not provided any prohibited NAS referred to in Article 5 of EU Regulation 537/2014 as applied by Section 72 of the Auditors Law of 2017, L.53(I)2017, as amended from time to time ("Law L.53(I)/2017").

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 legal requirements

Pursuant to the additional requirements of law L.53(I)2017, and based on the work undertaken in the course of our audit, we report the following:

- In our opinion, the management report, 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 consolidated financial statements.
- In the light of the knowledge and understanding of the business and the Group's environment obtained in the course of the audit, we have not identified material misstatements in the management report.
- In our opinion, the information included in the corporate governance statement in accordance with the requirements of subparagraphs (iv) and (v) of paragraph 2(a) of Article 151 of the Companies Law, Cap. 113, and which is published on the Company's website, has been prepared in accordance with the requirements of the Companies Law, Cap, 113, and is consistent with the consolidated financial statements.
- In our opinion, the corporate governance statement includes all information referred to in subparagraphs (i), (ii), (iii), (vi) and (vii) of paragraph 2(a) of Article 151 of the Companies Law, Cap. 113.

Other Matter

This report, including the opinion, has been prepared for and only for the Company's members as a body in accordance with Article 10(1) of the EU Regulation 537/2014 and Section 69 of Law L.53(I)/2017 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 Marios G. Gregoriades.

Marios G. Gregoriades, CPA
Certified Public Accountant and Registered Auditor

For and on behalf of

KPMG Limited
Certified Public Accountants and Registered Auditors
14 Esperidon Street
1087 Nicosia, Cyprus

15 April 2019

AFI DEVELOPMENT PLC

CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

C O N T E N T S

AFI DEVELOPMENT PLC

CONSOLIDATED INCOME STATEMENT

For the year ended 31 December 2018

	Note	2018 US$ '000	2017 US$ '000
Revenue	8	296,043	179,051
Other income	9	3,272	3,819
Operating expenses	10	(63,364)	(57,054)
Carrying value of trading properties sold	21,22	(136,485)	(58,404)
Administrative expenses	11	(5,524)	(6,005)
Other expenses	12	(4,542)	(2,386)
Total expenses		(209,915)	(123,849)
Share of the after tax profit of joint ventures		-	1,957
Gross Profit		89,400	60,978
Gain on 100% acquisition of previously held interest in a joint venture	34	-	7,532
(Loss)/profit on disposal of investment property	16	-	(3,934)
(Decrease)/increase in fair value of properties	16,17	(11,494)	11,570
Impairment loss on properties		-	(9,548)
Net valuation gain/(loss) on properties		(11,494)	2,022
Results from operating activities		77,906	66,598
Finance income		1,635	13,119
Finance costs		(37,457)	(50,390)
Net finance costs	13	(35,822)	(37,271)
Profit before tax		42,084	29,327
Tax expense	14	(10,547)	(33,991)
Profit/(loss) for the year		31,537	(4,664)
Profit/(loss) attributable to:			
Owners of the Company		31,510	(4,918)
Non-controlling interests		27	254
		31,537	(4,664)
Earnings per share			
Basic and diluted earnings per share (cent)	15	3.01	(0.47)

The notes on pages 19 to 86 are an integral part of these consolidated financial statements.

AFI DEVELOPMENT PLC

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2018

	2018 US$ '000	2017 US$ '000
Profit/(loss) for the year	31,537	(4,664)
Other comprehensive (expense)/income		
Items that are or may be reclassified subsequently to profit or loss		
Realised translation difference on 100% acquisition of previously held interest in a joint venture transferred to income statement	-	(4,271)
Foreign currency translation differences for foreign operations	(70,945)	14,295
Other comprehensive income for the year	(70,945)	10,024
Total comprehensive (expense)/income for the year	(39,408)	5,360
Total comprehensive (expense)/income attributable to:		
Owners of the Company	(39,443)	5,126
Non-controlling interests	35	234
	(39,408)	5,360

The notes on pages 19 to 86 are an integral part of these consolidated financial statements.

AFI DEVELOPMENT PLC

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2018

	Attributable to the owners of the Company						Non-controlling interests	Total equity
	Share capital US$ '000	Share premium US$ '000	Capital reserve US$ '000	Translation reserve US$ '000	Accumulated losses US$ '000	Total US$ '000	US$ '000	US$ '000
Balance at 1 January 2017	1,048	1,763,409	(9,201)	(311,331)	(667,801)	776,124	(3,827)	772,297
Total comprehensive income/(expense) for the period								
Loss for the period	-	-	-	-	(4,918)	(4,918)	254	(4,664)
Other comprehensive income	-	-	-	10,044	-	10,044	(20)	10,024
Total comprehensive income/(expense) for the period	-	-	-	10,044	(4,918)	5,126	234	5,360
Transactions with owners of the Company Contributions and distributions								
Acquisition of non-controlling interests (note 35)	-	-	(10,132)	-	-	(10,132)	3,422	(6,710)
Balance at 31 December 2017	1,048	1,763,409	(19,333)	(301,287)	(672,719)	771,118	(171)	770,947
Balance at 1 January 2018 as reported previously	1,048	1,763,409	(19,333)	(301,287)	(672,719)	771,118	(171)	770,947
Adjustment on initial application of IFRS 15 net of tax	-	-	-	581	13,885	14,466	73	14,539
Adjusted balance at 1 January 2018	1,048	1,763,409	(19,333)	(300,706)	(658,834)	785,584	(98)	785,486
Total comprehensive income for the period								
Profit for the period	-	-	-	-	31,510	31,510	27	31,537
Other comprehensive income	-	-	-	(70,953)	-	(70,953)	8	(70,945)
Total comprehensive income for the period	-	-	-	(70,953)	31,510	(39,443)	35	(39,408)
Balance at 31 December 2018	1,048	1,763,409	(19,333)	(371,659)	(627,324)	746,141	(63)	746,078

The notes on pages 19 to 86 are an integral part of these consolidated financial statements.

AFI DEVELOPMENT PLC

CONSOLIDATED STATEMENT OF FINANCIAL POSITION AS AT 31 DECEMBER 2018

	Note	2018 US$ '000	2017 US$ '000
Assets			
Investment property	16	742,590	818,060
Investment property under development	17	141,880	163,240
Property, plant and equipment	18	67,868	77,633
Long-term loans receivable	19	2,811	1,669
Intangible assets		230	204
VAT recoverable	20	51	48
Other investments	23	5,244	-
Non-current assets		960,674	1,060,854
Trading properties	21	19,082	10,792
Trading properties under construction	22	278,800	349,735
Other investments	23	11,168	10,515
Inventories		1,120	1,318
Short-term loans receivable	19	578	1,090
Trade and other receivables	24	54,569	70,402
Current tax assets		4,431	4,114
Cash and cash equivalents	25	89,003	95,468
Current assets		458,751	543,434
Total assets		1,419,425	1,604,288
Equity			
Share capital	26	1,048	1,048
Share premium	26	1,763,409	1,763,409
Translation reserve	26	(371,659)	(301,287)
Capital reserve	26	(19,333)	(19,333)
Accumulated losses		(627,324)	(672,719)
Equity attributable to owners of the Company		746,141	771,118
Non-controlling interests	35	(63)	(171)
Total equity		746,078	770,947
Liabilities			
Long-term loans and borrowings	27	487,348	492,484
Deferred tax liabilities	28	54,772	42,652
Deferred income	31	11,964	12,641
Non-current liabilities		554,084	547,777
Short-term loans and borrowings	27	16,433	86,775
Trade and other payables	29	37,378	65,106
Advances from customers	30	65,407	123,766
Current tax liabilities		45	9,917
Current liabilities		119,263	285,564
Total liabilities		673,347	833,341
Total equity and liabilities		1,419,425	1,604,288

The consolidated financial statements were approved by the Board of Directors on 15 April 2019.

....	....
Elias Ebrahimpour	Avraham Noach Novogrocki
Chairman	Director

The notes on pages 19 to 86 are an integral part of these consolidated financial statements.

AFI DEVELOPMENT PLC

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2018

	Note	2018 US$'000	2017 US$'000
Cash flows from operating activities			
Loss for the year		31,537	(4,664)
Adjustments for:			
Depreciation	18	899	846
Net finance costs	13	34,568	36,549
(Increase)/decrease in fair value of properties	16,17	11,494	(11,570)
Impairment loss on properties	22	-	9,548
Share of profit in joint ventures	34	-	(1,957)
Gain on 100% acquisition of previously held interest in a joint venture		-	(7,532)
Loss on disposal of investment property		-	3,934
Tax expense/(benefit)	14	10,547	33,991
		89,045	59,145
Change in trade and other receivables		15,403	(2,407)
Change in inventories		(31)	(217)
Change in trading properties and trading properties under construction	21,22	(32,150)	(36,734)
Change in advances and amounts payable to builders of trading properties under construction		(5,363)	(1,613)
Changes in advances from customers		30,309	68,843
Change in trade and other payables		(22,332)	23,164
Change in VAT recoverable on trading		2,630	(3,975)
Change in deferred income		1,643	1,610
Cash generated from operating activities		79,154	107,816
Taxes paid		(14,716)	(3,081)
Net cash from operating activities		64,438	104,735
Cash flows from investing activities			
Acquisition of subsidiary net of cash acquired	34	-	(786)
Proceeds from sale of other investments	23	12,977	11,825
Proceeds from disposal of investment property		-	114,588
Proceeds from sale of property, plant and equipment		150	137
Interest received		1,169	631
Change in advances and amounts payable to builders		(1,591)	3,495
Payments for construction of investment property under development	17	(5,691)	(4,865)
Payments for the acquisition/renovation of investment property	16	(793)	(998)
Change in VAT recoverable on construction		65	(1,565)
Acquisition of intangible assets		(880)	(200)
Acquisition of property, plant and equipment	18	(1,596)	(484)
Acquisition of other investments	23	(20,995)	(16,408)
Payments for loan receivable		(6,477)	(3,851)
Proceeds from repayment of loans receivable		5,857	4,345
Net cash from investing activities		(17,805)	105,864

The notes on pages 19 to 86 are an integral part of these consolidated financial statements.

AFI DEVELOPMENT PLC

CONSOLIDATED STATEMENT OF CASH FLOWS (CONTINUED)

For the year ended 31 December 2018

	Note	2018 US$'000	2017 US$'000
Cash flows from financing activities			
Acquisition of non-controlling interests		-	(1,369)
Proceeds from loans and borrowings		586,072	43,648
Repayment of loans and borrowings		(605,779)	(117,442)
Interest paid		(31,060)	(50,108)
Net cash used in financing activities		(50,767)	(125,271)
Effect of exchange rate fluctuations		(2,331)	(479)
Net (decrease)/increase in cash and cash equivalents		(6,465)	84,849
Cash and cash equivalents at 1 January		95,468	10,619
Cash and cash equivalents at 31 December	25	89,003	95,468

The notes on pages 19 to 86 are an integral part of these consolidated financial statements.

AFI DEVELOPMENT PLC

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

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. 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 as presented in note 33 "Group Composition".

2. BASIS OF ACCOUNTING

i. Going concern basis of accounting

Macroeconomic environment was challenging in 2018. The Rouble weakened significantly versus the dollar towards the end of 2018, the Central Bank of Russia has increased its key lending rate in December 2018 and the United States' Office of Foreign Assets Control imposed strict blocking sanctions on April 6, 2018. In addition to that, legislation and tax changes affecting real estate sector will be effective in 2019. At the same time the Russian economy is expected to grow at moderate rates.

Despite the challenging operating environment, the Group has recognised a profit after tax of US$31.5 million for the twelve month period ended 31 December 2018. Its cash and cash equivalents and marketable securities remained stable at circa US$100.2 million. Its current liabilities decreased to US$16.4 million due to the repayment of Ozerkovskaya III loan in January 2018.

Management estimates that the Group will continue to generate sufficient operating cash flows from yielding properties such as AFIMall, the hotels and BC Ozerkovskaya III so as to meet loan interest and principal payments of the refinanced loan and new loans. The management succeeded in reducing debt and refinancing loans in Euro, decreasing the interest rates by 2%, which in turn resulted in a total decrease of finance cost by 13 bps. This will enable the Company to repay the principal when it falls due and to secure stable operational existence for the foreseeable future.

Based on cash flow projection for following 12 month period, the management reached a reasonable conclusion that the Group is in a position to secure further financing for its projects under construction by sales proceeds and to generate enough cash to cover its working capital requirements in order to continue its operations in the foreseeable future.

2. BASIS OF ACCOUNTING (continued)

i. Going concern basis of accounting (continued)

Considering all the above conditions and assumptions, the management concluded that the Group had adequate resources to continue in operational existence for the foreseeable future and adopted the going concern basis in preparing the consolidated financial statements.

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 15 April 2019.

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 8 – revenue recognition: (i) whether revenue from pre-sale contracts with buyers of residential development units (flats, parking, commercial premises) is recognised over time or at a point in time, (ii) whether the price of these contracts contains element of significant finance component.
- Note 36 – lease classification

Assumptions and estimation uncertainties

Information about assumptions and estimation uncertainties at 31 December 2018 that have a significant risk of resulting in a material adjustment to the carrying amounts of assets and liabilities in the next financial year is included in the following notes:

- Note 22 – lower of cost and net realisable value of trading properties under construction
- Note 8(C) - revenue recognition: timing of satisfaction of performance obligation and measurement of significant finance component
- Note 14 – provision for tax liabilities
- Note 28 – utilisation of tax losses

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.

3. USE OF JUDGEMENTS AND ESTIMATES (continued)

Assumptions and estimation uncertainties (continued)

Measurement of fair values (continued)

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 16 – investment property
- Note 17 – investment property under development
- Note 32 – financial instruments

4. STANDARDS ISSUED BUT NOT YET EFFECTIVE

Adoption of new and revised International Financial Reporting Standards and Interpretations as adopted by the European Union (EU)

As from 1 January 2018, the Group adopted all changes to International Financial Reporting Standards (IFRSs) as adopted by the EU which are relevant to its operations. This adoption did not have a material effect on the consolidated financial statements except for the adoption of IFRS 15 "Revenue from contracts with customers" (see note 5).

The following Standards, Amendments to Standards and Interpretations have been issued by International Accounting Standards Board ("IASB") but are not yet effective for annual periods beginning on 1 January 2018. Those which may be relevant to the Group are set out below. The Group does not plan to adopt these Standards early.

Standards and Interpretations adopted by the EU

- IFRS 16 "Leases" (effective for annual periods beginning on or after 1 January 2019), see below for the impact.

- IFRS 9 (Amendments) "Prepayment Features with Negative Compensation" (effective for annual periods beginning on or after 1 January 2019)
  In October 2017, the IASB issued "Prepayment Features with Negative Compensation (Amendments to IFRS 9)". The amendments address the issue that under pre-amended IFRS 9, financial assets with such features would probably not meet the SPPI criterion and as such would be measured at fair value through profit or loss. The IASB believes that this would not be appropriate because measuring them at amortised cost provides useful information about the amount, timing and uncertainty of their future cash flows. Financial assets with these prepayment features can therefore be measured at amortised cost or fair value through other comprehensive income provided that they meet the other relevant requirements of IFRS 9. The final amendments also contain a clarification in the accounting for a modification or exchange of a financial liability measured at amortised cost that does not result in the derecognition of the financial liability. Based on the clarification, an entity recognises any adjustment to the amortised cost of the financial liability arising from a modification or exchange in profit or loss at the date of the modification or exchange.
  The Group is currently evaluating the expected impact of adopting the amendments on its financial statements. As such, the expected impact of the amendments is not yet known or reasonably estimable.

- IFRIC 23 "Uncertainty over Income Tax Treatments" (effective for annual periods beginning on or after 1 January 2019).
  IFRIC 23 clarifies the accounting for income tax treatments that have yet to be accepted by tax authorities, whilst also aiming to enhance transparency. The key test is whether it is probable that the tax authority will accept the chosen tax treatment, on the assumption that tax authorities will have full knowledge of all relevant information in assessing a proposed tax treatment. The uncertainty is reflected using the measure that provides the better prediction of the resolution of the uncertainty being either the most likely amount or the expected value. The interpretation also requires companies to reassess the judgements and estimates applied if facts and circumstances change. IFRIC 23 does not introduce any new disclosures but reinforces the need to comply with existing disclosure requirements in relation to judgements made, assumptions and estimates used, and the potential impact of uncertainties that are not reflected.
  The Group is currently evaluating the expected impact of adopting the interpretation on its financial statements. As such, the expected impact of the interpretation is not yet known or reasonably estimable.

4. STANDARDS ISSUED BUT NOT YET EFFECTIVE (continued)

Standards and Interpretations adopted by the EU (continued)

- Annual Improvements to IFRSs 2015-2017 Cycle (effective for annual periods beginning on or after 1 January 2019).
  In December 2017, the IASB published Annual Improvements to IFRSs 2015–2017 Cycle, containing the following amendments to IFRSs:
  IFRS 3 "Business Combinations" and IFRS 11 "Joint Arrangements". The amendments to IFRS 3 clarify that when an entity obtains control of a business that is a joint operation, then the transaction is a business combination achieved in stages and the acquiring party remeasures the previously held interest in that business at fair value. The amendments to IFRS 11 clarify that when an entity maintains (or obtains) joint control of a business that is a joint operation, the entity does not remeasure previously held interests in that business.
  IAS 12 "Income Taxes": the amendments clarify that all income tax consequences of dividends (i.e. distribution of profits) are recognised consistently with the transactions that generated the distributable profits – i.e. in profit or loss, OCI or equity.
  IAS 23 "Borrowing Costs": the amendments clarify that if any specific borrowing remains outstanding after the related asset is ready for its intended use or sale, that borrowing becomes part of the funds that an entity borrows generally when calculating the capitalisation rate on general borrowings.

  The Group is currently evaluating the expected impact of adopting the improvements on its financial statements. As such, the expected impact of the improvements is not yet known or reasonably estimable.

Standards and Interpretations not adopted by the EU

- "Amendments to References to the Conceptual Framework in IFRS Standards" (effective for annual periods beginning on or after 1 January 2020).
  In March 2018 the IASB issued a comprehensive set of concepts for financial reporting, the revised "Conceptual Framework for Financial Reporting" (Conceptual Framework), replacing the previous version issued in 2010. The main changes to the framework's principles have implications for how and when assets and liabilities are recognised and derecognised in the financial statements, while some of the concepts in the revised Framework are entirely new (such as the "practical ability" approach to liabilities"). To assist companies with the transition, the IASB issued a separate accompanying document "Amendments to References to the Conceptual Framework in IFRS Standards". This document updates some references to previous versions of the Conceptual Framework in IFRS Standards, their accompanying documents and IFRS Practice Statements.

- IFRS 3 "Business Combinations" (amendments): Definition of a Business (effective for annual periods beginning on or after 1 January 2020).
  The amendments narrow and clarify the definition of a business. They also permit a simplified assessment of whether an acquired set of activities and assets is a group of assets rather than a business. The amended definition emphasises that the output of a business is to provide goods and services to customers, whereas the previous definition focused on returns in the form of dividends, lower costs or other economic benefits to investors and others. In addition to amending the wording of the definition, the Board has provided supplementary guidance. Distinguishing between a business and a group of assets is important because an acquirer recognises goodwill only when acquiring a business.

4. STANDARDS ISSUED BUT NOT YET EFFECTIVE (continued)

Standards and Interpretations not adopted by the EU (continued)

- IAS 1 and IAS 8 (amendments): Definition of Material (effective for annual periods beginning on or after 1 January 2020).
  The amendments clarify and align the definition of 'material' and provide guidance to help improve consistency in the application of that concept whenever it is used in IFRS Standards. The amendments include definition guidance that until now has featured elsewhere in IFRS Standards. In addition, the explanations accompanying the definition have been improved. Finally, the amendments ensure that the definition of material is consistent across all IFRS Standards. Old definition: Omissions or misstatements of items are material if they could, individually or collectively, influence the economic decisions that users make on the basis of the financial statements (IAS 1 Presentation of Financial Statements). New definition: Information is material if omitting, misstating or obscuring it could reasonably be expected to influence the decisions that the primary users of general purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity.

- IFRS 10 (Amendments) and IAS 28 (Amendments) "Sale or Contribution of Assets between an Investor and its Associate or Joint Venture" (effective date postponed indefinitely).
  The amendments address an acknowledged inconsistency between the requirements in IFRS 10 and those in IAS 28, in dealing with the sale or contribution of assets between an investor and its associate or joint venture. The main consequence of the amendments is that a full gain or loss is recognised when a transaction involves a business (as defined in IFRS 3). A partial gain or loss is recognised when a transaction involves assets that do not constitute a business. In December 2015, the IASB postponed the effective date of this amendment indefinitely pending the outcome of its research project on the equity method of accounting.

The Group is currently evaluating the expected impact of adopting the amendments on its financial statements. As such, the expected impact of the improvements is not yet known or reasonably estimable.

Of those standards that are not yet effective, IFRS 16 is expected to have a material impact on the Company's financial statements in the period of initial application.

Estimated impact of the adoption of IFRS 16 "Leases"

The Group is required to adopt IFRS 16 "Leases" from 1 January 2019. The Group has assessed the estimated impact that the initial application of IFRS 16 will have on its consolidated financial statements, as described below. The estimated impact of the adoption of this standard on the Group's equity as at 1 January 2019 is based on assessment undertaken to date and is summarised below. The actual impact of adopting the standard at 1 January 2019 may change because the new accounting policy is subject to change until the Group presents its first financial statements that include the date of initial application.

The standard introduces a single, on-balance sheet lease 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 recognition 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.

4. STANDARDS ISSUED BUT NOT YET EFFECTIVE (continued)

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.

A. Leases in which the Group is a lessee

The Group will recognise new assets and liabilities for its leases of land. The nature of expenses related to those leases will now change because the Group will recognise a depreciation charge for right-of-use assets, other than those classified as investment property and investment property under development under fair value model, and interest expense on lease liabilities. The depreciation charge related to right-of-use assets arising from land lease under trading properties under development will be capitalised as an addition to its cost.

Currently, the Group recognises operating lease expense on a straight-line basis over the term of the lease, and recognises assets or liabilities only to the extent that there is a timing difference between actual lease payments and the expense recognised.

Based on the information currently available, the Group estimates that it will recognise lease liabilities of US$ 20,667 thousand, increase in investment property and investment property under development carrying amounts of US$ 9,084 thousand and right-of-use assets of US$ 7,804 thousand as at 1 January 2019, with overall effect on retained earnings/accumulated losses of US$ 3,780 thousand at the same date.

B. Leases in which the Group is a lessor

No impact is expected for leases in which the Group is a lessor.

C. Transition

The Group plans to apply IFRS 16 initially on 1 January 2019, using modified retrospective approach. Therefore, the cumulative effect of adopting IFRS 16 will be recognised as an adjustment to the opening balance of retained earnings at 1 January 2019, with no restatement of comparative information.

5. CHANGES IN SIGNIFICANT ACCOUNTING POLICIES

The Group has initially applied IFRS 15 Revenue from Contracts with Customers from 1 January 2018 (see A). A number of other new standards, including IFRS 9 Financial Instruments (see B), are also effective from 1 January 2018 but they do not have a material effect on the Group's financial statements.

A. IFRS 15 Revenue from Contracts with Customers

Due to the transition method chosen by the Group in applying this standard, comparative information throughout these financial statements has not been restated to reflect the requirements of this standard.

The effect of initially applying this standard, IFRS 15, is mainly attributed to the following:

- Earlier recognition of revenue from sales of residential properties under DDU contracts (see below)
- Recognition of significant financial component on payments received in advance from customers for residential properties under DDU contracts (see below)

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 related interpretations. Under IFRS 15, revenue is recognised when a customer obtains control of the goods or services. Determining the timing of the transfer of control – at a point in time or over time – requires judgement.

The Group has adopted IFRS 15 using the cumulative effect method (without practical expedients), with the effect of initially applying this standards recognised at the date of initial application (i.e. 1 January 2018). Accordingly, the information presented for 2017, has not been restated, i.e. it is presented, as previously reported, under IAS 18 and related interpretations. Additionally, the disclosure requirements in IFRS 15 have not generally been applied to comparative information.

The following table summarises the impact, net of tax, of transition to IFRS 15 on retained earnings and Non-controlling interests at 1 January 2018.

	Impact of adopting IFRS 15 at 1 January 2018 US$ '000
Retained earnings	
Profit from sales of trading properties before tax	17,357
Related tax	(3,472)
Impact on 1 January 2018	13,885
Non-controlling interests	
Profit from sales of trading properties before tax	91
Related tax	(18)
Impact on 1 January 2018	73
Translation reserve	
Net profit from sales of trading properties	581
Impact on 1 January 2018	581

The following tables summarise the impacts of adopting IFRS 15 on the Group's statement of financial position as at 31 December 2018 and its statement of profit or loss and other comprehensive income for the year then ended for each of the line items affected. There was no material impact on the Group's statement of cash flows for the year ended 31 December 2018.

5. CHANGES IN SIGNIFICANT ACCOUNTING POLICIES (continued)

Impact on the consolidated statement of profit or loss and other comprehensive income

For the year ended 31 December 2018	As reported US$ '000	Adjustments US$ '000	Amounts without adoption of IFRS 15 US$ '000
Revenue	296,043	(95,921)	200,122
Cost of sales of trading properties	(136,485)	82,980	(53,505)
Others	(117,474)	-	(117,474)
Profit before tax	42,084	(12,941)	29,143
Tax expense	(10,547)	2,588	(7,959)
Profit for the year	31,537	(10,353)	21,184
Total comprehensive income for the year	(39,408)	(10,353)	(49,761)

Impact on the consolidated statement of financial position

31 December 2018	As reported US$ '000	Adjustments US$ '000	Amounts without adoption of IFRS 15 US$ '000
Assets			
Trading properties under construction	278,800	123,538	402,338
Others	1,140,625	-	1,140,625
Total assets	1,419,425	123,538	1,542,963
Equity			
Translation reserve	(371,659)	10,544	(361,115)
Retained earnings	(627,324)	(24,238)	(651,562)
Non-controlling interests	(63)	(89)	(152)
Others	1,745,124	-	1,745,124
Total equity	746,078	(13,783)	732,295
Liabilities			
Deferred tax liabilities	54,772	(5,334)	49,438
Advances from customers	65,407	142,655	208,062
Others	553,168	-	553,168
Total liabilities	673,347	137,321	810,668
Total equity and liabilities	1,419,425	123,538	1,542,963

5. CHANGES IN SIGNIFICANT ACCOUNTING POLICIES (continued)

The details of the new accounting policy and the nature of the changes to previous accounting policy in relation to the Group's revenue from sales of trading properties under DDU contracts is set below.

Sales of trading properties under DDU contracts
DDU contracts are advance sale contracts for trading properties which are signed while the development of the respective residential property is still ongoing. Under IAS 18, revenue from these contracts and associated costs were recognised at point in time when risks and rewards of ownership were transferred to the customer (i.e. when act of transfer was signed by both parties). Under IFRS 15, the revenue from the contracts with customers for sale of trading properties under such DDU contracts is recognised over time as the construction progresses. The Group has determined that this results in revenue and associated costs to fulfil the contracts being recognised over time, i.e. before the ownership of flats is actually transferred to the customer. The transaction price for such contract is determined by adjusting the promised amount of consideration which is received in advance, for the effect of significant finance component. The contract liability is presented in the statement of financial position as Advances from customers.

Therefore, for these contracts, revenue is recognised sooner under IFRS 15 than under IAS 18, and also at higher amount due to the effect of significant finance component. The impacts of these changes on items other than revenue are a decrease in Advances from customers, decrease in Trading properties under development, increase in Cost of sales of trading properties, increase in Deferred tax liabilities and Tax expense.

The adoption of IFRS 15 did not have a significant impact on the accounting policies with respect to the other sources of revenue (see note 6).

B. IFRS 9 Financial instruments
IFRS 9 sets out requirements for recognising and measuring financial assets, financial liabilities and some contracts to buy or sell non-financial items. This standard replaces IAS 39 Financial Instruments: Recognition and Measurement.

As a result of the adoption of IFRS 9, the Group has adopted consequential amendments to IAS 1 Presentation of Financial Statements, which require impairment of financial assets to be presented in a separate line item in the statement of profit or loss. Previously, the Group's approach was to include the impairment of trade receivables in administrative expenses. The Group did not reclassify impairment losses amounting to US$ 120 thousand (2018) and US$ 147 thousand (2017) to a separate line in profit or loss in these consolidated financial statements, but presented them in administrative expenses as 'Provision for doubtful debts' because considered such reclassification immaterial.

There is no material effect on the opening retained earnings on 1 January 2018 from the adoption of IFRS 9.

Classification and measurement of financial assets and financial liabilities

IFRS 9 contains three principal classification categories for financial assets: measured at amortised cost, FVOCI and FVTPL. The classification of financial assets under IFRS 9 is generally based on the business model in which a financial asset is managed and its contractual cash flow characteristics. IFRS 9 eliminates the previous IAS 39 categories of held to maturity, loans and receivables and available for sale. IFRS 9 largely retains the existing requirements in IAS 39 for the classification and measurement of financial liabilities.

5. CHANGES IN SIGNIFICANT ACCOUNTING POLICIES (continued)

B. IFRS 9 Financial instruments (continued)

Classification and measurement of financial assets and financial liabilities (continued)

For an explanation of how the Company classifies and measures financial instruments and accounts for related gains and losses under IFRS 9, see note 6.

The measurement of the Group’s financial assets and financial liabilities was not materially affected due to adoption of IFRS 9 and its new measurement categories.

Impairment of financial assets

IFRS 9 replaces the 'incurred loss' model in IAS 39 with an 'expected credit loss' (ECL) model. The new impairment model applies to:

– financial assets measured at amortised cost;
– debt investments at FVOCI;
– contract assets;
– lease receivables;
– loan commitments and financial guarantee contracts issued.

The new impairment model does not apply to investments in equity instruments.

Under IFRS 9, credit losses are recognised earlier than under IAS 39.

For assets in the scope of the IFRS 9 impairment model, impairment losses are generally expected to increase and become more volatile. The Company has determined that the application of IFRS 9 impairment requirements at 1 January 2018 does not result in a material additional allowance for impairment.

6. 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 retained in the former subsidiary is measured at fair value when control is lost.

6. SIGNIFICANT ACCOUNTING POLICIES (continued)

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.

6. SIGNIFICANT ACCOUNTING POLICIES (continued)

Foreign currency (continued)

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 2018	69.4706	20.61
31 December 2017	57.6002	(5.04)
Average rate during:		
Year ended 31 December 2018	62.7078	7.46
Year ended 31 December 2017	58.3529	(12.95)

Financial Instruments

Recognition and initial measurement

Financial assets and financial liabilities are recognised when the Company becomes a party to the contractual provisions of the instrument.

A financial asset (unless it is a trade receivable without a significant financing component) or financial liability is initially measured at fair value plus, for an item not at fair value through profit or loss (FVTPL), transaction costs that are directly attributable to its acquisition or issue. A trade receivable without a significant financing component is initially measured at the transaction price.

Classification and subsequent measurement

Financial assets - policy applicable from 1 January 2018

On initial recognition, a financial asset is classified as measured at: amortised cost, Fair Value through Other Comprehensive income (FVOCI), or Fair Value Trough Profit or Loss (FVTPL).

Financial assets are not reclassified subsequent to their initial recognition unless the Group changes its business model for managing financial assets, in which case all affected financial assets are reclassified on the first day of the first reporting period following the change in the business model.

A financial asset is measured at amortised cost if it meets both of the following conditions and is not designated as at FVTPL:

- it is held within a business model whose objective is to hold assets to collect contractual cash flows; and
- its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

A debt investment is measured at FVOCI if it meets both of the following conditions and is not designated as at FVTPL:

- it is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets; and
- its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

6. SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial Instruments (continued)
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.

Financial assets - Business model assessment: Policy applicable from 1 January 2018
The Group makes an assessment of the objective of the business model in which a financial asset is held at a portfolio level because this best reflects the way the business is managed and information is provided to management. The information considered includes:

- the stated policies and objectives for the portfolio and the operation of those policies in practice. These include whether management's strategy focuses on earning contractual interest income, maintaining a particular interest rate profile, matching the duration of the financial assets to the duration of any related liabilities or expected cash outflows or realising cash flows through the sale of the assets;
- how the performance of the portfolio is evaluated and reported to the Group’s management;
- the risks that affect the performance of the business model (and the financial assets held within that business model) and how those risks are managed;
- how managers of the business are compensated - e.g. whether compensation is based on the fair value of the assets managed or the contractual cash flows collected; and
- the frequency, volume and timing of sales of financial assets in prior periods, the reasons for such sales and expectations about future sales activity.

Transfers of financial assets to third parties in transactions that do not qualify for derecognition are not considered sales for this purpose, consistent with the Group’s continuing recognition of the assets.

Financial assets that are held for trading or are managed and whose performance is evaluated on a fair value basis are measured at FVTPL.

Financial assets - Subsequent measurement and gains and losses: Policy applicable from 1 January 2018

Financial assets at FVTPL	These assets are subsequently measured at fair value. Net gains and losses, including any interest or dividend income, are recognised in profit or loss.
Financial assets at amortised cost	These assets are subsequently measured at amortised cost using the effective interest method. The amortised cost is reduced by impairment losses. Interest income, foreign exchange gains and losses and impairment are recognised in profit or loss. Any gain or loss on derecognition is recognised in profit or loss.
Debt investments at FVOCI	These assets are subsequently measured at fair value. Interest income calculated using the effective interest method, foreign exchange gains and losses and impairment are recognised in profit or loss. Other net gains and losses are recognised in OCI. On derecognition, gains and losses accumulated in OCI are reclassified to profit or loss.
Equity investments at FVOCI	These assets are subsequently measured at fair value. Dividends are recognised as income in profit or loss unless the dividend clearly represents a recovery of part of the cost of the investment. Other net gains and losses are recognised in OCI and are never reclassified to profit or loss.

6. SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial Instruments (continued)

Financial assets - Classification: Policy applicable before 1 January 2018

The Group classified its financial assets into one of the following categories:

- loans and receivables;
- cash and cash equivalents;
- held to maturity;
- available for sale; and
- at FVTPL, and within this category as:
  - held for trading;
  - derivative hedging instruments; or
  - designated as at FVTPL.

Financial assets – Subsequent measurement and gains and losses: Policy applicable before 1 January 2018

Financial assets at FVTPL	Measured at fair value and changes therein, including any interest or dividend income, were recognised in profit or loss.
Held-to-maturity financial assets	Measured at amortised cost using the effective interest method.
Loans and receivables	Measured at amortised cost using the effective interest method.
Available-for-sale financial assets	Measured at fair value and changes therein, other than impairment losses, interest income and foreign currency differences on debt instruments, were recognised in OCI and accumulated in the fair value reserve. When these assets were derecognised, the gain or loss accumulated in equity was reclassified to profit or loss.

Financial liabilities - Classification, subsequent measurement and gains and losses

Financial liabilities are classified as measured at amortised cost or FVTPL. A financial liability is classified as at FVTPL if it is classified as held-for-trading, it is a derivative or it is designated as such on initial recognition. Financial liabilities at FVTPL are measured at fair value and net gains and losses, including any interest expense, are recognised in profit or loss. Other financial liabilities are subsequently measured at amortised cost using the effective interest method. Interest expense and foreign exchange gains and losses are recognised in profit or loss. Any gain or loss on derecognition is also recognised in profit or loss.

6. SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial Instruments (continued)
Derecognition of financial assets and liabilities

Financial assets
The Company derecognises a financial asset (or, where applicable a part of a financial asset or part of a Company of similar financial assets) when:

- the contractual 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 transfers the rights to receive the contractual 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.

Any interest in such derecognised financial assets that is created or retained by the Company is recognised as a separate asset or liability

Financial liabilities
The Company derecognises a financial liability when its contractual obligations are discharged or cancelled, or expire.

The Company also derecognises a financial liability when it is replaced by another from the same lender on substantially different terms, or when the terms of the liability are substantially modified, and the cash flows of the modified liability are substantially different, in which case a new financial liability based on the modified terms is recognised at fair value.

On derecognition of a financial liability, the difference between the carrying amount extinguished and the consideration paid (including any non-cash assets transferred or liabilities assumed) is recognised in profit or loss.

Share capital
Ordinary shares
Incremental costs directly attributable to the issue of ordinary shares are recognised as a deduction from equity. Income tax relating to transaction costs of an equity transaction is accounted for in accordance with IAS 12.

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.

6. SIGNIFICANT ACCOUNTING POLICIES (continued)

Investment Property (continued)
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.

6. SIGNIFICANT ACCOUNTING POLICIES (continued)

Property, plant and equipment (continued)
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.

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.

6. SIGNIFICANT ACCOUNTING POLICIES (continued)

Trading Properties under construction (continued)
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.

Deferred income
Rental deposits received in advance are classified under non-current liabilities as deferred income and comprise of rental income received from tenants at the beginning of the lease contracts as guarantee against future unpaid rent or damages.

Impairment
Non-derivative financial assets

Policy applicable from 1 January 2018
Financial instruments and contract assets
The Group recognises loss allowances for expected credit losses (ECLs) on:
- financial assets measured at amortised cost;
- debt investments measured at FVOCI; and
- contract assets.

The Group measures loss allowances at an amount equal to lifetime ECLs, except for the following, which are measured at 12-month ECLs:
- debt securities that are determined to have low credit risk at the reporting date; and
- other debt securities and bank balances for which credit risk (i.e. the risk of default occurring over the expected life of the financial instrument) has not increased significantly since initial recognition.

Loss allowances for trade receivables and contract assets are always measured at an amount equal to lifetime ECLs.

When determining whether the credit risk of a financial asset has increased significantly since initial recognition and when estimating ECLs, the Group considers reasonable and supportable information that is relevant and available without undue cost or effort. This includes both quantitative and qualitative information and analysis, based on the Group's historical experience and informed credit assessment and including forward-looking information.

The Group assumes that the credit risk on a financial asset has increased significantly if it is more than 30 days past due.

6. SIGNIFICANT ACCOUNTING POLICIES (continued)

Impairment (continued)
Non-derivative financial assets (continued)
Policy applicable from 1 January 2018 (continued)

The Group considers a financial asset to be in default when:
- the borrower is unlikely to pay its credit obligations to the Group in full, without recourse by the Group to actions such as realising security (if any is held); or
- the financial asset is more than 90 days past due.

The Group considers a debt security to have low credit risk when its credit risk rating is equivalent to the globally understood definition of 'investment grade'. The Group considers this to be Baa3 or higher per Moody's rating agency or BBB- or higher per Standard & Poor's Rating Agency.

12-month ECLs are the portion of ECLs that result from default events that are possible within the 12 months after the reporting date (or a shorter period if the expected life of the instrument is less than 12 months).

The maximum period considered when estimating ECLs is the maximum contractual period over which the Group is exposed to credit risk.

Measurement of ECLs
ECLs are a probability-weighted estimate of credit losses. Credit losses are measured as the present value of all cash shortfalls (i.e. the difference between the cash flows due to the entity in accordance with the contract and the cash flows that the Company expects to receive). ECLs are discounted at the effective interest rate of the financial asset.

Credit-impaired financial assets
At each reporting date, the Group assesses whether financial assets carried at amortised cost and debt securities at FVOCI are credit-impaired. A financial asset is 'credit-impaired' when one or more of the following events that have a detrimental impact on the estimated cash flows of the financial asset have occurred.
Evidence that a financial asset is credit-impaired includes the following observable data:
- significant financial difficulty of the borrower or issuer;
- a breach if contract such as default or being more than 90 days past due;
- the restructuring of a loan or advance by the Group on terms that the Group would not consider otherwise;
- it is probable that the borrower will enter bankruptcy or other financial reorganization; or
- the disappearance of an active market for a security because of financial difficulties.

Presentation of allowance for ECL in the statement of financial position
Loss allowances for financial assets measured at amortised cost are deducted from the gross carrying amount of the assets.

For debt securities at FVOCI, the loss allowance is charged to profit or loss and is recognized in OCI.

Write-off
The gross carrying amount of a financial asset is written off when the Group has no reasonable expectations of recovering a financial asset in its entirety or a portion thereof. Financial assets that are written off could still be subject to enforcement activities in order to comply with the Group's procedures for recovery of amounts due.

6. SIGNIFICANT ACCOUNTING POLICIES (continued)

Impairment (continued)
Non-derivative financial assets
Policy applicable before 1 January 2018

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.

6. SIGNIFICANT ACCOUNTING POLICIES (continued)

Impairment (continued)

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.

6. SIGNIFICANT ACCOUNTING POLICIES (continued)

Employee benefits (continued)

Share-based payment transactions (continued)

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

Revenue from contracts with customers

The Group has initially applied IFRS 15 from 1 January 2018. Information about the Group's accounting policies relating to contracts with customers is provided in note 8(C). The effect of initially applying IFRS 15 is disclosed in note 5.

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.

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.

6. SIGNIFICANT ACCOUNTING POLICIES (continued)

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.

6. SIGNIFICANT ACCOUNTING POLICIES (continued)

Income tax (continued)

Deferred tax (continued)

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.

7. 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.
- Development Projects-Commercial projects: Include construction of investment 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.

AFI DEVELOPMENT PLC

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7. OPERATING SEGMENTS (continued)

Reportable segments

	Development projects				**Asset management**		**Hotel Operation**		**Land bank**		**Other**		**Total**	
	Commercial projects		Residential projects											
	2018 US$'000	2017 US$'000	2018 US$'000	2017 US$'000	2018 US$'000	2017 US$'000	2018 US$'000	2017 US$'000	2018 US$'000	2017 US$'000	2018 US$'000	2017 US$'000	2018 US$'000	2017 US$'000
External revenues	1,921	-	169,640	61,971	92,632	85,665	30,854	29,298	42	2,055	4	62	295,093	179,051
Inter-segment revenue	27	-	2	24,241	5,233	5,707	4	4	5	26	8,300	10,195	13,571	40,173
Segment revenue	1,948	-	169,642	86,212	97,865	91,372	30,858	29,302	47	2,081	8,304	10,257	308,664	219,224
Segment (loss) profit before tax	(8,333)	-	29,908	(14,259)	18,493	37,454	5,446	9,360	(2,185)	7,643	(5,373)	(9,171)	37,956	31,027
Interest income	1	-	359	136	673	93	197	145	-	-	-	-	1,230	374
Interest expense	-	-	(358)	(188)	(27,764)	(47,969)	(2,819)	(1,511)	-	-	-	-	(30,941)	(49,668)
Depreciation	-	-	(46)	(49)	(97)	(53)	(675)	(685)	(2)	(3)	(73)	(56)	(893)	(846)
Share of profit of joint-ventures	-	-	-	-	-	-	-	1,957	-	-	-	-	-	1,957
Loss on disposal of properties	-	-	-	-	-	(3,934)	-	-	-	-	-	-	-	(3,934)
Other material non-cash items:														
Impairment loss on properties	-	-	-	(9,548)	-	-	-	-	-	-	-	-	-	(9,548)
Increase/(decrease) in fair value of properties	(9,460)	-	-	(2,163)	(953)	7,041	-	-	(1,081)	6,692	-	-	(11,494)	11,570
Segment assets	118,219	-	359,133	418,891	758,359	866,433	69,577	81,487	52,839	196,326	885	1,270	1,359,012	1,564,407
Capital expenditure	4,561	-	152,842	97,823	536	998	-	-	1,387	4,278	-	-	159,326	103,099
Segment liabilities	453	-	96,405	145,918	520,871	622,352	52,811	61,360	990	1,646	978	1,409	672,508	832,685

7. OPERATING SEGMENTS (continued)

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

	2018 US$'000	2017 US$'000
Revenues		
Total revenue for reportable segments	308,664	219,224
Unallocated revenue	950	-
Elimination of inter-segment revenue	(13,571)	(40,173)
Consolidated revenue	296,043	179,051
Profit before tax		
Total profit/(loss) before tax for reportable segments	37,956	31,027
Unallocated amounts:		
Other profit or loss	4,128	(3,657)
Share of the after tax profit of joint ventures	-	1,957
Consolidated profit/(loss) before tax	42,084	29,327
Assets		
Total assets for reportable segments	1,359,012	1,564,407
Other unallocated amounts	60,413	39,881
Consolidated total assets	1,419,425	1,604,288
Liabilities		
Total liabilities for reportable segments	672,508	832,685
Other unallocated amounts	839	656
Consolidated total liabilities	673,347	833,341

	Reportable segment totals US$'000	**Adjustments** US$'000	**Consolidated totals** US$'000
Other material items 2018			
Interest income	1,230	187	1,417
Interest expense	(30,941)	-	(30,941)
Capital expenditure	159,326	-	159,326
Depreciation	(893)	(6)	(899)
Decrease in fair value of properties	(11,494)	-	(11,494)

7. OPERATING SEGMENTS (continued)

	Reportable segment totals	Adjustments	Consolidated totals
	US$'000	US$'000	US$'000
Other material items 2017			
Interest income	374	324	698
Interest expense	(49,668)	-	(49,668)
Capital expenditure	103,099	-	103,099
Depreciation	(846)	-	(846)
Impairment loss on properties	(9,548)	-	(9,548)
Increase in fair value of properties	11,570	-	11,570

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.

8. REVENUE

The effect of initially applying IFRS 15 on the Group's revenue from contracts with customers is described in note 5. Due to the transition method chosen in applying IFRS 15, comparative information has not been restated to reflect new requirements.

A. Revenue streams and disaggregation of revenue from contracts with customers
The Group generates revenue primarily from the sale of residential properties, rentals of investment properties and hotels operation. In the following table, revenue from contracts with customers is disaggregated by timing of transfer – over time or at point in time and by type of revenue.

	2018	2017
	US$ '000	US$ '000
Revenue from contracts with customers		
Revenue from sale of trading properties – transferred at a point in time (note 21)	14,672	61,844
Revenue from sale of trading properties – transferred over time (note 5, note 22)	154,900	-
Hotel operation income	30,854	29,189
Construction consulting/management fees	3	166
	200,429	91,199
Other revenue		
Investment property rental income	94,665	87,852
Non-core activity revenue	949	-
	95,614	87,852
Total revenue	296,043	179,051

8. REVENUE (continued)

Reconciliation with reportable segments in note 7: the revenue from contracts with customers included in line Revenue from sale of trading properties is presented in the reportable segment Development projects – Residential projects, Hotel operation income is presented in reportable segment Hotel operation, and Construction consulting/management fees is presented in reportable segment Other.

B. Contract balances

The following table provides information about contract liabilities from contracts with customers.

	31 December 2018	1 January 2018
	US$ '000	US$ '000
Contract liabilities - included in 'Advances from customers'	65,407	45,889

The contract liabilities primarily relate to the advance consideration received from customers for advance sales of residential properties, which are under development, for which revenue is recognised over time. This will be recognised as revenue according to the progress of the construction of the residential projects, approximately within two years. The amount of US$ 42,175 thousand recognised in contract liabilities as the beginning of the period has been recognised as revenue for the year ended 31 December 2018.

C. Performance obligations and revenue recognition policies

Revenue recognition policies for revenue from contracts with customers is presented in the below table.

Type of product	Nature, timing of satisfaction of performance obligations, significant payment terms	Revenue recognition under IFRS 15 (applicable after 1 January 2018)	Revenue recognition under IAS 18 (applicable before 1 January 2018)
Sales of trading properties under DDU contracts	DDU contracts are advance sale contracts for trading properties which are signed while the development of the respective residential property is still ongoing. The consideration is paid by customers in advance, shortly after the contract is signed and registered with state authorities according to local legal requirements. According to the relevant Russian law governing these specific types of contracts, the customers have no right to unilaterally terminate contract if the developer performs without default, i.e. the developer has right not to return the money and deliver the flat. Due to this, the Group concluded that the performance obligations are satisfied over time. This results in revenue and associated costs to fulfil the contracts being recognised over time.	Revenue from these contracts are recognised over time – i.e. before the flats and other residential property units are completed and transferred to customers by signing of acts of transfers. Progress is determined based on the cost-to-cost method – i.e. actual incurred cost vs budgeted. The related costs are recognised in profit or loss when they are incurred. The transaction price for such contracts is determined by adjusting the promised amount of consideration which is received in advance, for the effect of significant finance component. Advances received are included in contract liabilities which are presented in the statement of financial position as Advances from customers.	Revenue from these contracts and associated costs were recognised at point in time when risks and rewards of ownership were transferred to the customer (i.e. when act of transfer was signed).

8. REVENUE (continued)

C. Performance obligations and revenue recognition policies (continued)

Type of product	Nature, timing of satisfaction of performance obligations, significant payment terms	Revenue recognition under IFRS 15 (applicable after 1 January 2018)	Revenue recognition under IAS 18 (applicable before 1 January 2018)
Sales of trading properties under regular sale contracts	The regular sale contracts are signed with customers upon sale of completed residential property units (flats, parking etc). Control is transferred to the customer when act of transfer was signed. The payment of consideration is due upon signing of the contract but before the act of transfer is signed.	Revenue from these contracts and associated costs are recognised at point in time when control is transferred to the customer, (i.e. when act of transfer was signed).	Revenue from these contracts and associated costs were recognised at point in time when risks and rewards of ownership were transferred to the customer (i.e. when act of transfer was signed).
Hotel services	Hotel services comprise accommodation, , treatments and other services offered at the hotels operated by the group and sales of food and beverages	Revenue is recognised upon transfer of the service to the client and acceptance by the client.	Revenue was recognised upon transfer of the service to the client and acceptance by the client.
Construction consulting/ management services	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.		

9. OTHER INCOME

Other income consists of:	2018 US$ '000	2017 US$ '000
Penalties charged to tenants	1,446	317
Reimbursement of depositary fees	192	-
Reimbursement of property tax	211	1,918
Sundries	1,423	1,584
	3,272	3,819

10. OPERATING EXPENSES

	2018 US$ '000	2017 US$ '000
Maintenance, utility and security expenses	20,613	19,475
Agency and brokerage fees	1,979	2,354
Advertising expenses	7,413	6,843
Salaries and wages	14,688	15,545
Consultancy fees	2,498	651
Depreciation	791	740
Insurance	429	527
Rent	1,516	1,897
Property and other taxes	13,367	8,908
Other operating expenses	70	114
	63,364	57,054

The average number of employees employed by the Group during the year 2018 was 1,217 (2017: 1,159).

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11. ADMINISTRATIVE EXPENSES

	2018 US$ '000	2017 US$ '000
Consultancy fees	726	444
Legal fees	1,336	1,362
Auditors' remuneration	535	811
Valuation expenses	43	60
Directors' remuneration	923	1,334
Salaries and wages	56	52
Depreciation	107	106
Insurance	140	143
Provision for doubtful debts	120	147
Donations	41	78
Other administrative expenses	1,497	1,468
	5,524	6,005

The expenses in relation to the statutory audit firm fees for mandatory statutory audit of the annual financial statements amounted to US$244 thousand (2017: US$202 thousand), for other assurance services amounted to US$281 thousand (2017: US$599 thousand) and for non-audit services amounted to US$94 thousand (2017: US$10 thousand).

12. OTHER EXPENSES

	2018 US$ '000	2017 US$ '000
Prior years' VAT non recoverable	2,489	105
Sundries	2,053	2,281
	4,542	2,386

13. FINANCE INCOME AND FINANCE COSTS

	2018 US$ '000	2017 US$ '000
Interest income	1,417	698
Net change in fair value of financial assets	218	50
Net foreign exchange gain	-	12,371
Finance income	1,635	13,119
Interest expense on loans and borrowings	(30,941)	(49,668)
Net change in fair value of financial assets	(2,986)	-
Other finance costs	(1,253)	(722)
Net foreign exchange loss	(2,277)	-
Finance costs	(37,457)	(50,390)
Net finance (costs)/income	(35,822)	(37,271)

13. FINANCE INCOME AND FINANCE COSTS (continued)

The net foreign exchange loss recognised during 2018 is a result of the weakening of the Russian Rouble to the US Dollar by 20.6% by the end of 2018 in comparison to exchange rate prevailing at the end of 2017. The currency risk exposure was partially mitigated by converting a part of the bank loans from US Dollars to Euro during 2018.

The net foreign exchange gain recognised during 2017 is a result of the weakening of the US Dollar to the Russian Rouble by 5%, during 2017. 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 2018 the Group capitalised an amount of US$9,414 thousand of finance cost to the residential development projects that are in construction phase, due to significant finance component identified in the contracts with customers according to the provisions of the new IFRS 15 ‘Revenue from contracts with customers’ (see note 22) (2017 Nil).

14. TAX EXPENSE

	2018 US$ ’000	2017 US$ ’000
Current tax expense		
Current year	(4,289)	(12,799)
Adjustment for prior years	(26)	(64)
	(4,315)	(12,863)
Deferred tax expense		
Origination and reversal of temporary differences	(6,232)	(21,128)
Total tax expense	(10,547)	(33,991)

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.

	%	2018 US$ ’000	%	2017 US$ ’000
Profit/(loss) for the year after tax		31,537		(4,664)
Total tax expense/(benefit)		10,547		33,991
Profit/(loss) before tax		42,084		29,327
Tax using the Company’s domestic tax rate	12.5	5,261	12.5	3,671
Effect of tax rates in foreign jurisdictions	3.9	1,627	7.9	2,315
Tax exempt income	(90.3)	(37,993)	(111.1)	(32,595)
Non-deductible expenses	87.3	36,759	195.3	57,270
Change in estimates related to prior years	0.6	268	7.0	2,057
Current year losses for which no deferred tax asset recognised	11.0	4,625	4.3	1,273
		10,547	115.9	33,991

15. EARNINGS PER SHARE

Basic earnings per share	2018 US$ '000	2017 US$ '000
Profit/(loss) attributable to ordinary shareholders	31,510	(4,918)
Weighted average number of ordinary shares	Shares in thousands	Shares in thousands
Weighted average number of shares	1,047,694	1,047,694
Earnings per share (cent)	3.01	(0.47)

16. INVESTMENT PROPERTY

Reconciliation of carrying amount

	2018 US$ '000	2017 US$ '000
Balance 1 January	818,060	915,350
Renovations/additional cost	793	998
Disposals	(812)	(140,026)
Fair value adjustment	(3,707)	18,218
Effect of movement in foreign exchange rates	(70,668)	23,520
Reclassification to trading properties under development (note 22)	(1,076)	-
Balance 31 December	742,590	818,060

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 2018. The cumulative adjustments, for all projects, are shown in "Fair value adjustment" in the table above.

The (decrease)/increase due to the effect of the foreign exchange rates is a result of the strengthening of the US Dollar to the Russian Rouble by 20.6%, during 2018 (2017: weakening by 5%).

16. INVESTMENT PROPERTY (continued)

The disposals of investment property during 2017 represent the below two transactions:
– Two out of the three buildings of Ozerkovskaya III also known as Aquamarine III Business Centre owned by Krown Investments LLC for a total consideration of US$135 million to one of the leading Russian banks. According to the transaction, Krown Investments LLC sold Building 2 and Building 4 of the office premises, underground parking and a share of commonly owned service areas of the Business Centre. The transaction consists of two Russian law governed agreements: a sales-purchase agreement of 39,635.8 sq. m of gross buildable area (including 328 underground parking units) and a sale-purchase agreement of a circa 57% share in the title to the premises of 3,728.6 sq. m of gross buildable area. The consideration received amounted to Russian rouble 7.89 billion, equivalent to US$135 million net of the applicable Russian VAT, brokerage fees and cost of agreed repairs resulting in a loss of approximately US$4 million before taxes.
– An agreement based on which the Group acquired the additional 26% interest in Bizar LLC increasing its ownership to 100% in exchange for one of the four buildings owned by Bizar LLC of a total value of US$5,341 thousand, refer to note 35 for further details on the acquisition of NCI.

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 17.

The fair value measurement for investment property of US$742,590 thousand (2017: US$818,060 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.

16. INVESTMENT PROPERTY (continued)

Valuation technique and significant unobservable inputs
The following tables show 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 class A $450, class B $183-$271, Retail $516-$962 • Expected market rental growth: Office 4% average; Retail 1-4% average • Vacancy rate: Office class A 1%, class B 8.8%-12%; Retail 4.5%-5% • Risk-adjusted discount rates: 12%-21% • All-Risk Yield 9.0%-15.25%	The estimated fair value would increase/(decrease) if: • Average rental rates were higher/(lower) • Expected market rental growth was 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 property	*Type of property*	*Rental rates $ per annum per sq.m.*	*Expected market rental growth*	*Vacancy Rate, %*	*Risk adjusted discount rates*	*All-risk yield*
Aquamarine III	Office, Class A	450	4%	1%	12%	9%
AFI Mall	Retail	720	1%	5%	15%	9.75%
Plaza IB	Office, Class B	Office 271 Retail 962	4%	8.8%	18%	13.5%
Plaza II	Retail	516	4%	4.5%	21%	9.5%
Paveletskaya I	Office, Class B	183	4%	12%	18%	15.0%
H2O	Office, Class B	183	4%	12%	17.75%	15.25%
Riverside station	Office, Class B	256	4%	10%	17.5%	13.5%

16. INVESTMENT PROPERTY (continued)

Investment properties at fair value are categorised in the following:

	2018 US$ '000	2017 US$ '000
Retail properties	637,300	696,000
Office space properties	105,290	122,060
	742,590	818,060

Fair value sensitivity Analysis

Presented below is the effect on the fair value of the AFIMALL project, of an increase/(decrease) in the below inputs at the reporting date. This analysis assumes that all other variables remain constant.

Discount rate/exit yield	-0.50%	-0.25%	0.00%	+0.25%	+0.50%
Market value (US$'000)	670,200	653,300	637,300	622,100	607,600
Rental income	-5.00%	-2.5%	0.00%	+2.5%	+5.00%
Market value (US$'000)	601,200	619,500	637,300	655,800	674,300
Vacancy rate	-5.00%	-2.5%	6.50%	+2.5%	+5.00%
Market value (US$'000)	673,800	655,500	637,300	619,100	600,900

Fair value sensitivity Analysis continued

Presented below is the effect on the fair value of the rest of the investment property projects, of an increase/(decrease) in the below inputs at the reporting date. This analysis assumes that all other variables remain constant.

In thousands of dollars

ERVs	-10%	-5%	0	5%	10%
Yields					
-0.5	95,730	102,720	109,720	116,580	123,590
-0.25	93,760	100,580	107,380	114,270	121,080
0	91,860	98,580	**105,290**	112,020	118,650
0.25	90,120	96,660	103,300	109,850	116,390
0.5	88,430	94,890	101,360	107,730	114,210

17. INVESTMENT PROPERTY UNDER DEVELOPMENT

Reconciliation of carrying amount	2018 US$ '000	2017 US$ '000
Balance 1 January	163,240	232,900
Construction costs	5,691	4,865
Transfer to trading properties under construction (note 22)	-	(74,100)
Fair value adjustment	(7,787)	(6,648)
Effect of movements in foreign exchange rates	(19,264)	6,223
Balance 31 December	141,880	163,240

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

The investment property under development was revalued by independent appraisers on 31 December 2018. The cumulative adjustments, for all projects, are shown in line "Fair value adjustment" in the table above.

The (decrease)/increase due to the effect of the foreign exchange rates is a result of the strengthening of the US Dollar to the Russian Rouble by 20.6%, during 2018 (2017: weakening by 5%).

Fair value hierarchy
The fair value measurement for investment property under development of US$141,880 thousand (2017: US$163,240 thousand) has been categorised as a level 3 fair value based on the inputs to the valuation technique used.

Fair value hierarchy (continued)

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.

17. INVESTMENT PROPERTY UNDER DEVELOPMENT (continued)

Valuation technique and significant unobservable inputs
The following tables show the valuation technique used in measuring the fair value of investment property under development, 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- $500-525, class B $130, Retail $126-$525 • Expected market rental growth: Office 4% average; Retail 4% average • Vacancy rate: Office prime class A 5%, class B 10%; Retail 0-10% • Risk-adjusted discount rates (16%-23.5%) • All-Risk Yield 9.25%-13%	The estimated fair value would increase/(decrease) if: • Average rental rates were higher/(lower) • Expected market rental growth was 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 property under development	*Type of property*	*Rental rates $ per annum per sq.m*	*Expected market rental growth*	*Vacancy Rate, %*	*Risk adjusted discount rates*	*All-risk yield*
Starokaluzhskoye shosse	Retail	126-198	4%	0%	16%	11.5%
Plaza IC	Office, Class A	Office - 525 Retail - 525	4%	5%	21%	9.25%
Plaza IV	Office, Class A	Office - 500 Retail - 500	4%	5%	23.5%	9.25%
Kosinskaya	Office, Class B	Office - 130 Retail - 210	4%	10%	18.0%	13%

17. INVESTMENT PROPERTY UNDER DEVELOPMENT (continued)

Fair value sensitivity Analysis

Presented below is the effect on the fair value of the investment property under development projects, of an increase/(decrease) in the below inputs at the reporting date. This analysis assumes that all other variables remain constant.

In thousands of dollars

ERVs	-10%	-5%	0	5%	10%
Yields					
-0.5	148,260	158,930	169,610	180,080	190,860
-0.25	128,650	138,820	148,990	159,160	169,340
0	121,940	131,910	**141,880**	151,950	161,920
0.25	115,530	125,400	135,160	145,030	154,800
0.5	104,820	114,280	123,950	133,420	143,080

In addition to the above table, if the development costs were higher by 10%, then the fair value of investment property under development projects would be lower by US$14,600 thousand and vice-versa.

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 2018	4,241	76,446	2,727	1,163	84,577
Additions	-	1,183	323	86	1,592
Disposals	-	(222)	(134)	-	(356)
Effect of movement in foreign exchange rates	(691)	(10,183)	(484)	(201)	(11,559)
Balance at 31 December 2018	3,550	67,224	2,432	1,048	74,254
Accumulated depreciation					
Balance at 1 January 2018	-	3,636	2,400	908	6,944
Charge for the year	-	650	171	77	898
Disposals	-	(81)	(125)	-	(206)
Effect of movement in foreign exchange rates	-	(676)	(413)	(161)	(1,250)
Balance at 31 December 2018	-	3,529	2,033	824	6,386
Carrying amount					
At 31 December 2018	3,550	63,695	399	224	67,868

	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 2017	3,947	29,725	2,426	963	37,061
Additions	-	302	176	6	484
Additions due to acquisition of previously held interest in a joint venture	-	45,418	16	146	45,580
Disposals	-	(167)	(21)	-	(188)
Effect of movement in foreign exchange rates	294	1,168	130	48	1,640
Balance at 31 December 2017	4,241	76,446	2,727	1,163	84,577
Accumulated depreciation					
Balance at 1 January 2017	-	2,863	2,202	781	5,846
Charge for the year	-	662	99	85	846
Disposals	-	(30)	(21)	-	(51)
Effect of movement in foreign exchange rates	-	141	120	42	303
Balance at 31 December 2017	-	3,636	2,400	908	6,944
Carrying amount					
At 31 December 2017	4,241	72,810	327	255	77,633

19. LOANS RECEIVABLE

	2018 US$ '000	2017 US$ '000
Long-term loans		
Loans to related companies (note 38)	1,163	-
Loans to non-related companies	1,648	1,669
	2,811	1,669
Short-term loans		
Loans to related companies	-	427
Loans to non-related companies	578	663
	578	1,090

Terms and loan repayment schedule

Terms and conditions of outstanding loans were as follows:

	Currency	Nominal interest rate	Year of maturity	2018 US$ '000	2017 US$ '000
Secured loans to related companies	EUR	5.2%+ EURIBOR	2023	1,163	-
Unsecured loans to related companies	USD	3.08%	2018	-	427
Unsecured loans to non-related companies	RUR	6%	2021-2022	1,622	1,632
	RUR	2.5%	2020	26	28
	RUR	5.5-7%	2019	370	203
	RUR	5%	2018	208	469
				3,389	2,759

20. 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 12). 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 24.

21. TRADING PROPERTIES

	2018 US$ '000	2017 US$ '000
Balance 1 January	10,792	6,854
Transfer from trading properties under construction (note 22)	23,054	63,202
Additions	56	-
Cost of trading properties sold	(11,681)	(59,747)
Effect of movements in exchange rates	(3,139)	483
Balance 31 December	19,082	10,792

Trading properties comprise unsold apartments, commercial premises and parking spaces.
The transfer from trading properties under construction during 2018 represents the completion of the construction of a number of flats, commercial premises and parking places of "AFI Residence Paveletskaya" project, phase 1. The amount of transfer represents the book value of the flats, commercial premises and parking places which had not been sold under advance sale agreements (DDU) before the completion of phase 1.
During 2018, 158 sale agreements were signed and the cost of sales was recognised in the income statement, upon transferring of the control to the buyers according to the signed acts of transfer.
The transfer from trading properties under construction during 2017 represents the completion of the construction of a number of flats, offices and parking places of "Odinburg" project.

22. TRADING PROPERTIES UNDER CONSTRUCTION

	2018 US$ '000	2017 US$ '000
Balance 1 January	349,735	243,327
Effect of adoption of IFRS 15 as at 1 January 2018[8]	(59,801)	-
Restated balance at 1 January	289,934	243,327
Transfer from investment property under development (note 17)	-	74,100
Transfer from investment property (note 16)	1,076	-
Transfer to trading properties (note 21)	(23,054)	(63,202)
Construction costs	159,186	96,481
Finance cost capitalised[8]	9,414	-
Cost of trading properties sold[8]	(124,804)	-
Impairment	-	(9,548)
Effect of movements in exchange rates	(32,952)	8,577
Balance 31 December	278,800	349,735

Trading properties under construction comprise "Odinburg", "AFI Residence Paveletskaya", "Botanic Garden" and "Bolshaya Pochtovaya" projects which involve primarily the construction of residential properties. During 2018, 1,509 advance sale agreements (DDU) were signed. The incurred cost to fulfil signed DDU contracts as at 31 December 2018 were recognised in cost of sales in the income statement.
The properties are tested for impairment at the year-end based on internal assessment. No impairment loss was recognised in 2018. An impairment loss of US$9,548 thousand was recognised in the profit or loss in 2017 so as to present the properties at their lower of cost or net realisable value.

[8] The Group has initially adopted IFRS 15 Revenue from Contracts with Customers as from 1 January 2018. For more details please refer to note 5.

23. OTHER INVESTMENTS

	2018 US$ '000	2017 US$ '000
Equity securities	5,244	20
Investment in listed debt securities	2,022	5,255
Investment in funds	9,146	5,240
	16,412	10,515

Reconciliation from opening to closing balances:

	2018 US$ '000	2017 US$ '000
Balance 1 January	10,515	6,088
Coupon interest accrued	209	336
Interest received	(145)	(222)
Additions	20,995	16,408
Disposals/redemption of bonds	(12,997)	(12,417)
Fair value loss	(2,165)	322
Balance 31 December	16,412	10,515

During the year the Group had a net investment cash outflow into Other investments of US$8,018 thousand (acquisitions amounted to US$20,995 thousand and proceeds from sale amounted to US$12,977 thousand).

By the end of 2018 Other investments comprised US$16,412 thousand, whereas US$5,244 thousand were invested in long-term equity instruments and US$11,168 were invested in short-term easily convertible into cash instruments.

As at 2018 year-end, the Group holds portfolio of investments comprising investment in mutual funds, equity securities and listed debt securities, which are all classified as financial assets at fair value through profit or loss based on the Group's business model (note 6).

24. TRADE AND OTHER RECEIVABLES

	2018 US$ '000	2017 US$ '000
Advances to builders	35,919	29,313
Amounts receivable from related parties (note 38)	184	109
Trade receivables net	5,008	3,458
Other receivables	5,603	21,713
VAT recoverable (note 20)	5,755	9,889
Tax receivable	2,100	5,920
	54,569	70,402

Trade receivables net

Trade receivables are presented net of an accumulated provision for doubtful debts and unrecognised revenue of US$7,686 thousand (2017: US$10,522 thousand).

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For the year ended 31 December 2018

24. TRADE AND OTHER RECEIVABLES (continued)

Other receivables (continued)
Other receivables at 31 December 2017 included an amount of US$16 million representing the remaining balance of the total consideration from the disposal of the two buildings of Aquamarine III Business Centre, for further details on the disposal refer to note 16. During 2018, this amount was collected.

25. CASH AND CASH EQUIVALENTS

Cash and cash equivalents consist of:	2018 US$ '000	2017 US$ '000
Cash at banks	88,798	95,102
Cash in hand	205	366
Cash and cash equivalents as per statement of cash flows	89,003	95,468

26. SHARE CAPITAL AND RESERVES

1. Share capital	2018 US$ '000	2017 US$ '000
Authorised		
2,000,000,000 shares of US$0.001 each	2,000	2,000
Issued and fully paid		
523,847,027 A ordinary shares of US$0.001 each	524	524
523,847,027 B ordinary shares of US$0.001 each	524	524
	1,048	1,048

There were no changes to the authorised or the issued share capital of the Company during the year ended 31 December 2018.

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 had established an employee share option plan operated by the Board of Directors, which was responsible for granting options and administrating the employee share option plan. Eligible were employees and directors, excluding independent directors, of the Company. The employees share option plan was discretionary and options would be granted only when the Board so determined at an exercise price derived from the closing middle market price preceding the date of grant. No payment would 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.

26. SHARE CAPITAL AND RESERVES (continued)

If a participant ceased to be employed his options would normally lapse subject to certain exceptions. In the event of a takeover, reorganisation or winding up vested options might be exercised or exchanged for new equivalent options where appropriate. Shares/GDRs issued under the plan would rank equally with all other shares at the time of issue. The Board of Directors might 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.

Following the lapse of the ten years period all options have vested during the year 2016 and expired during the year 2017.

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. Capital reserve

Represents the effect of the acquisition, in 2015, of the 10% non-controlling interests in Bioka Investments Ltd and its subsidiary Nordservice LLC previously held at 90% and the effect of the acquisitions during the period of the 5% non-controlling interests in Beslaville Management Limited and its subsidiary Zheldoruslugi LLC previously held at 95% and of the 26% non-controlling interest in Bizar LLC previously held at 74%, refer to note 35 for further details.

27. LOANS AND BORROWINGS

	2018 US$ '000	2017 US$ '000
Non-current liabilities		
Secured bank loans	487,348	492,484
Current liabilities		
Secured bank loans	16,176	86,468
Unsecured loans from other non-related companies	257	307
	16,433	86,775

a. The loans on 31 December 2018 were as follows:

(i) A secured loan from VTB Bank JSC ("VTB") acquired by one of the Group's subsidiaries, Bellgate Constructions Ltd ("Bellgate"), based on a loan agreement signed on the 28 December 2017. This loan was used to refinance previous loan from VTB. Bellgate received the loan in five tranches, during January and February 2018, in Euros and Russian Rubles. The blended interest rate on the loan is circa 5.4% per annum (assuming EUR/RUR exchange rate and Russian Central Bank key lending rate as at 31.12.2018). The interest and the principal of the loan are to be paid quarterly, while the term of the loan is 5 years.

27. LOANS AND BORROWINGS (continued)

(ii) Secured loans from VTB acquired by Group's subsidiaries, Sanatorium Plaza Kislovodsk and Sanatorium PlazaSPA Zheleznovodsk (Sanatoriums), based on loan agreements signed on the 12 October 2018. The loans were used to refinance the previous loans of Sanatoriums from VTB (which were received to finance the acquisition of the additional 50% stake in the Sanatorium Plaza Kislovodsk and to repay intra group loans). Sanatoriums received the loans in Euros. The interest rate on the loans is 4.2% per annum. The interest and the principal of the loans are to be paid quarterly with a balloon payment of circa 60% at maturity, while the terms of the loans are up to 4 years.

During 2018, the Group's subsidiary MKPK PJSC (the owner of the AFI Residence Paveletskaya Project) received a loan from VTB in the amount of RUR711 million to refinance the previously incurred costs for the construction of the project. The loan carried floating interest rate of the Russian Central Bank key lending rate + 1.5%. The loan was fully repaid in June 2018.

There are the following financial covenants in the loan agreements to be met:

- LTV (Loan-to-Value)
- NAV (Net assets value)
- DSCR
- Forecast DSCR
- EBITDA/ (Interest ltm + Debt)
- CAPEX /EBITDA

The Group has complied with loan covenants during 2018 and as at 31 December 2018.

a. Terms and debt repayment schedule

Terms and conditions of outstanding loans at 31.12.2018 were as follows:

	Currency	Nominal interest rate	Year of maturity	2018 US$ '000
Secured loan from VTB Bank to Bellgate	RUR	key rate +0.75%	2018-2022	135,785
Secured loan from VTB Bank to Bellgate	EUR	4.2%	2018-2022	323,953
Secured loans from VTB Bank to Sanatorium Plaza	EUR	4.2%	2018-2022	25,758
Secured loan from VTB Bank to Sanatorium Plaza SPA	EUR	4.2%	2018-2022	18,028
Other	RUR	3-12%	on demand	257
				503,781

27. LOANS AND BORROWINGS (continued)

b. Terms and debt repayment schedule (continued)

Terms and conditions of outstanding loans at 31.12.2017 were as follows:

	Currency	Nominal interest rate	Year of maturity	2017 US$ '000
Secured loan from VTB Bank to Bellgate	RUR	9.5%	2018-2022	167,545
Secured loan from VTB Bank to Bellgate	USD	3m USD LIBOR+ 5.02%	2018-2022	276,887
Secured loan from VTB Bank to Krown	USD	3m USD LIBOR+ 7%	2017-2018	83,404
Secured loan from VTB Bank to Sanatorium Plaza	USD	3m USD LIBOR+ 4.5%	2018-2022	21,404
Secured loan from VTB Bank to Sanatorium Plaza	USD	5.5%	2018-2022	11,515
Secured loan from VTB Bank to Sanatorium Plaza SPA	USD	5.5%	2018-2022	18,196
Other	RUR	3-12%	on demand	308
				579,259

The loans and borrowings are payable as follows:	2018 US$ '000	2017 US$ '000
Less than one year	16,433	86,775
Between one and five years	487,348	492,484
More than five years	-	-
	503,781	579,259

c. Securities:

The secured bank loans are secured over investment property and hotels with carrying amounts of US$637,300 thousand (2017: US$696,000 thousand), US$50,332 thousand (2017: US$56,706 thousand) respectively.

28. DEFERRED TAX ASSETS AND LIABILITIES

Deferred tax (assets) and liabilities are attributable to the following:	2018 US$ '000	2017 US$ '000
Investment property	77,663	69,885
Investment property under development	9,345	9,890
Property, plant and equipment	9,940	10,376
Trading properties	(537)	(1,476)
Trading properties under construction	18,405	25,478
Trade and other receivables	(3,687)	(3,702)
Trade and other payables	1,829	1,193
Other items	105	(29)
Tax losses carried forward	(58,291)	(68,963)
Deferred tax liability	54,772	42,652

29. TRADE AND OTHER PAYABLES

	2018 US$ '000	2017 US$ '000
Trade payables	10,742	13,756
Payables to related parties (note 38)	192	183
Amount payable to builders	18,056	15,340
VAT and other taxes payable	4,800	28,982
Other payables	3,588	6,845
	37,378	65,106

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

VAT and other taxes payable

Balance at 31 December 2017 include an amount of US$24,618 thousand of tax payable arising from the disposal of the two buildings of Aquamarine III Business Centre, for further details on the disposal refer to note 16.

30. ADVANCES FROM CUSTOMERS

Represent advances received from customers for the sale of residential properties at "Odinburg", "AFI Residence Paveletskaya", "Botanic Garden" and "Bolshaya Pochtovaya" projects.

During the year the Group has signed 1,509 advance sale contracts with customers ("DDU") for flats, parking places and offices and received additional down payments from customers. Reconciliation from opening to closing balance is presented below:

30. ADVANCES FROM CUSTOMERS (continued)

	31/12/18 US$ '000	31/12/17 US$ '000
Balance 1 January as previously reported	123,766	51,301
Effect of adoption of IFRS 15 as at 1 January 2018[9]	(77,877)	-
Restated balance at 1 January	45,889	51,301
Customer advances during year	174,514	110,490
Effect of recognition of revenue	(144,204)	(41,647)
Effect of movements in exchange rates	(10,792)	3,622
Balance 31 December	65,407	123,766

31. DEFERRED INCOME

Represents rental income received from tenants at the beginning of the lease contracts as guarantee against future unpaid rent or damages.

[9] The Group has initially adopted IFRS 15 Revenue from Contracts with Customers as from 1 January 2018. For more details please refer to note 5.

32. FINANCIAL INSTRUMENTS – FAIR VALUES AND RISK MANAGEMENT

A. 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	Cash and cash equivalents	Other financial liabilities	Total	Level 1	Level 2	Level 3	Total
31 December 2018	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 equity securities	-	-	5,244	-	-	5,244	-	-	5,244	5,244
Investment in fund	-	-	9,146	-	-	9,146	-	-	9,146	9,146
Investment in listed debt securities	-	-	2,022	-	-	2,022	2,022	-	-	2,022
	-	-	16,412	-	-	16,412				
Financial assets not measured at fair value										
Loans receivable	3,389	-	-	-	-	3,389				
Trade and other receivables	-	10,832	-	-	-	10,832				
Cash and cash equivalents	-	-	-	89,003	-	89,003				
	3,389	10,832	-	89,003	-	103,224				
Financial liabilities not measured at fair value										
Interest bearing loans and borrowings	-	-	-	-	(503,781)	(503,781)	-	-	(506,854)	(506,854)
Trade and other payables	-	-	-	-	(22,334)	(22,334)				
	-	-	-	-	(526,115)	(526,115)				

32. FINANCIAL INSTRUMENTS – FAIR VALUES AND RISK MANAGEMENT (continued)

Accounting classifications and fair values (continued)

	Carrying amount						Fair value			
	Loans Receivable	Trade and other receivables	Other investments	Cash and cash equivalents	Other financial liabilities	Total	Level 1	Level 2	Level 3	Total
31 December 2017	US$'000	US$'000	US$'000	US$'000	US$'000	US$'000	US$'000	US$'000	US$'000	US$'000
Financial assets measured at fair value										
Investment in fund	-	-	5,240	-	-	5,240	-	-	5,240	5,240
Investment in listed debt securities	-	-	5,255	-	-	5,255	5,255	-	-	5,255
	-	-	10,495	-	-	10,495				
Financial assets not measured at fair value										
Loans receivable	2,759	-	-	-	-	2,759				
Trade and other receivables	-	25,280	-	-	-	25,280				
Cash and cash equivalents	-	-	-	95,468	-	95,468				
	2,759	25,280	-	95,468	-	123,507				
Financial liabilities not measured at fair value										
Interest bearing loans and borrowings	-	-	-	-	(579,259)	(579,259)	-	-	(579,415)	(579,415)
Trade and other payables	-	-	-	-	(25,230)	(25,230)				
	-	-	-	-	(604,489)	(604,489)				

32. FINANCIAL INSTRUMENTS - FAIR VALUES AND RISK MANAGEMENT (continued)

B. Measurement of fair values

Valuation technics and significant unobservable inputs

The following table shows the valuation techniques used in measuring Level 3 fair values at 31 December 2018 and 31 December 2017 for financial instruments measured in fair value in the statement of financial position, as well as the significant unobservable inputs used.

Type	Valuation technique	Significant unobservable inputs	Inter-relationship between key unobservable inputs and fair value measurement
Investment in fund	The securities and other assets of each Segregated Portfolio are valued by the Fund based on market quotations. If market quotations are not readily available, or if the Investment manager determines that special circumstances exist which effect the value of a security, the valuation of those securities and other assets will be determined in good faith by the Investment manager, whose determination will be final, conclusive and binding on all parties.	Not applicable	Not applicable
Investment in equity securities	Investment in private non-listed equity securities is valued by the Group using discounted cash flows method based on the nature and specific terms of investment share purchase agreement, which includes a 'down side protection'.	Not applicable	Not applicable

C. 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.

32. FINANCIAL INSTRUMENTS - FAIR VALUES AND RISK MANAGEMENT (continued)

C. Financial risk management (continued)

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 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 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 and contract assets represents the maximum credit exposure.

Trade and other receivables, including contract assets

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 2018, the ageing of trade and other receivable that were not impaired was as follows:

	2018	2017
	US$ '000	US$ '000
Neither past due nor impaired	1,606	315
Past due 1-30 days	2,595	20,460
Past due 31-90 days	876	1,078
Past due 91-120 days	310	2,022
Past due 121 days	1,513	1,405
	6,900	25,280

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.

AFI DEVELOPMENT PLC

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

32. FINANCIAL INSTRUMENTS - FAIR VALUES AND RISK MANAGEMENT (continued)

Financial risk management (continued)
Credit risk (continued)

Expected credit losses assessment for individual customers as at 1 January and 31 December 2018
The Group uses an allowance matrix to measure the ECLs of trade receivables and other receivables from individual customers, which comprise a large number of small balances.

Loss rates are estimated based on actual credit loss experience as well as current conditions and the Group's view of economic conditions over the expected lives of receivables.

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 31 December 2016	24	8,261
Impairment loss/(reversal) recognised	38	-
Amounts written-off	-	(8,699)
Exchange difference effect	20	438
Balance at 31 December 2017	82	-
Impairment loss/(reversal) recognised	90	-
Amounts written-off	(56)	-
Exchange difference effect	(19)	-
Balance at 31 December 2018	97	-

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$88,798 thousand at 31 December 2018 (2017: US$95,102). 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.

Impairment on cash and cash equivalents has been measured on a 12-month expected credit loss basis and reflects the short maturities of the exposures. The Group monitors changes in credit risk by tracking published external credit ratings to assess whether there has been a significant increase in credit risk at the reporting date. The Group considers that its cash and cash equivalents at 31 December 2018 have overall low credit risk based on external credit ratings of the counterparties.

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.

32. FINANCIAL INSTRUMENTS - FAIR VALUES AND RISK MANAGEMENT (continued)

Financial risk management (continued)

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 2018:

- A secured bank loan facility from VTB Bank JSC for RUR 9.65 billion and EUR 290 million, which was obtained to refinance previous Bellgate loan and remaining liability of Krown loan. All the tranches were drawn during January-February 2018.
- A secured bank loan facility from VTB Bank JSC to finance the acquisition of the additional 50% stake in the "Plaza Spa Kislovodsk" project in the amount of US$ 22.5 million, subsequently converted to Euro currency during 2018.
- Secured bank loan facilities from VTB Bank JSC in the amount of US$11.6 million and US$18.4 million to repay existing intra group loans, which was subsequently converted to Euro currency during 2018.

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 2018	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	503,524	(604,479)	(20,404)	(22,437)	(44,700)	(516,939)
Unsecured loans	257	(257)	(257)	-	-	-
Trade and other payables	22,334	(22,334)	(22,334)	-	-	-

31 December 2017	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	578,952	(718,279)	(26,717)	(25,194)	(46,721)	(619,647)
Unsecured loans	307	(307)	(307)	-	-	-
Trade and other payables	25,230	(25,230)	(25,230)	-	-	-

32. FINANCIAL INSTRUMENTS - FAIR VALUES AND RISK MANAGEMENT (continued)

Financial risk management (continued)
Liquidity risk (continued)

As disclosed in note 27 the Group has secured bank loans that contain loan covenants. A future breach of a covenant may require the Group to repay the loan earlier than indicated in the above table.

Market risk
Market price risk is the risk that the value of financial instruments will fluctuate as a result of changes in market prices such as foreign exchange rates, interest rates and equity prices. 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:

	RUR US$ '000	US$ US$ '000	EUR US$ '000
31 December 2018			
Cash and cash equivalents	72	22,825	5,967
Loans receivable	-	-	1,163
Trade receivables	6	2,193	549
Loans and borrowings	(5,800)	-	(367,740)
Trade payables	(72)	(4,960)	(335)
31 December 2017			
Cash and cash equivalents	62	32,140	426
Trade receivables	161	2,613	128
Loans and borrowings	(7,082)	(393,209)	-
Trade payables	(115)	(6,478)	(270)

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.

32. FINANCIAL INSTRUMENTS - FAIR VALUES AND RISK MANAGEMENT (continued)

Financial risk management (continued)

Market risk (continued)

Currency risk (continued)

Sensitivity analysis (continued)

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 2017.

	Profit for the year US$ '000	Equity US$ '000
31 December 2018		
Russian Roubles	(644)	-
US dollar	2,006	-
Euro	(36,040)	-

	Profit for the year US$ '000	Equity US$ '000
31 December 2017		
Russian Roubles	(775)	-
US dollar	(36,493)	-
Euro	28	-

A 10% weakening of the Russian Rubble, US dollar or Euro against all other currencies at 31 December 2018 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.

AFI DEVELOPMENT PLC

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

32. FINANCIAL INSTRUMENTS - FAIR VALUES AND RISK MANAGEMENT (continued)

Financial risk management (continued)

Market risk (continued)

Interest rate risk (continued)

Profile

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

	Carrying amount	
	2018	2017
	US$ '000	US$ '000
Fixed rate instruments		
Financial assets	82,721	95,821
Financial liabilities	(367,997)	(197,564)
	(285,276)	(101,743)
Variable rate instruments		
Financial assets	1,163	-
Financial liabilities	(135,785)	(381,695)
	(134,622)	(381,695)

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 2018.

	Equity	Profit for the year
	US$ '000	US$ '000
31 December 2018		
Variable rate instruments	-	(1,346)
31 December 2017		
Variable rate instruments	-	(3,817)

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.

32. FINANCIAL INSTRUMENTS - FAIR VALUES AND RISK MANAGEMENT (continued)

Financial risk management (continued)

Operational risk (continued)
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

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.

32. FINANCIAL INSTRUMENTS - FAIR VALUES AND RISK MANAGEMENT (continued)

Financial risk management (continued)

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, US elections and related events 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 the 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.

Taxation contingencies in the Russian Federation
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.

2019 will see a rise in VAT to 20% and a further increase of property tax from 1.6% in 2019 by 0.1% a year up to 2%.

32. FINANCIAL INSTRUMENTS - FAIR VALUES AND RISK MANAGEMENT (continued)

Financial risk management (continued)

Russian Business Environment (continued)
Taxation contingencies in the Russian Federation (continued)
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.

AFI DEVELOPMENT PLC

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

33. GROUP COMPOSITION

	Name:	Country:
Ultimate controlling party:	Lev Leviev	Israel
Holding company:	Flotonic Limited (see note below)	Cyprus

Significant Subsidiaries	Ownership interest 2018	2017	Country of incorporation
1. OOO AFI RUS	100	100	Russian Federation
2. OOO Avtostoyanka Tverskaya Zastava	100	100	Russian Federation
3. OOO Krown Investments	100	100	Russian Federation
4. OAO Moskovskiy Kartonazhno-poligraphicheskiy Kombinat (MKPK)	99.18	99.18	Russian Federation
5. Bellgate Constructions Limited	100	100	Cyprus
6. OOO Regionalnoe AgroProizvodstvennoe Objedinenie (RAPO)	100	100	Russian Federation
7. Scotson Limited	100	100	Cyprus
8. OOO Titon	100	100	Russian Federation
9. ZAO MTOK	99.71	99.71	Russian Federation
10. Triumvirate I S.a r.I	100	100	Russian Federation
11. OOO Nordservice	100	100	Russian Federation
12. OOO Plaza SPA	100	100	Russian Federation
13. OOO Semprex	100	100	Russian Federation
14. OOO Zheldoruslugi[10]	-	100	Russian Federation
15. OOO Bizar	100	100	Russian Federation
16. AFI D Finance SA	100	100	British Virgin Islands

Flotonic Limited, a fully owned private company of Mr Leviev, 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 Africa Israel Investments Ltd (“AI”), previous holding company, 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.

[10] During 2018 OOO Zheldoruslugi was merged with OOO Avtostoyanka Tverskaya Zastava.

34. ACQUISITION OF JOINT VENTURES

On 28 February 2017, the Group acquired the additional 50% of the “Plaza Spa Kislovodsk” project by acquiring the shares and voting rights of Nouana Limited, Craespon Management Limited, Emvial Limited and Sanatoriy Plaza LLC. As a result, the Group’s equity interest in the above mentioned entities increased from 50% to 100%, obtaining their control. Principal activity of Nouana Limited, Craespon Management Limited and Emvial Limited is that of holding of investments while Sanatoriy Plaza LLC is the owner of “Plaza Spa Kislovodsk” project. The Project is an operating spa resort hotel in the Caucasian mineral waters region, in the town of Kislovodsk. It has 275 guest rooms and a gross buildable area of 25,000 sq.m.

This acquisition enables the Group to consolidate 100% of the Project, manage it at its sole discretion and consolidate 100% of its revenues.

a. Consideration transferred

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

	2018 US$ ’000	2017 US$ ’000
Cash	-	5,632
Cash and cash equivalents acquired (note b)	-	(4,846)
Net consideration	-	786

b. Identifiable assets acquired and liabilities assumed

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

	2018 US$ ’000	2017 US$ ’000
Property, plant and equipment	-	45,580
VAT recoverable	-	33
Inventory	-	392
Trade and other receivables	-	307
Cash and cash equivalents	-	4,846
Loans and borrowings	-	(16,868)
Deferred tax liabilities	-	(8,807)
Trade and other payables	-	(1,675)
Total identifiable net assets acquired	-	23,808

AFI DEVELOPMENT PLC

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

34. ACQUISITION OF JOINT VENTURES (continued)

c. Goodwill

Goodwill arising from the acquisition has been recognised as follows:

	2018 US$ '000	2017 US$ '000
Consideration transferred (note a)	-	5,632
Fair value of existing interest in joint ventures	-	20,903
Fair value of identifiable net assets (note b)	-	(23,808)
Goodwill	-	2,727
Impairment	-	(2,727)
	-	-

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

35. NON-CONTROLLING INTERESTS

During 2017, the Group acquired an additional 5% interest in Beslaville Management Limited and its Russian subsidiary Zheldoruslugi LLC, increasing its ownership from 95% to 100% and 26% interest in Bizar LLC increasing its ownership from 74% to 100%. The carrying amount of Beslaville Management Limited's together with its subsidiary and Bizar's net assets in the Group's financial statements on the date of acquisition was negative (US$60,660) thousand and (US$1,496) thousand respectively.

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

	US$ '000
Carrying amount of NCI acquired (($60,660) thousand * 5% & ($1,496) thousand * 26%)	(3,422)
Consideration paid to NCI	(6,710)
A decrease in equity attributable to owners of the Company	(10,132)

The decrease in equity attributable to owners of the Company comprised of a negative capital reserve of US$10,132 thousand.

36. OPERATING LEASES

Leases as lessee

Non-cancellable operating lease rentals are payable as follows:

	2018 US$ '000	2017 US$ '000
Less than a year	5,556	6,165
Between one and five years	11,351	13,688
More than five years	31,634	45,716
	48,541	65,569
Amount recognised as an expense during the year	1,518	1,897

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 six 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 16. The future minimum lease payments under non-cancellable leases are as follows:

	2018 US$ '000	2017 US$ '000
Less than a year	68,235	75,827
Between one and five years	164,150	181,910
More than five years	48,335	48,500
	280,720	306,237
Amount recognised as income during the year	93,507	87,852

37. CAPITAL COMMITMENTS

Up to 31 December 2018 the Group has entered into a number of contracts for the construction of investment or trading properties:

Project name	**Commitment** 2018 US$ '000	2017 US$ '000
Odinburg	89,521	51,724
Kosinskaya	-	337
TVZ Plaza IC	1,575	116
Serebryakova	42,664	104,625
Pavaletskaya II	8,988	10,180
TVZ Plaza IV	2,476	624
TVZ Plaza II	208	343
Bolshaya Pochtovaya	35,710	52,908
Starokaluzhskoye shosse	49	27
	181,191	220,884

38. RELATED PARTIES

Outstanding balances with related parties	2018 US$ '000	2017 US$ '000
Assets		
Amounts receivable from other related companies	184	109
Secured loan receivable from related company	1,163	-
Loans receivable from key management personnel	-	427

The loan receivable from related company is secured by personal guarantee of the controlling ultimate beneficial owner, whereby the guarantor undertakes to pay on demand all the amounts due under the respective loan agreement in case of the borrower's default. On 12 April 2019, the Group received full repayment of the secured loan from related company.

	2018 US$ '000	2017 US$ '000
Liabilities		
Amounts payable to other related companies	156	183
Amounts payable to key management personnel	32	30
Deferred income from related company	66	101

Transactions with the key management personnel	2018 US$ '000	2017 US$ '000
Key management personnel compensation comprised:		
Short-term employee benefits	1,678	1,328
Short-term directors' benefits	923	1,334
	2,601	2,662

AFI DEVELOPMENT PLC

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

38. RELATED PARTIES (continued)

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	2018 US$ '000	2017 US$ '000
Revenue		
Joint venture – consulting services	-	31
Joint venture – interest income	-	211
Related company – other income	-	1
Related company – rental and hotel income	348	408
Related company – interest income	21	-
Key management personnel – interest income	3	2
Expenses		
Joint venture – operating expenses	-	10

Other related party transactions	2018 US$ '000	2017 US$ '000
Construction services capitalised		
Related company – construction services	-	-

39. SUBSEQUENT EVENTS

There were no material events after the reporting period, which have a bearing on the understanding of the financial statements.

AFI DEVELOPMENT PLC

SEPARATE FINANCIAL STATEMENTS OF THE PARENT COMPANY

For the year ended 31 December 2018

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AFI DEVELOPMENT PLC

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 2018, the names of which are listed below, confirm that, to the best of our knowledge:

a) The separate financial statements on pages 89 to 113:

 (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 separate financial statements continues to be appropriate based on the foregoing and having reviewed the forecast financial position of the Company; and

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

The Board of Directors

Non-executive independent directors

Elias Ebrahimpour – Chairman ....

Panayiotis Demetriou ....

Avraham Noach Novogrocki ....

Company officers

Chief executive officer

Mark Groysman ....

Chief financial officer

Alexey Miroshnikov ....

15 April 2019

AFI DEVELOPMENT PLC

SEPARATE INCOME STATEMENT AND STATEMENT OF COMPREHENSIVE INCOME OF THE PARENT COMPANY

For the year ended 31 December 2018

	Note	2018 US$ '000	2017 US$ '000
Revenue	4	36,995	17,347
Other income		947	-
Other expenses		(2,282)	(31)
Administrative expenses	5	(3,677)	(4,505)
Impairment of investment in subsidiaries	8	(249,889)	(899,156)
Reversal of impairment of investment in subsidiaries	8	27,002	-
		(228,846)	(903,692)
Results from operating activities		(190,904)	(886,345)
Finance income		190	-
Finance costs		(11,525)	(5,957)
Net finance costs	6	(11,335)	(5,957)
Loss before tax		(202,239)	(892,302)
Tax expense	7	(224)	-
Loss for the year		(202,463)	(892,302)
Other comprehensive income		-	-
Total comprehensive expense for the year		(202,463)	(892,302)

The notes on pages 93 to 113 are an integral part of these separate financial statements of the parent company.

AFI DEVELOPMENT PLC

SEPARATE STATEMENT OF CHANGES IN EQUITY OF THE PARENT COMPANY

For the year ended 31 December 2018

	Share capital US$ '000	Share premium US$ '000	Accumulated losses US$ '000	Total US$ '000
Balance at 1 January 2017	1,048	1,763,409	(515,911)	1,248,546
Total comprehensive expense for the year	-	-	(892,302)	(892,302)
Balance at 31 December 2017	1,048	1,763,409	(1,408,213)	356,244
Balance at 1 January 2018	1,048	1,763,409	(1,408,213)	356,244
Total comprehensive expense for the year	-	-	(202,463)	(202,463)
Balance at 31 December 2018	1,048	1,763,409	(1,610,676)	153,781

The notes on pages 93 to 113 are an integral part of these separate financial statements of the parent company.

AFI DEVELOPMENT PLC

SEPARATE STATEMENT OF FINANCIAL POSITION OF THE PARENT COMPANY

As at 31 December 2018

	Note	2018 US$ '000	2017 US$ '000
Assets			
Investment in subsidiaries	8	254,815	371,778
Other investments	9	5,244	-
Total non-current assets		260,059	371,778
Trade and other receivables	10	532	8,433
Refundable tax		-	2,215
Cash and cash equivalents	11	1,148	897
Total current assets		1,680	11,545
Total assets		261,739	383,323
Equity			
Share capital		1,048	1,048
Share premium		1,763,409	1,763,409
Accumulated losses		(1,610,676)	(1,408,213)
Total equity	12	153,781	356,244
Liabilities			
Loans and borrowings	13	19,615	22,182
Total non-current liabilities		19,615	22,182
Trade and other payables	14	88,343	4,897
Total current liabilities		88,343	4,897
Total liabilities		107,958	27,079
Total equity and liabilities		261,739	383,323

The financial statements were approved by the Board of Directors on 15 April 2019.

....	....
Elias Ebrahimpour	Avraham Noach Novogrocki
Chairman	Director

The notes on pages 93 to 113 are an integral part of these separate financial statements of the parent company.

AFI DEVELOPMENT PLC

SEPARATE STATEMENT OF CASH FLOWS OF THE PARENT COMPANY

For the year ended 31 December 2018

	Note	2018 US$ '000	2017 US$ '000
Cash flows from operating activities			
Loss for the year		(202,463)	(892,302)
Adjustments for:			
Net foreign exchange loss	6	22	16
Fair value (gains) on other investments	9	(190)	-
Impairment of investment in subsidiaries	8	249,889	899,156
Reversal of impairment of investment in subsidiaries	8	(27,002)	-
Dividend income	4	(36,995)	(17,347)
Interest expense	6	10,855	5,924
Interest income		(756)	-
Write off of tax refundable		818	-
Tax expense	7	224	-
Cash used in operations before working capital changes		(5,598)	(4,553)
Changes in working capital:			
Change in trade and other receivables		703	564
Change in trade and other payables		1,684	518
Cash generated from/ (used in) operations		(3,211)	(3,471)
Cash flows from investing activities			
Additional contribution of capital to existing subsidiaries	8	-	(33,906)
Acquisition of other investments	9	(5,054)	-
Additional shareholding in subsidiaries	8	(14,191)	(1,500)
Receipts from loans receivable	14	83,130	-
Proceeds from disposal of investments in subsidiaries	4	-	24,001
Dividends received	4	36,995	-
Net cash generated from/ (used in) investing activities		100,880	(11,405)
Cash flows from financing activities			
Repayment of loans and borrowings	13	(119,630)	-
Proceeds from loans and borrowings	13	22,250	13,735
Net cash (used in)/ generated from financing activities		(97,380)	13,735
Effect of exchange rate fluctuations on cash held		(38)	(19)
Net increase/ (decrease) in cash and cash equivalents		251	(1,160)
Cash and cash equivalents at beginning of the year		897	2,057
Cash and cash equivalents at end of the year	11	1,148	897
The cash and cash equivalents consists of:			
Cash at banks		1,148	897

The notes on pages 93 to 113 are an integral part of these separate financial statements of the parent company.

AFI DEVELOPMENT PLC

NOTES TO THE SEPARATE FINANCIAL STATEMENTS OF THE PARENT COMPANY

For the year ended 31 December 2018

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. 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.

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 2018 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 2018, the Company adopted all changes to International Financial Reporting Standards (IFRSs) as adopted by the EU which are relevant to its operations. This adoption did not have a material effect on the parent's separate financial statements.

2. BASIS OF ACCOUNTING (continued)

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

The following Standards, Amendments to Standards and Interpretations have been issued by International Accounting Standards Board ("IASB") but are not yet effective for annual periods beginning on 1 January 2018. 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 (Amendments) "Prepayment Features with Negative Compensation" (effective for annual periods beginning on or after 1 January 2019)
  In October 2017, the IASB issued "Prepayment Features with Negative Compensation (Amendments to IFRS 9)". The amendments address the issue that under pre-amended IFRS 9, financial assets with such features would probably not meet the SPPI criterion and as such would be measured at fair value through profit or loss. The IASB believes that this would not be appropriate because measuring them at amortised cost provides useful information about the amount, timing and uncertainty of their future cash flows. Financial assets with these prepayment features can therefore be measured at amortised cost or fair value through other comprehensive income provided that they meet the other relevant requirements of IFRS 9. The final amendments also contain a clarification in the accounting for a modification or exchange of a financial liability measured at amortised cost that does not result in the derecognition of the financial liability. Based on the clarification, an entity recognises any adjustment to the amortised cost of the financial liability arising from a modification or exchange in profit or loss at the date of the modification or exchange.
  The Company is currently evaluating the expected impact of adopting the amendments on its financial statements. As such, the expected impact of the amendments is not yet known or reasonably estimable.

- IFRIC 23 "Uncertainty over Income Tax Treatments" (effective for annual periods beginning on or after 1 January 2019).
  IFRIC 23 clarifies the accounting for income tax treatments that have yet to be accepted by tax authorities, whilst also aiming to enhance transparency. The key test is whether it is probable that the tax authority will accept the chosen tax treatment, on the assumption that tax authorities will have full knowledge of all relevant information in assessing a proposed tax treatment. The uncertainty is reflected using the measure that provides the better prediction of the resolution of the uncertainty being either the most likely amount or the expected value. The interpretation also requires companies to reassess the judgements and estimates applied if facts and circumstances change. IFRIC 23 does not introduce any new disclosures but reinforces the need to comply with existing disclosure requirements in relation to judgements made, assumptions and estimates used, and the potential impact of uncertainties that are not reflected.
  The Company is currently evaluating the expected impact of adopting the interpretation on its financial statements. As such, the expected impact of the interpretation is not yet known or reasonably estimable.

2. BASIS OF ACCOUNTING (continued)

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

Standards and Interpretations not adopted by the EU

- "Amendments to References to the Conceptual Framework in IFRS Standards" (effective for annual periods beginning on or after 1 January 2020)
  In March 2018 the IASB issued a comprehensive set of concepts for financial reporting, the revised "Conceptual Framework for Financial Reporting" (Conceptual Framework), replacing the previous version issued in 2010. The main changes to the framework's principles have implications for how and when assets and liabilities are recognised and derecognized in the financial statements, while some of the concepts in the revised Framework are entirely new (such as the "practical ability" approach to liabilities". To assist companies with the transition, the IASB issued a separate accompanying document "Amendments to References to the Conceptual Framework in IFRS Standards". This document updates some references to previous versions of the Conceptual Framework in IFRS Standards, their accompanying documents and IFRS Practice Statements.
  The Company is currently evaluating the expected impact of adopting the amendments on its financial statements. As such, the expected impact of the amendments is not yet known or reasonably estimable.

The Board of Directors expects that the adoption of these standards or interpretations in future periods will not have a material 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 judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities, income and expenses. Actual results may 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.

2. BASIS OF ACCOUNTING (continued)

(v) Use of estimates and judgements (continued)

- 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

(i) *Functional and presentation currency*

Items included in the Company's financial statements are measured using the currency of the primary economic environment in which the entity operates ('the functional currency'). The financial statements are presented in United States Dollars, rounded to the nearest thousand, which is the Company's functional and presentation currency.

(ii) *Transactions and balances*

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in profit or loss.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

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.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

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.

AFI DEVELOPMENT PLC

NOTES TO THE SEPARATE FINANCIAL STATEMENTS OF THE PARENT COMPANY

For the year ended 31 December 2018

4. REVENUE

	2018 US$ '000	2017 US$ '000
Dividend income	36,995	17,347

During the current year, the Company received from its subsidiary Vardia Limited dividend in the amount of US$36,995.

During the prior year, the Company transferred its investment in subsidiary Severus Trading Limited to another subsidiary, Kentoralia Limited for a total consideration of US$24,000 thousand. Being a common control transaction the difference between the cost of investment and the disposal price was recognised as a deemed dividend received.

5. ADMINISTRATIVE EXPENSES

	2018 US$ '000	2017 US$ '000
Consultancy and brokerage fees	188	193
Legal fees	1,009	1,118
Directors' remuneration	923	1,334
Auditors' remuneration	359	559
Valuation expenses	40	52
Insurance	112	106
Other administrative expenses	1,046	1,143
	3,677	4,505

6. NET FINANCE COSTS

	2018 US$ '000	2017 US$ '000
Fair value gain from investment in equity securities	190	-
Finance income	190	-
Interest expense on loans and borrowings	(10,855)	(5,924)
Provision for impairment of financial assets	(634)	-
Other finance costs	(14)	(17)
Net foreign exchange loss	(22)	(16)
Finance costs	(11,525)	(5,957)
Net finance costs	(11,335)	(5,957)

7. TAXATION

	2018 US$ '000	2017 US$ '000
Under provision of prior year tax	224	-

Reconciliation of tax based on the taxable income and tax based on accounting losses:

	2018	2018 US$ '000	2017	2017 US$ '000
Accounting profit before tax		(202,239)		(892,302)
Tax calculated at the applicable tax rates	12.50 %	(25,280)	12.50 %	(111,538)
Tax effect of expenses not deductible for tax purposes	(13.99)%	28,284	(12.60)%	112,449
Tax effect of allowances and income not subject to tax	2.52 %	(5,078)	0.24 %	(2,168)
Tax effect of group tax relief	(1.03)%	2,074	(0.14)%	1,257
Prior year tax	(0.11)%	224	- %	-
Tax as per statement of profit or loss and other comprehensive income - charge	(0.11)%	224	- %	-

The corporation tax rate is 12.5%. Under certain conditions interest income may be subject to defence contribution at the rate of 30%. In such cases this interest will be exempt from corporation tax. In certain cases, dividends received from abroad may be subject to defence contribution at the rate of 17%.

8. INVESTMENT IN SUBSIDIARIES

	2018 US$ '000	2017 US$ '000
Balance at 1 January	371,778	1,242,182
Additional investment in existing subsidiaries	105,924	35,406
Disposal of investment in subsidiaries	-	(6,654)
Impairment charge	(249,889)	(899,156)
Reversal of impairment charge	27,002	-
Balance at 31 December	254,815	371,778

8. INVESTMENT IN SUBSIDIARIES (continued)

The details of the subsidiaries are as follows:

Investment	Country of incorporation	Principal activities	2018 US$ '000	2017 US$ '000
Investment in holding companies	Cyprus	Holding of investments/Financing	151,151	211,225
Investment in financing companies	BVI	Financing	558	558
Investment in real estate companies	Russian Federation	Real estate development	103,106	159,995
			254,815	371,778

During the current year, the Company increased twice its investment in Cypriot subsidiary Monosol Ltd with the issuance of 1,000 ordinary shares for a nominal value of €1 and share premium of €5,876 per share and with the issuance of 1,000 ordinary shares for a nominal value of €1 and share premium of €5,699 per share for a total amount of €11,577 thousand (US$14,191 thousand).

During the current year, the Company made capital contributions for a total amount of US$91,577 thousand to its Russian subsidiary Krown Investment LLC and increased its investment in Cypriot subsidiary Larue Ltd by a total amount of US$155 thousand.

At 31 December 2018 the Company recognised an impairment loss of US$249,889 thousand (31/12/2017: US$899,156 thousand) due to a decrease in the fair value of net assets of subsidiaries of the properties held by its subsidiaries as at that date. 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.

At 31 December 2018 the Company recognised reversal of impairment loss of US$27,002 thousand due to indicators that impairment loss recognised in prior periods for some investments in subsidiaries no longer exist or may have decreased.

During the prior year, the Company acquired, the remaining 5% shareholding in its subsidiary Beslaville Management Ltd for a total consideration of US$1,500 thousand.

During the prior year, the Company made capital contributions for a total amount of US$23.134 thousand to its Russian subsidiaries Krown Investment LLC and Tverskaya Zastava LLC and increase its investment in Cypriot subsidiary Doralo Ltd with the issuance of 9,100 ordinary shares for a nominal value of €1 and share premium of €999 per share.

During the prior year, the Company transferred its 100% holding in its subsidiary Severus Trading Ltd to its subsidiary Kentoralia Ltd for a total consideration of US$24,000 thousand. Being a common control transaction the difference of US$17,347 thousand between the cost of investment and the disposal price was recognised as a deemed dividend received in profit or loss.

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 16 of these financial statements.

AFI DEVELOPMENT PLC

NOTES TO THE SEPARATE FINANCIAL STATEMENTS OF THE PARENT COMPANY

For the year ended 31 December 2018

9. OTHER INVESTMENTS

	2018 US$ '000	2017 US$ '000
Balance at 1 January	-	-
Investment in equity securities	5,054	-
Fair value gain	190	-
Balance at 31 December	5,244	-

During the current year, the Company acquired 746 equity securities for a total amount of US$5,054 thousand to a non-related company registered in Luxemburg. Investment represents 0.5% of the share capital of the investee company and is classified at fair value through profit or loss (FVTPL). The principal activities of the investee company is the innovation in production of nano technology materials.

At 31 December 2018 the Company recognised fair value gain of US$190 thousand.

10. TRADE AND OTHER RECEIVABLES

	2018 US$ '000	2017 US$ '000
Receivables from related parties (note 15)	136	8,344
Other receivables	396	89
	532	8,433

During the current year, the receivable balance from subsidiary Krown Investment LLC for US$7,618 was capitalised in the investment in subsidiaries as it related to payment of construction expenses by the Company on behalf of Krown Investment LLC.

At 31 December 2018 the Company recognised impairment loss of US$559 thousand based on expected credit losses model of IFRS 9.

During the prior year, the receivable balance from related party AFI D Finance S.A. for US$201,953 thousand was fully settled by way of offset with the trade payable amount of US$95,139 thousand, refer to note 14, and part of the loan payable to AFI D Finance S.A for US$106,814 thousand, refer to note 13.

The exposure of the Company to credit risk and impairment losses in relation to trade and other receivables is reported in note 16 of the financial statements.

AFI DEVELOPMENT PLC

NOTES TO THE SEPARATE FINANCIAL STATEMENTS OF THE PARENT COMPANY

For the year ended 31 December 2018

11. CASH AND CASH EQUIVALENTS

	2018 US$ '000	2017 US$ '000
Cash and cash equivalents consists of:		
Cash at banks	1,148	897

At 31 December 2018 the Company recognised impairment loss of US$75 thousand based on expected credit losses model of IFRS 9.

12. SHARE CAPITAL AND RESERVES

Share capital	2018 US$ '000	2017 US$ '000
Authorised		
2,000,000,000 shares of US$0.001 each	2,000	2,000
Issued and fully paid		
523,847,027 A ordinary shares of US$0.001 each	524	524
523,847,027 B ordinary shares of US$0.001 each	524	524
	1,048	1,048

Flotonic Limited, a fully owned private company of Mr Leviev, 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 Africa Israel Investments Ltd ("AI"), previous holding company, 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.

12. SHARE CAPITAL AND RESERVES (continued)

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.

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.

Following the lapse of the ten years period all options have vested during the year 2016 and expired during the year 2017.

13. LOANS AND BORROWINGS

	2018 US$ '000	2017 US$ '000
Long term liabilities		
Loans from AFI D Finance S.A. (note 15)	10,181	22,182
Loans from Krown Investment LLC (note 15)	9,434	-
	19,615	22,182
Maturity of non-current borrowings:		
Within one year	-	-
Between one and five years	19,615	22,182
	19,615	22,182

AFI D Finance S.A. loan:

During the current year, the Company withdraw additional tranches of US$22,250 thousand and repaid in cash an amount of US$36,500 thousand. The loan from AFI D Finance S.A. is unsecured, bears interest of 6% per annum and is repayable on 31 December 2021.

Krown Investment LLC loan:

During the current year, the Company re-established a loan payable from Krown Investment LLC of US$83,959 thousand, previously settled by way of set off, and repaid part of the loan of US$83,130 thousand in cash. The remaining balance including interest is still outstanding. The loan from Krown Investment LLC is unsecured, bears interest of 6.6% per annum and is repayable on 31 December 2020.

During the prior year, the Company's subsidiary, AFI D Finance S.A., granted an additional tranche of US$13,735 thousand and the Company settled part of the existing loan payable amounting to US$106,814 thousand by way of offset with its receivable balance from AFI D Finance S.A., refer to note 10.

13. LOANS AND BORROWINGS (continued)

The exposure of the Company to interest rate risk in relation to financial instruments is reported in note 16 of the financial statements.

14. TRADE AND OTHER PAYABLES

	2018 US$ '000	2017 US$ '000
Payables to related parties (note 15)	88,004	4,428
Other payables	339	469
	88,343	4,897

During the current year, AFI D Finance S.A. assigned to the Company loan receivable from subsidiary Vardia Limited of US$83,130 thousand for an assignment price equal to this amount. During the current year, Company assigned the loan receivable from Vardia to related company Bellgate Construction Ltd. The loan receivable from Bellgate Constructions Ltd was received in full during the current year. As at 31 December 2018 the Company has a payable balance to AFI D Finance S.A. for US$83,127 thousand.

Payables to related parties included 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. During the prior year, the full amount of US$95,139 thousand was set off with the trade receivable balance from AFI D Finance S.A, refer to note 10.

15. RELATED PARTIES

The transactions with related parties are as follows:

(i) Transactions with the Key Management Personnel

	2018 US$ '000	2017 US$ '000
Key management personnel compensation comprised:		
Short-term directors benefits	923	1,334

(ii) Other related party transactions

	2018 US$ '000	2017 US$ '000
Interest expense charged from subsidiaries	(10,855)	(5,924)
Management fees charged from subsidiaries	(709)	(773)
Other administrative expenses charged by related company	(4)	(32)

15. RELATED PARTIES (continued)

The balances with related parties are as follows:

(iii) Receivables from related parties (note 10)

	2018 US$ '000	2017 US$ '000
Receivables from subsidiaries	136	8,344

The balances with related parties are as follows:

(iv) Payables to related parties (note 14)

	2018 US$ '000	2017 US$ '000
Payables to subsidiaries	87,640	4,096
Payables to related parties	364	332
	88,004	4,428

(v) Loan from related parties (note 13)

	2018 US$ '000	2017 US$ '000
Name		
AFI D Finance S.A.	10,181	22,182
Krown Investment LLC	9,434	-
	19,615	22,182

16. 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.

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16. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (continued)

Financial risk factors (continued)

A. 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			
	Trade and other receivables	Other investments	Cash and cash equivalents	Other financial liabilities	Total	Level 1	Level 2	Level 3	Total
31 December 2018	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 equity securities	-	5,244	-	-	5,244	-	-	5,244	5,244
	-	5,244	-	-	5,244				
Financial assets not measured at fair value									
Trade and other receivables	532	-	-	-	532	-	-	-	-
Cash and cash equivalents	-	-	1,148	-	1,148	-	-	-	-
	532	-	1,148	-	1,680	-	-	-	-
Financial liabilities not measured at fair value									
Interest bearing loans and borrowings	-	-	-	(19,615)	(19,615)	-	-	-	-
Trade and other payables	-	-	-	(88,343)	(88,343)	-	-	-	-
	-	-	-	(107,958)	(107,958)				

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16. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (continued)

Financial risk factors (continued)

A. Accounting classifications and fair values (continued)

	Carrying amount					Fair value			
	Trade and other receivables	Other investments	Cash and cash equivalents	Other financial liabilities	Total	Level 1	Level 2	Level 3	Total
31 December 2017	US$'000	US$'000	US$'000	US$'000	US$'000	US$'000	US$'000	US$'000	US$'000
Financial assets not measured at fair value									
Trade and other receivables	8,433	-	-	-	8,433	-	-	-	-
Cash and cash equivalents	-	-	897	-	897	-	-	-	-
	8,433	-	897	-	9,330	-	-	-	-
Financial liabilities not measured at fair value									
Interest bearing loans and borrowings	-	-	-	(22,182)	(22,182)	-	-	-	-
Trade and other payables	-	-	-	(4,897)	(4,897)	-	-	-	-
	-	-	-	(27,079)	(27,079)				

16. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (continued)

Financial risk factors (continued)

B. Measurement of fair values

Valuation technics and significant unobservable inputs

The following table shows the valuation techniques used in measuring Level 3 fair values at 31 December 2018 for financial instruments measured in fair value in the statement of financial position, as well as the significant unobservable inputs used.

Type	Valuation technique	Significant unobservable inputs	Inter-relationship between key unobservable inputs and fair value measurement
Investment in equity securities	Investment in private non-listed equity securities is valued by the Company using discounted cash flows method based on the nature and specific terms of investment share purchase agreement, which includes a 'down side protection'.	Not applicable	Not applicable

Credit risk
Credit risk arises when a failure by counterparties 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.

Expected credit losses assessment for trade and other receivables as at 1 January and 31 December 2018
The Company uses an allowance matrix to measure the ECLs of trade and other receivables which comprise a number of small balances.

Loss rates are estimated based on actual credit loss experience as well as current conditions and the Company's view of economic conditions over the expected lives of receivables.

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.

16. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (continued)

Financial risk factors (continued)

Guarantees
The Company's policy is to provide financial guarantees 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.

All of AFI Development guarantees under a loan facility agreement of Bellgate Constructions Limited (AFIMALL City), Krown Investment LLC (Ozerkovskaya III) and OJSC MKPK (AFI Residence Paveletskaya) were terminated in 2018 due to repayment of debt. As at 31 December 2018, there were no outstanding guarantees.

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.

The following are the contractual maturities of financial liabilities at the reporting date. The amounts are gross and undiscounted, and include contractual interest payments and exclude the impact of netting agreements.

31 December 2018	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
Unsecured loans to related parties	19,615	(19,615)	-	-	(9,434)	(10,181)
Trade and other payables	88,343	(88,343)	(88,343)	-	-	-

31 December 2017	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
Unsecured loans to related parties	22,182	(22,182)	(307)	-	-	-
Trade and other payables	4,897	(4,897)	(4,897)	-	-	-

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.

16. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (continued)

Financial risk factors (continued)

Market risk (continued)

Interest rate risk (continued)

Profile

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

	Carrying amount 2018 US$ '000	2017 US$ '000
Fixed rate instruments		
Financial assets	-	-
Financial liabilities	(19,615)	(22,182)
	(19,615)	(22,182)
Variable rate instruments		
Financial assets	-	-
Financial liabilities	-	-
	-	-

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.

The following significant exchange rates have been applied during the year.

	Average rate 2018 US$'000	2017 US$'000	Year-end spot rate 2018 US$'000	2017 US$'000
Russian Rouble	62,7078	58,3529	69,4706	57,6002
Euro	1,1810	1,1298	1,1450	1,1993

Capital management

The Company manages its capital to ensure that it will be able to continue as a going concern while increasing the return to shareholders through the strive to improve the debt equity ratio. The Company's overall strategy remains unchanged from last year.

16. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (continued)

Financial risk factors (continued)

Russian Subsidiaries' Business Environment

The real estate projects of the Company's subsidiaries are primarily located in the Russian Federation. Consequently, the Company 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, US elections and related events 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 the implemented sanctions, as well as the threat of additional future sanctions, are difficult to determine.

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

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 Russian Rouble could have a negative impact on the Company's shareholders' equity.

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.

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17. FAIR VALUES

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