



# **AFI DEVELOPMENT PLC**

ANNUAL REPORT 2013

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

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

AFI Development has been listed on the Main Market of the London Stock Exchange since 2007. It aims to deliver shareholder value through a commitment to innovation and continuous project development, coupled with the highest standards of design, construction and quality of customer service.

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

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

## Forward-looking statements

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

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

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

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



# CHAIRMAN STATEMENT

# EXECUTIVE DIRECTOR'S STATEMENT





## Chairman Statement



### Lev Leviev

Executive Chairman of the  
Board of Directors

I am pleased to report that 2013 was a positive year for AFI Development, marked by the successful disposal of completed property and the progress made in development projects. The sale of Building 1 in Aquamarine III to Russian diamond miner and producer Alrosa JSC was the result of successful marketing efforts and in line with overall management strategy. In addition to being a successful transaction, the disposal is a strong benchmark for the entire Aquamarine complex and should assist it in attracting other high quality tenants similar to Alrosa.

The beginning of construction and sales at one of our largest residential projects entitled “Odinburg” has helped to demonstrate our steady commitment to continue large scale development projects. The development will include multi-functional infrastructure and we look forward to further progress on Odinburg throughout 2014.



Our other developments continued to show progress throughout 2013. A 6-year land lease agreement was signed at Paveletskaya for further development and construction resulting in a gross valuation of approximately US\$81.0 million. At Kossinskaya, revised plans to convert the development into a centre for the wholesale trade of apparel and fashion were well under way, while Tverskaya saw continued progress at Plaza 1c with the design concept and pre-construction works finalised during 2013.

Our biggest yielding property, AFIMALL City, continues to improve with average daily footfall in December 2013 up 45% year-on-year, further cementing its position as one of Europe's largest retail developments in recent years. Footfall levels are expected to continue to improve throughout 2014 following the opening of the new "Delovoy Tsentr" metro station which provides direct access to The Mall. Additionally, in 2013

AFIMALL became home to several new brands including TSUM Discount, Marc O'Polo and Enter which have helped to further strengthen the attractiveness of the Mall and we expect continued marketing activities to further attract both retailers and customers to the Mall throughout 2014.

We believe that our strategy of focusing on high quality projects in the Moscow area will generate both strong cash-flow and significant capital returns for our shareholders in future years. In 2014 we intend to further strengthen our financial performance through successful rental or disposals of completed projects, whilst advancing the progress of our new developments.



## Executive Director's Statement



**Mark Groysman**

Executive Director

AFI Development made important progress during 2013. We achieved a series of strategic milestones, including the successful disposal of Building 1 in Aquamarine III and the launch of construction in one of our largest residential projects, "Odinburg". These achievements along with the continued success at AFIMALL City, which benefitted from a 45% year-on-year increase in footfall levels despite ongoing construction in Moscow City, give me confidence for our continued successes during 2014.

The Company currently has several other projects in various stages of development. During 2013, the development process continued for the Kossinskaya (now Expolon), Bolshaya Pochtovaya and Paveletskaya II projects. In addition, significant progress was made at the Tverskaya Zastava projects. Following the registration of a 10-year land lease agreement for Tverskaya Plaza 1c, we successfully finalised the design, permitting and pre-construction stages. I am also pleased to report that on March 7, 2014 we received



a construction permit for development and the start of construction is now scheduled for H1 2014. During 2013, we also progressed with securing the land lease agreement for Tverskaya Plaza IV with the Moscow authorities, having finalised the borders of the land plot.

Despite a slowdown in Russia's overall economic growth during 2013 to 1.3%<sup>1</sup>, retail trade and the consumer market recorded above average growth in real terms at 4.5% year-on-year. Boosted by continued volatility in the Eurozone, demand from international retailers looking to extend their presence in Moscow remained healthy, supporting stable retail vacancy rate and rental levels. The level of vacant space in Moscow's quality retail shopping malls reached record lows at 1% - 1.5% during 2013, whilst Moscow's prime retail indicator<sup>2</sup> stood at US\$ 4,000 per sq.m. per annum (before VAT and other expenses).

<sup>1</sup>Ministry of Economic Development estimate.

<sup>2</sup>A Base asking rental rate for the 100-200 sq.m. gallery unit at the ground floor of a prime shopping centre, US\$ per annum, triple net.

The Moscow office market also remained stable throughout 2013 with average annual rental rates for prime office space at a level of US\$1,200 per sq.m. (excluding VAT and operational expenses).

Revenues for 2013 increased by 61% year-on-year to US\$202 million driven predominantly by strong rental income and the completion of the disposal transaction of 643 parking places to VTB Bank JSC. Consequently, AFI Development recorded a significant 29% year-on-year increase in gross profit to US\$76.3 million. At the same time, cash and cash equivalents increased by 11% to US\$193 million as at 31 December 2013.

As a result of improvement in operation activities and successful disposal of assets, net profit for 2013 reached US\$103.9 million, compared to a net loss of US\$275.5 million in 2012.



## Management update

On 1 March 2013, Mr Michalis Sarris, non-executive director, resigned from the Board of Directors following his appointment as Minister of Finance in the Cyprus government.

## Valuation

As at 31 December 2013, based on the Cushman & Wakefield LLC ("C&W") independent appraisers' report, the value of AFI Development's portfolio of investment properties stood at US\$1.6 billion, while the value of the portfolio of investment property under development stood at US\$0.6 billion.

Consequently, the total value of the Company's assets, based predominantly on independent valuation as of 31 December 2013, was US\$2.4 billion, compared to US\$2.1 million as at 31 December 2012.

**Key drivers of the slight increase in the portfolio valuation were as follows:**

1. Purchase of the remaining 50% interest in the Ozerkovskaya III project from the Company's joint venture partner in Q1 2013
2. Sale of the Building 1 in the Ozerkovskaya III project to "Alrosa" JSC in Q4 2013
3. Revaluation of the Paveletskaya Phase II project in Q3 2013 following the signing of a new land lease agreement which amends the permitted use of land from industrial to the construction of residential and commercial premises

## Update on change in calculation of Russian property tax

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

foreign legal entities that do not operate in Russia via representative offices. The law entered into force on 1 January 2014.

Prior to 2014, the property tax was calculated at 2.2% of the property book value posted on the owner's balance sheet. From 2014 the cadastral values for given premises (excluding underlying land) will be set as the basis for property tax payments. The tax rate will be determined by local (regional) authorities under Federal laws. The Moscow Government announced final tax rate schedule for properties in Moscow as follows: 0.9% (2014), 1.2% (2015), 1.5% (2016), 1.8% (2017) and 2.0% (2018).

According to the Federal valuation standard No. 4 "the cadastral value is the market value established as a result of state cadastral valuation, which is determined by means of mass valuation, or, if the market value cannot be determined via mass methods, the market value determined individually for a particular property in accordance with the valuation legislation".

The Moscow Government has already performed a mass valuation for some of the properties, and according to the preliminary information that is available, there is likely a divergence between the appraised cadastral value and what market participants would consider market value (i.e. in some cases the new cadastral values are higher). However, according to the new legislation, the property owners involved have a legal right to contest and challenge the new cadastral values through the special committee or the court (if they believe that the new cadastral values are not in line with the market values of respective properties).

The Company has received cadastral value for several of its properties. Based on the new cadastral values, the Company may face a significant (more than two-fold) increase in property tax expense in 2014. The Company intends to challenge these cadastral values based on the fact that they do not reflect the existing market values of these properties. In case the legal challenge of the new cadastral values by the Company fails, it may have significant negative influence on the Company results.

## Liquidity

We completed 2013 with a strong liquidity position of approximately US\$203.3 million of cash, cash equivalents and marketable securities on our balance sheet and a debt to equity level of 47%. This strong position reflects the Company's ability to successfully balance liquidity requirements from a number of sources.

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

## Key developments since financial year end

In February 2014, the Company subsidiary, Bellgate Construction Ltd. ("Bellgate") paid the last instalment of RUR1,333 million (approx. US\$37.5 million) to the Moscow municipal organisation GUP "Tsentr City" for the underground parking premises at AFIMALL City. According to the agreement between Bellgate and GUP "Tsentr City", the purchase price had to be paid in four installments. The amount was paid by using the last tranche of the VTB loan.

From the start of February 2014 Russia has been involved in a conflict with Ukraine over Crimea, following the change of regime in the Ukraine. The steps undertaken by the Russian government in Crimea are viewed negatively by the United States and some EU states and consequences of this conflict may have a negative effect on the Russian economy. That said, the effect cannot be quantified or predicted at the current stage of events.

During January – March 2014 the Russian Rouble depreciated by approximately 12% against the US Dollar. This depreciation may have a negative effect on Company equity.

## Portfolio update

### AFIMALL City

During 2013, AFIMALL City reported a strong increase in footfall with a significant 45% increase year-on-year. In 2013, AFIMALL also became home to several new brands including TSUM Discount, Marc O'Polo and Enter. These factors have helped to further strengthen the attractiveness of AFIMALL for retailers and customers alike. Construction of the new metro station "Delovoy Tsentr" progressed throughout 2013 leading to completion in January 2014, when the station opened for public use. Like "Vystavochnaya" station, this new station provides direct access to AFIMALL City and will over the next two years become the main connecting point for a new line, which will link the densely populated residential districts Ramenky, Horoshevskiy, Savolovsky and Maryina Roscha.

The development environment of Moscow City continues to be a strong driver for the future of AFIMALL. According to CBRE, about 70,000 sq.m.(GLA) of new office space was delivered in Moscow City during 2013. A few large lease contracts were signed in the Mercury, Federation, Naberezhnaya and Northern Towers, with the 14,000 sq.m. lease in the Mercury Tower by Norilsk Nickel being the largest. About 120,000 workforce are expected to work in the Moscow City area by the time all planned office has been constructed. The scheduled completion of the entire "Moscow City" area is planned for 2018.

### AQUAMARINE III (OZERKOVSKAYA III)

In 2013, AFI Development completed the disposal of Building 1 of the Aquamarine III Business Centre, along with part of the underground premises to Russian diamond miner "Alrosa". The transacted area correspond-



ed to approximately 11,994 sq.m. and the Company was paid the equivalent of US\$91.5 million plus applicable Russian VAT in cash for the property.

Following the transaction, AFI Development retains title to the remaining three buildings of the complex, which have a combined GBA of 61,772 sq.m. and GLA of 46,247 sq.m.

## HOTELS

AFI Development's hospitality portfolio, consisting of one Moscow city-hotel Aquamarine and two resorts in the Caucasus mineral waters region, Plaza Spa Kislovodsk and Plaza Spa Zheleznovodsk, continued to meet their operational targets during 2013.

## TVERSKAYA PLAZA 1c

During 2013, AFI Development's activities in the Tverskaya area were focused on the Plaza 1c project. The Company continued to progress with the development of this Class A office complex by successfully finalising the design concept and pre-construction works. The start of construction is planned for H1 2014.

## KOSSINSKAYA - EXPOLON

AFI Development has decided to revise its development plan for the Kossinskaya project by converting it into a centre for the wholesale trade of apparel and fashion. The space will allow producers and distributors to lease showrooms to exhibit their collections, while allowing buyers and owners of fashion shops to make procurement transactions. The revised development concept envisages rentable showroom space, an office zone, a food-court and a small hotel for the convenience of visitors. The Company is now in the process of performing capital repair works on the property. The work involves installation of additional lifts, escalators, construction of additional ventilation shafts, fit-out works and an increase in common space. The project will be operated under the marketing name of "Expolon".

## ODINBURG

In October 2013, AFI Development began construction of one of its largest residential projects entitled "Odinburg". The development is planned to include multi-functional infrastructure comprising of two schools, two kindergartens, a medical centre and other facilities. In Q3 2013, construction works were launched and the Company began initial sales of the first phase of the development.

## PAVELETSKAYA PHASE II

During 2013, AFI Development made significant progress in securing development rights for the Paveletskaya II project. In November 2013, the Company signed a 6-year land lease agreement with the Moscow City Government for further development and construction of the residential and commercial space at Paveletskaya which resulted in a gross valuation gain of approximately US\$81.0 million (US\$64.8 million net of taxation).

## BOLSHAYA POCHTOVAYA

During 2013, AFI Development made significant progress in obtaining development rights for the Bolshaya Pochtovaya project. Currently, the Company is working on securing the land lease agreement to allow construction in accordance with the new development documentation as well as on the planning and design of the project.

# UNDERSTANDING AFI DEVELOPMENT



# Understanding AFI Development

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

## Group structure

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

AFI Development Hotels Ltd. is a subsidiary, which operates the Company's hospitality projects.

AFI Ukraine Ltd. is a dedicated subsidiary holding stakes in the Company's projects in the Ukraine.

A list of significant subsidiaries and jointly controlled entities of AFI Development PLC can be found in Note 35 to the consolidated financial statements. A simplified structure of the AFI Development Group is presented in the Exhibit 1 below (this is not a legal structure, it is intended to illustrate how the Company's holding structure and operations are organised):

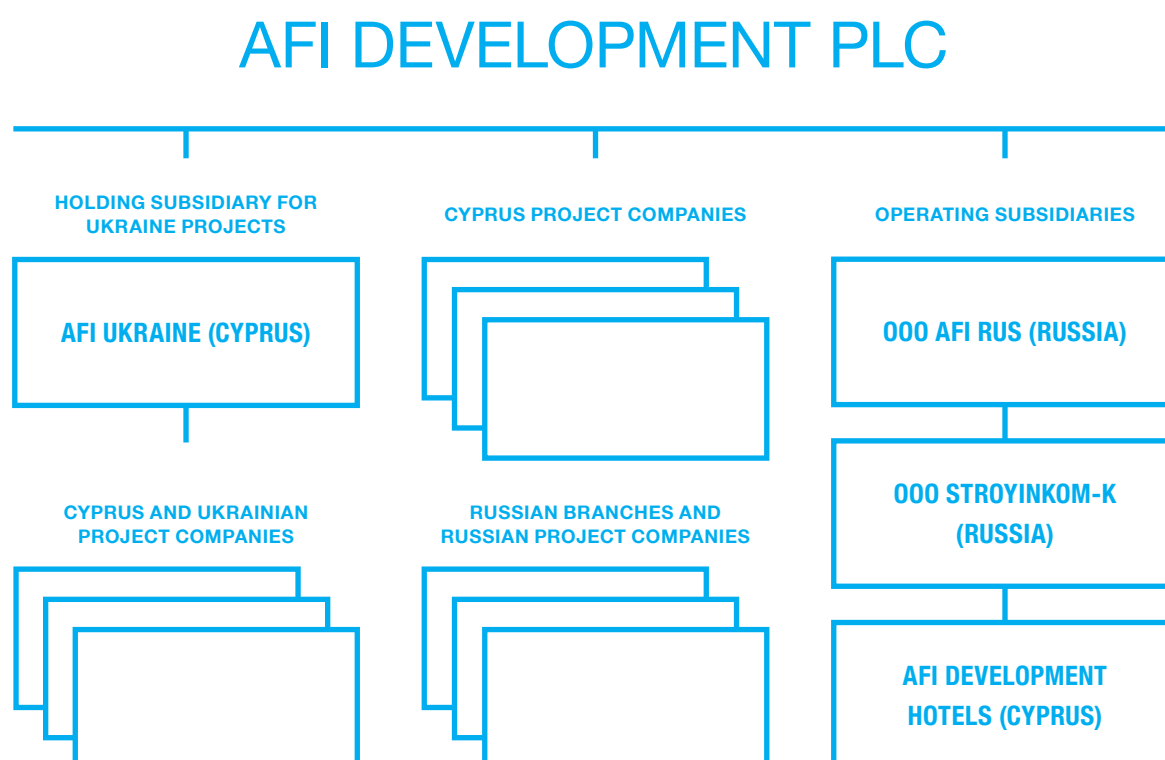


Exhibit 1: Simplified structure of the AFI Development Group





## AFI Development strategy

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

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

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

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

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

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

Our expectation for the medium to long-term is that the Moscow real estate market will continue to offer a high volume of business activity, high development potential due to its size, its position as the largest financial centre in Russia and as one of the largest capital cities in Europe. As such, we plan to maintain our development focus on this market into the medium to long-term, with expectations of further market improvement. At the same time, we will continue to review our land bank outside of Moscow and reactivate select projects based on availability of financing and strength of demand.

# Projects portfolio

## YIELDING PROPERTIES

### AFIMALL City

AFIMALL City is a retail and entertainment development, located in the high-rise business district of Moscow, "Moscow-City". With a total GBA of nearly 283,200\* sq.m. (including parking), and GLA of nearly 107,200 sq.m., the project has a shopping gallery of nearly 400 shops and an 11-screen movie theatre with a number of additional outstanding leisure facilities. AFIMALL City is one of Europe's largest and most am-

bitious 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.

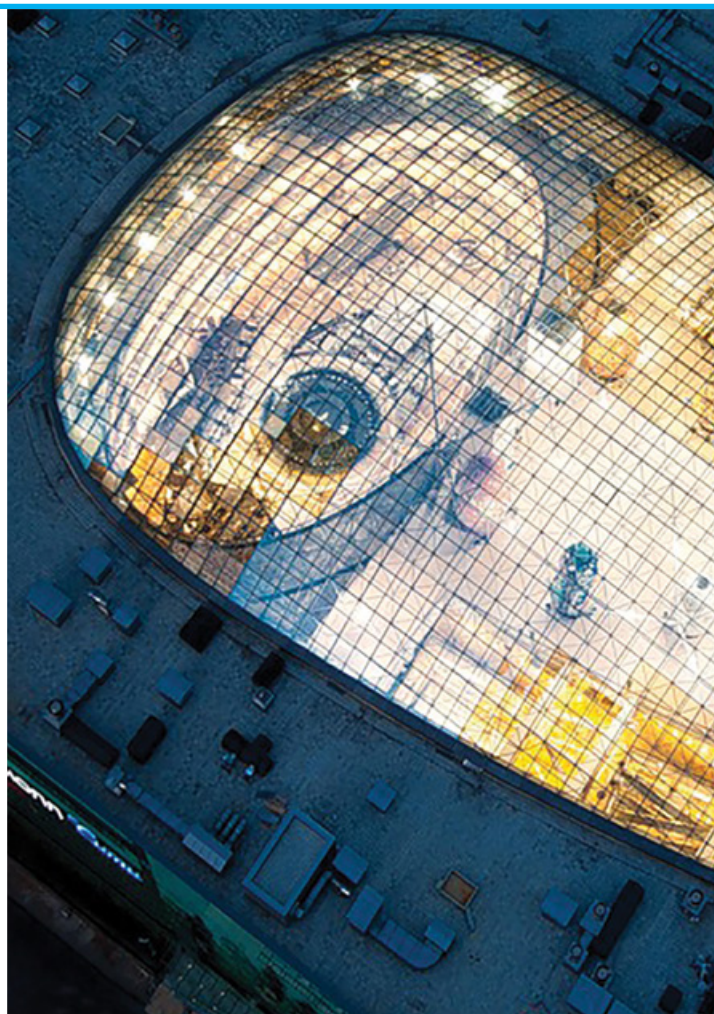
AFIMALL City can be easily accessed from two metro stations (Vystavochnaya, Mezhdunarodnaya, Delovoy Tsentr) and from the Third Transportation Ring.





Type	Retail
Company share	100%
GBA, (sq.m)	283,128*
GLA, (sq.m)	107,208
Parking, units	2,075
Valuation by Cushman & Wakefield as at 31.12.2013 (US\$ million)	1,160
Status	Yielding

\*After the disposal of 643 parking lots to VTB Bank JSC



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# OZERKOVSKAYA

## (AQUAMARINE) PHASE III

Ozerkovskaya (Aquamarine) III is an office complex forming part of the “Aquamarine” mixed-use development, located on the Ozerkovskaya embankment in the very heart of the historical Zamoskvorechie district of Moscow. The project consists of four Class A buildings with common underground parking and creates attractive working conditions through state-of-the-art

architecture, innovative design and efficient use of space. Due to these characteristics “Aquamarine III” sets new standards for quality and an aspirational environment among Moscow’s commercial developments. The project is located within the Garden Ring, and is served by two metro stations.



Type	Office
Company share	100%
GBA, (sq.m)	61,772*
GLA, (sq.m)	46,247
Parking, units	466
Valuation by Cushman & Wakefield as at 31.12.2013 (US\$ million)*	323.7
Status	In negotiations with tenants for sale/lease

\*After disposal of Building 1 to "Alrosa"



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

## BEREZHKOVSKAYA RIVERSIDE STATION

Type	Office, business park
Company share	74%
GBA, (sq.m)	11,612
GLA, (sq.m)	10,250
Parking, units	150
Valuation by Cushman & Wakefield as at 31.12.2013 (US\$ million)*	28.5
Status	Yielding

\*AFI Development share only



The Paveletskaya I office complex comprises a reconstructed Class B building. The complex is fully let to ZAO Greenatom, a subsidiary of the State Atomic Energy Corporation, Rosatom.

## PAVELETSKAYA PHASE I OFFICE COMPLEX

Type	Office, business park
Company share	100%
GBA, (sq.m)	16,246
GLA, (sq.m)	14,085
Parking, units	126
Valuation by Cushman & Wakefield as at 31.12.2013 (US\$ million)	29.6
Status	Yielding



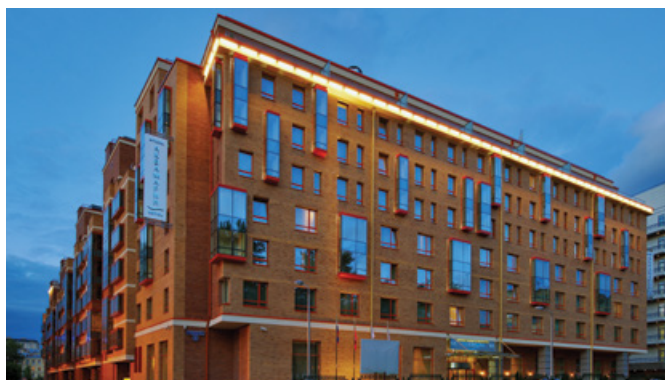
The project comprises a Class B office building recently reconstructed around the frame of a former administrative building. It is located in a dynamically developing business area on the border of Moscow's Central and Southern Administrative Districts.

## H<sub>2</sub>O OFFICE COMPLEX

Type	Office
Company share	100%
GBA, (sq.m)	10,698
GLA, (sq.m)	8,990
Parking, units	81
Valuation by Cushman & Wakefield as at 31.12.2013 (US\$ million)	17.3
Status	Yielding



## HOTELS



The four star hotel, which offers a full range of business and leisure facilities, is located in the historical center of Moscow, near the Kremlin, and forms part of AFI Development's major Ozekovskaya Embankment mixed-use development. Since the start of operations in 2010, the hotel is demonstrating occupancy rates of up to 70%.



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



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

### AQUAMARINE HOTEL MOSCOW

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

### PLAZA SPA HOTEL KISLOVODSK

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

\*AFI Development share only

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

### PLAZA SPA HOTEL ZHELEZNOVODSK

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

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



## DEVELOPMENT PROJECTS

# ODINBURG

"Odinburg" residential district is located in the town of Odintsovo, a modern area considered to be one of the best and most environmentally clean towns in the Moscow region. The entire residential district takes up an area of 33.14 hectares, which will host eight 8-to-25 story buildings. The residential element will offer almost 9,000 "economy+" grade apartments and a total sellable area of 450,432 sq.m. (Company share). The development of the residential district will include multi-functional infrastructure comprising of 2 schools, 2 kindergartens, a medical centre and other facilities.

**According to the development strategy, the project involves a construction of a multi-storey residential micro-district consisting of two phases:**

- Phase I – construction of a 22-section residential building, named Korona (Crown), construction of infrastructure (Kindergarten, School) with total sellable area of 149,432 sq.m. (2,620 apartments);
- Phase II – construction of 8 residential buildings, construction of infrastructure (Kindergarten, school, outdoor multi-level parking) with total sellable area of 319,775 sq.m. (6,247 apartments):

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





Type	Residential
Company share	100%
GBA, (sq.m)	677,413
GSA, (sq.m.) / GSA commercial (sq.m.)	450,432 / 18,776
Parking, units	2,656
Book value (US\$ million)*	127
Status	Under Construction

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



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## TVERSKAYA PLAZA IC



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

Type	Office
Company share	100%
GBA,(sq.m)	51,200
GLA, (sq.m)	32,454
Parking, units	280
Valuation by Cushman & Wakefield as at 31.12.2013 (US\$ million)	110.6
Status	Under Construction



## TVERSKAYA PLAZA IV

Type	Office
Company share	95%
GBA, (sq.m)	108,000
GLA, (sq.m)	61,350
Parking, units	1,210
Valuation by Cushman & Wakefield as at 31.12.2013 (US\$ million)*	160.0
Status	Concept Stage

\*AFI Development share only

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



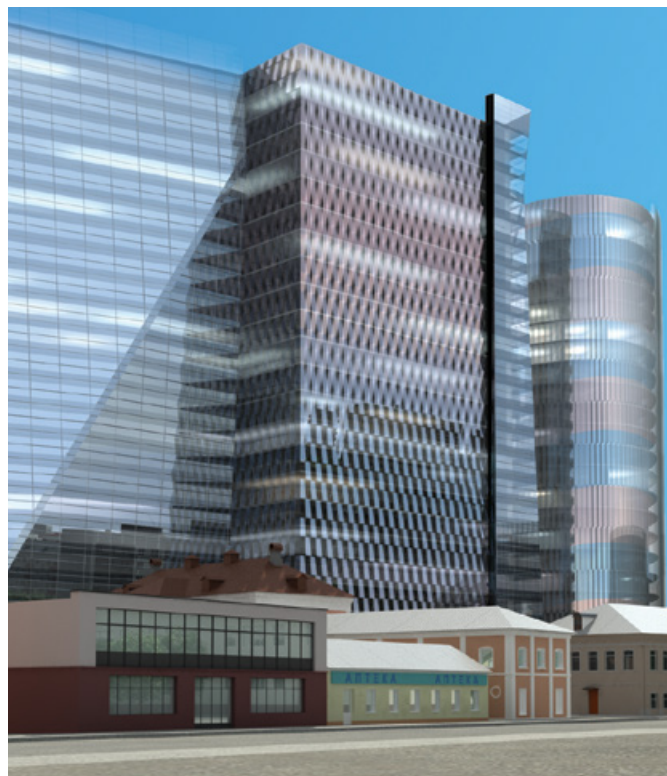
## EXPOLON



Expolon is designed as a centre for wholesale trade of apparel and fashion. The space will allow producers and distributors to lease showrooms to exhibit their collections, while allowing buyers and owners of fashion shops to make procurement transactions. The development concept envisages rentable showroom space, an office zone, a food-court and a small hotel for the convenience of visitors.

Type	Mixed-use retail/office
Company share	100%
GBA,(sq.m)	111,770
GLA, (sq.m)	70,000
Parking, units	1,200
Valuation by Cushman & Wakefield as at 31.12.2013 (US\$ million)	106.7
Status	Under Construction





## BOLSHAYA POCHTOVAYA

Type	Residential
Company share	100%
GBA, (sq.m)	170,350
GSA, (sq.m) / GLA, (sq.m)	63,152 / 28,008
Parking, units	1,771
Valuation by Cushman & Wakefield as at 31.12.2013 (US\$ million)	139.4
Status	Planning stage

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



## PAVELETSKAYA PHASE II

Type	Residential
Company share	100%
GBA, (sq.m)	151,373
GSA, (sq.m.) / GSA commercial (sq.m.)	53,252 / 21,043
Parking, units	1,760
Valuation by Cushman & Wakefield as at 31.12.2013 (US\$ million)	92.7
Status	Planning stage

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

## COMPLETED PROJECTS

### FOUR WINDS PLAZA



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

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





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



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

## FOUR WINDS RESIDENTIAL

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

## OZERKOVSKAYA (AQUAMARINE) PHASE II

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

## Board of Directors

AFI Development PLC is managed by the Board of Directors, which consists of seven<sup>1</sup> directors with vast experience in the fields of finance, banking, real estate and investment management. Of the company's seven directors, four are independent.



### Lev Leviev

#### Executive Chairman of the Board

Mr Leviev has served as the Chairman of the Board of Directors since 1 January 2008. On 22 November 2012 he became Executive Chairman. He holds a 47.23% stake in Africa Israel Investments Ltd and also serves as its Chairman. He is also the owner and the President of the LLD Diamonds Ltd Group and is the President of the Federation of Jewish Communities of the CIS.



### Mark Groysman

#### Executive Director

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



### Avraham Novogrocki

#### Non-Executive Director

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

<sup>1</sup>Following the resignation of Mr Michalis Sarris on 1 March 2013.





## Christakis Klerides

Senior Independent Non-Executive Director;  
Chairman of the Audit Committee, Senior Independent Director

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



## Moshe Amit

Independent Non-Executive Director;  
Chairman of the Nomination Committee

Mr Amit serves as an independent non-executive director of AFI Development PLC and is Chairman of the Remuneration Committee. He is also Chairman of the Board of Directors of Delek-the Israel Fuel Corporation Ltd and holds board memberships at a number of companies, including Blue Square Chain Properties & Investments Ltd. Mr Amit holds a banking diploma from the Israeli Banking Institute and a Bachelors degree in political science and sociology from Bar-Ilan University, Israel.



## Panayiotis Demetriou

Independent Non-Executive Director;  
Chairman of the Remuneration Committee

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



## John Porter

Independent Non-Executive Director

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



## Michalis Sarris

Independent Non-Executive Director\*

Mr Sarris served as an independent non-executive director of AFI Development PLC. He is a former Minister of Finance of the Republic of Cyprus (2005 to 2008) and previously held a senior position with the World Bank. During the course of his career at the World Bank, Mr Sarris' work has covered a broad range of sectors in Africa, Latin America and East Asia. As Cyprus' Finance Minister, Mr Sarris prepared for and successfully introduced the Euro as its national currency. Mr Sarris received his B.Sc. in Economics at the London School of Economics. He continued his studies in the United States where he obtained his Doctorate in Economics.

\*Mr Sarris resigned from AFI Development Board of Directors on 1 March 2013 following his appointment as Minister of Finance of the Republic of Cyprus.

## Management team

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



### Mark Groysman

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

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



### Tzvia Leviev-Eliazarov

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

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



### Natalia Pirogova

Deputy CEO Finance and Economics, OOO AFI RUS

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



### Kemal Sayrak

Deputy CEO Construction and Development, OOO AFI RUS

Mr Sayrak joined AFI Development in April 2012. Prior to joining AFI Development Mr Sayrak was Managing Director of a major developer Capital Partners, where he led its landmark projects, such as Metropolis mixed-use development, Ritz Carlton Moscow Hotel, Pushkino Logistics Park. Mr Sayrak also held a position of Managing Director of Cushman & Wakefield Property Management and had various roles with ENKA, one of Moscow's largest development and construction companies (for over 17 years). Mr Sayrak is a graduate of Istanbul Technical University.



### Vyacheslav Khlopunov

Deputy CEO Legal Affairs and Investments, OOO AFI RUS

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



### Evgeny Potashnikov

Technical Director, OOO AFI RUS

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



# OPERATIONAL REVIEW



# Operational review

## Market overview – general Moscow Real Estate

### Macroeconomic environment

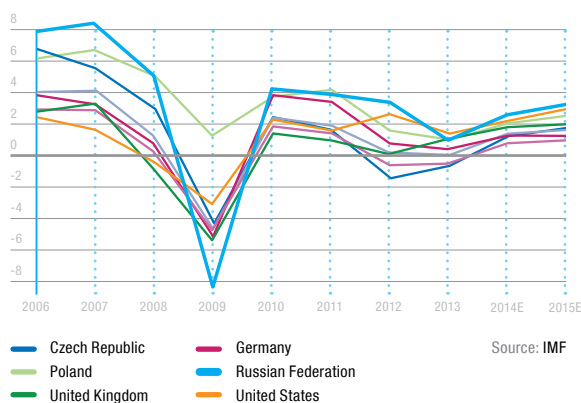
Despite a slowdown in Russia's overall economic growth during 2013 to 1.4%<sup>1</sup>, retail trade and the consumer market recorded above average growth in real terms at 4.5% year-on-year.

At 0.5% of GDP<sup>2</sup>, Russia's budget deficit was lower than originally planned. At the same time, inflation remained under control and largely unchanged year-on-year at 6.5%<sup>3</sup>, whilst the country enjoyed close to full employment.

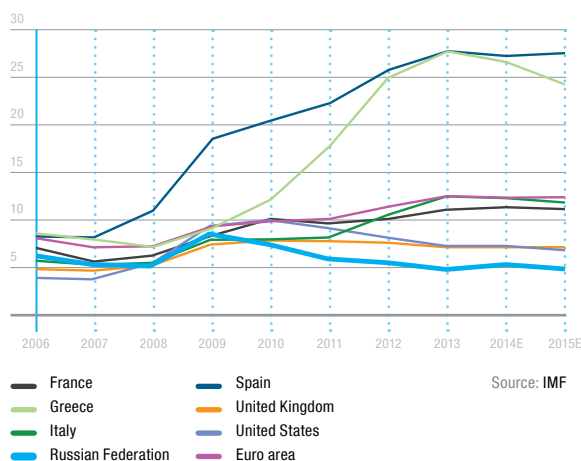
Once again, oil prices continued to drive Russian budget revenues with the share of oil and gas revenues at 46.1% in 2013, against 50.2% in 2012. In the 2014-2016 budget, the Ministry of Finance set out its oil price estimates with US\$93 per barrel of Urals forecast for 2014 and US\$95 for 2015-2016<sup>4</sup>

In 2013, Russia had the third-highest foreign direct investment inflows in the world, supported by a number of recently adopted foreign investor friendly laws. High investment flows into Russia are expected to continue over the coming years. The recent uncertainty related to the outcome of involvement of Russia in Crimea in the Ukraine may, however, have negative influence on the Russian economy in 2014.

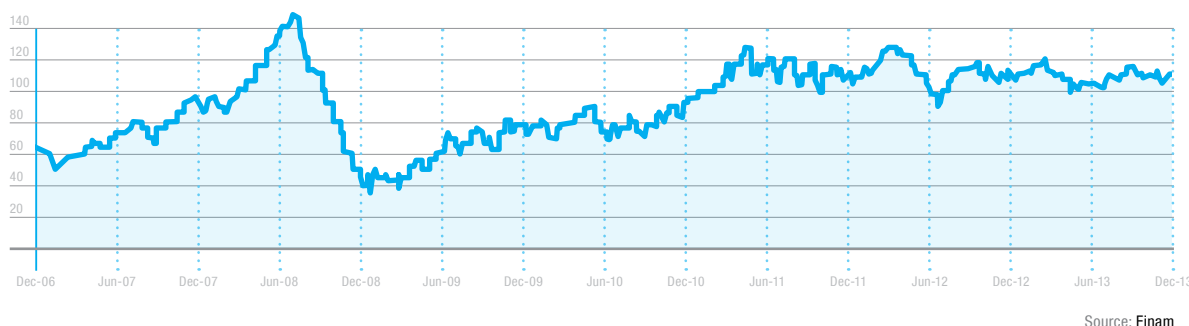
GDP growth by country, %



Unemployment by country, %



Monthly average price, Brent US\$ per barrel



<sup>1</sup>State Statistics Agency of the Russian Federation

<sup>2</sup>Ministry of Finance

<sup>4</sup>Country Report February 2014, Economist Intelligence Unit Limited



## Moscow office market

Whilst the overall volume of project completions in 2013 increased by 57% year-on-year to 888,270<sup>5</sup> sq.m., only 25% of new office schemes met Class A requirements, with the majority classified as Class B. In addition, close to half of all new construction was located outside the Third Transportation Ring.

Driven by the considerable volume of new supply, the average vacancy rate in Class A increased slightly to 18.5%, whilst rental rates continued to grow by 7-12% year-on-year, subject to building class and location.

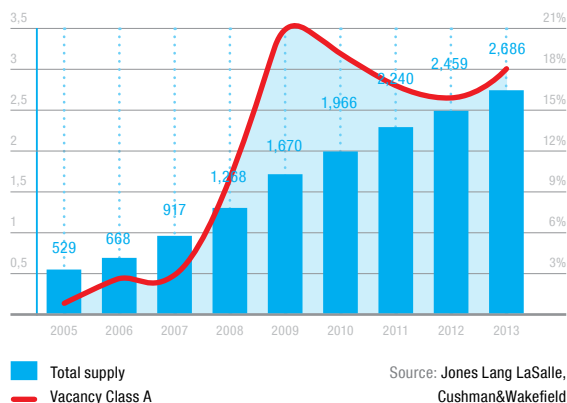
The average asking rental rate for Class A buildings amounted to US\$870 while for Class B, the average asking rental rate was stable at US\$530. Average annual rental rates for prime office space were at the level of US\$1,200 per sq.m<sup>6</sup>. (excluding VAT and on a triple net basis). Looking to 2014, 70% of the announced pipeline is located outside of central Moscow, with overall completion volumes estimated at slightly below 2013 levels. Rental rates are expected to remain largely stable.

## Moscow retail market

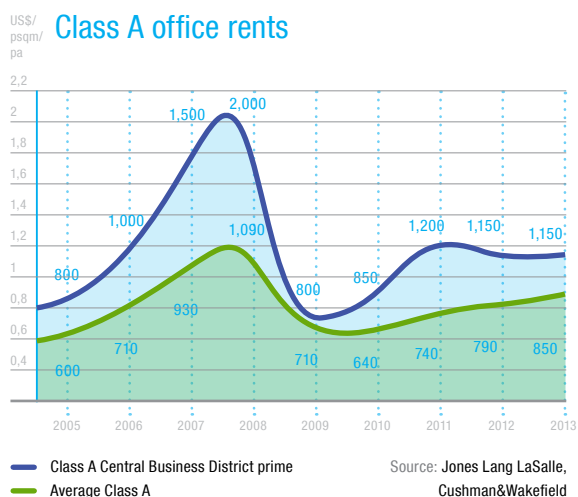
During 2013, the Russian market received 1.65 million sq.m. of new quality retail space, slightly below the completion volumes seen in 2012 (1.7 million). A total of 63 new retail complexes were constructed across 40 Russian cities, with 9 quality shopping centres totalling 231,850 sq.m. opening in Moscow<sup>7</sup>.

Demand from international retailers looking to extend their presence in Moscow remained healthy, boosted by continued volatility in the Eurozone. With stock per 1,000 inhabitants at 306 sq.m. as at end-2013 – compared to 690 sq.m. in Warsaw and 627 sq.m. in Paris – Moscow's retail market penetration continues to offer significant growth opportunities. Throughout 2013, the

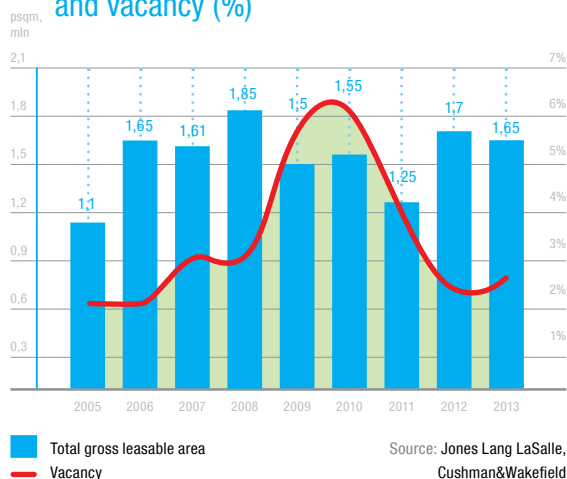
### Class A office space supply (sq.m.) and vacancy (%)



### Class A office rents



### Moscow retail supply (sq.m.) and vacancy (%)



<sup>5,6</sup>Cushman & Wakefield, MarketBeat

<sup>7</sup>Commercial Real Estate Market Report Q4 2013, Jones Lang LaSalle

average vacancy rate and rental levels remained stable across all sub-sectors. The level of vacant space in quality retail shopping malls reached record lows at 1% - 1.5%, driven by the low level of new construction in Moscow.

Moscow retail gallery rental rates are in the range of US\$500-4,000 (per sq.m. per annum excluding VAT and other expenses). Moscow's "prime retail indicator"<sup>8</sup> is US\$ 4,000 per sq.m. per annum (excluding VAT and other expenses)<sup>9</sup>.

## Moscow and Moscow region residential market

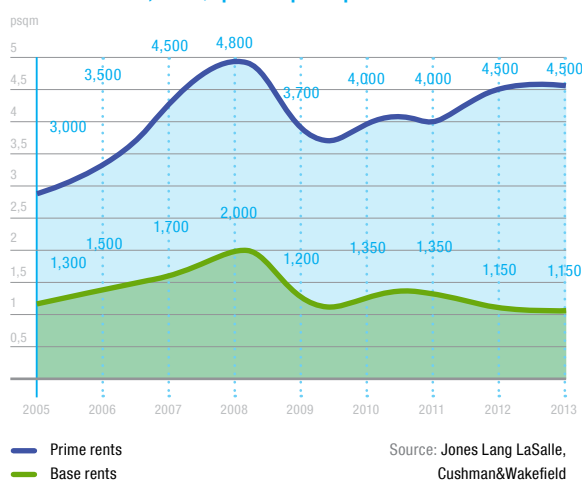
According to Rosstat, 69.4 million sq.m. of housing was commissioned in Russia during 2013, which is 5.5% more than during 2012. The Moscow region continued to witness the highest levels of construction with 6.9 million sq.m. introduced across the Moscow suburbs<sup>10</sup>.

The volume of new supply in the business segment in Moscow is estimated at 82,000 sq.m. At end 2013, the average market price for business class apartments stood at US\$ 6,851 per sq.m.<sup>11</sup>.

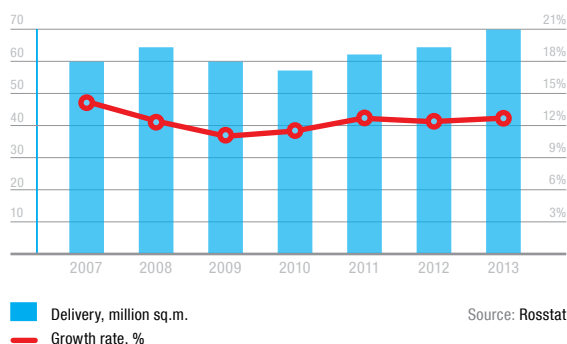
The supply levels of new residential housing in the Moscow region declined in 2013 compared to 2012, driven mainly by a policy change of the Moscow regional government and the extension of approval documents' terms. Of a total of 434 new buildings constructed, the majority represented comfort class housing.

At end-2013, the average market price for apartments in the Moscow region stood at RUR 74,830 or US\$2,276 per sq.m., up 6% year-on-year.

### Retail rents, US\$ per sq.m. per annum



### Residential development in Russia, delivery (million sq.m.) and growth rate (%)



<sup>8</sup>Base asking rental rate for the 100-200 sq.m. gallery unit at the ground floor of a prime shopping centre, US\$ per annum, triple net

<sup>9</sup>Commercial Real Estate Market Report Q4 2013, Jones Lang LaSalle

<sup>10</sup>State Statistics Agency of the Russian Federation

<sup>11</sup>Residential Market Overview, Blackwood, 2013





## Project-specific activities and review

The Company announced the following updates to its portfolio during 2013:

### YIELDING ASSETS

#### AFIMALL CITY

AFIMALL City is a major retail scheme located in the high-rise business district of Moscow, "Moscow-City". With a total GBA of nearly 283,182<sup>1</sup> sq.m. (including parking), and GLA of nearly 107,000 sq.m., the project has a shopping gallery of nearly 400 shops and an 11-screen movie theatre with a number of additional outstanding leisure facilities. AFIMALL City is one of Europe's largest and most ambitious retail developments in recent years. The Mall introduces a new standard of quality to the Russian retail sector and offers visitors a combined shopping, dining and entertainment experience unmatched in any other retail development in Moscow.

During 2013, despite ongoing construction work in its surrounding area, AFIMALL City reported a strong 45% increase in average daily footfall year-on-year (December 2013 to December 2012).

In the course of the year, over 60 new tenants signed leases with AFIMALL City including Samsung, TSUM Discount, H&M Home, Gant, Desigual, Marc O'Polo and New Balance. In order to further increase awareness levels of the Mall, the Company continued its marketing campaign through a variety of media channels including TV, radio, Internet, and outdoor advertising media.

We are also pleased to announce that at the start of 2014 a new metro station named "Delovoy Tsentr" was opened which, similar to "Vistavochная" station, provides direct access to AFIMALL. Over the next two years, this station will become the main connecting point for a new line which will link the densely populated residential districts Ramenky, Horoshevskiy, Savvinsky and Maryina Roscha.

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

The development environment of Moscow City continues to be a strong driver for the future of AFIMALL. According to CBRE, about 70,000 sq.m. of new office space was delivered in Moscow City during 2013. A few large lease contracts were signed in the Mercury, Federation, Naberezhnaya and Northern Towers, with the 14,000 sq.m. lease in the Mercury Tower by Norilsk Nickel being the largest. About 120,000 workforce are expected to work in the Moscow City area once all planned office space has been constructed. The scheduled completion of the entire "Moscow City" area is planned for 2018.

According to independent appraisers Cushman & Wakefield, the market value of AFIMALL City as of 31 December 2013 was US\$1,160 million.

## OZERKOVSKAYA III

Ozerkovskaya (Aquamarine) III is an office complex forming part of the "Aquamarine" mixed-use development, located on the Ozerkovskaya embankment in the very heart of the historical Zamoskvorechie district of Moscow. The project consists of four Class A buildings of 55,421 sq.m. of combined lettable space and common underground parking for 551 cars<sup>2</sup>. 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 among Moscow's commercial developments.

In accordance with overall management strategy, the Company completed a transaction to sell one of the four Class A buildings in the Complex, along with part of the underground premises to Russian diamond miner Alrosa in December 2013. The transaction consisted of a gross office area of 10,985.8 sq.m., a terrace of 418.9 sq.m. and a 15.8% share title to common areas of the Complex, which totalled 3,728.6 sq.m. The total transacted area corresponded to approximately 11,994 sq.m. The consideration was paid in cash and amounted to an equivalent of US\$91.5 million and applicable Russian VAT.

Following the transaction, the Company retains title to the remaining three buildings of the Complex, which have a combined area of 61,772 sq.m. (GLA 46,247 sq.m.).

AFI Development is negotiating with potential buyers and tenants on selling/leasing the remainder of the project either in full or in parts.

According to independent appraisers Cushman & Wakefield, the market value of the remaining buildings of the Complex as of 31 December 2013 was US\$323.7 million.

## HOTELS

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

### AQUAMARINE HOTEL

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

The Hotel provides high level services at reasonable pricing and offers 159 spacious rooms, a fitness-centre, spa-centre, bar, restaurant, and conference rooms. It is located in the Zamoskvorechie district which is a 20 minute walk from both the Kremlin and the Tretyakov Gallery and a 5 minute walk from the Novokuznetskaya and Tretyakovskaya metro stations. The Hotel has added to the infrastructure of the historical district and is convenient for both business travellers and tourists.

The Hotel's performance in 2013 was similar to 2012, with an ADR (average daily room rate) of US\$231.

The balance sheet value of the project as of 31 December 2013 was US\$30.9 million.

<sup>2</sup>This is the project data prior to the disposal transaction of Building 1.





## PLAZA SPA HOTEL ZHELEZNOVODSK

Plaza Spa Zheleznovodsk is a new sanatorium project which was launched in the summer of 2012 and is located in the Zheleznovodsk, in the Caucasus mineral waters region. The hotel comprises 134 guest rooms on 9,526 sq.m. of gross buildable area. The spa provides diagnostic assessment and treatment of urological diseases.

The balance sheet value of the project as of 31 December 2013 was US\$22.4 million.

## PLAZA SPA KISLOVODSK

The Plaza Spa is located in the city centre of Kislovodsk, in the Caucasus mineral waters region. The facility was put into operation in 2008 after a full reconstruction and now has a total of 275 rooms spread over 25,000 sq.m.

Today, the Plaza Spa Kislovodsk is a popular spa hotel which has established new standards of quality and hospitality for the entire region. It offers an extensive range of medical services focused on the treatment of cardiac diseases. Diagnostic and treatment equipment is continually updated and the staff regularly attend training sessions for new methods of treatment to aid rehabilitation of patients.

The balance sheet value of the Company share in the project (50%) as of 31 December 2013 was US\$24.8 million.

## DEVELOPMENT PROJECTS

### TVERSKAYA PLAZA IC

During 2013, AFI Development progressed with the development of the most advanced office project in the Tverskaya Zastava area – the office complex Plaza Ic, which is a Class A office complex located in the cultural and business quarter of the Tverskoy sub-district. The building is located within a 4-minute walk of the circle line of the 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 51,200 sq.m. (including underground parking of approximately 519 parking spaces) and an estimated GLA of 32,454 sq.m.

Following the registration of a 10-year land lease agreement, the Company successfully finalised the development concept and is in the final stages of pre-construction works. Start of construction is scheduled for H1 2014 and the Company is currently in the process of selection and appointment of the general contractor.

On March 7, 2014 the Company received a construction permit for the development.

Based on an independent valuation of the Company's portfolio by Cushman & Wakefield as of 31 December 2013, the fair value of Plaza Ic is US\$110.6 million.

### TVERSKAYA PLAZA IIA

Plaza Ila is a Class A office complex located on a plot of land that faces the Belorussky railway station on the opposite side of Tverskaya Zastava Square. The project has a GBA of 10,500 sq.m. (including underground parking) and an estimated GLA of 7,600 sq.m.

Following a review by the Moscow City authorities of the transportation scheme at Tverskaya Zastava Square, the exact borders of the land plot of Tverskaya Ila will need to be aligned with the new transportation scheme. However, the Company has been notified by the authorities that the development of the transporta-

tion scheme has been postponed. The Company will begin the planning process of this project once land plot borders have been fully defined.

Based on an independent valuation of the Company's portfolio by Cushman & Wakefield as of 31 December 2013, the fair value of Plaza Ila is US\$12.4 million.

### TVERSKAYA PLAZA IV

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

During 2013, the Company progressed with securing the land lease agreement with Moscow authorities, having finalised the borders of the land plot.

Based on an independent valuation of the Company portfolio by Cushman & Wakefield as of 31 December 2013, the fair value of Plaza IV was US\$168.4 million.

### KOSSINSKAYA - EXPOLON

The Company has decided to revise its development plan for the Kossinskaya project, converting it into a centre for the wholesale trade of apparel and fashion. The space will allow producers and distributors to lease show rooms to exhibit their collections, while allowing buyers and owners of fashion shops to make procurement transactions. While these business-to-business fashion complexes are new to Russia, they successfully operate in Italy, Germany, the Netherlands and the US. The revised development concept envisages lettable showroom space, an office zone, a food court and a small hotel for the convenience of visitors. The project will be operated under the marketing name "Expolon".

The change of development concept did not have a significant influence on the project value. Based on an independent valuation of the Company portfolio by Cushman & Wakefield as of 31 December 2013, the fair value of Kossinskaya is US\$106.7 million.





## ODINBURG

In October 2013, AFI Development began construction at “Odinburg”, one of the Company’s largest residential projects with a total area of over 33 hectares located 11 km west of Moscow in the town Odintsovo.

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

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

- Phase I – Construction of a 22-section residential building named Korona (Crown) and of the infrastructure for the kindergartens and schools. This will have a total sellable area of 149,432 sq.m. (2,652 apartments);
- Phase II – Construction of 8 residential buildings and of infrastructure for the kindergartens, schools and outdoor multi-level parking. This will have a total sellable area of 319,775 sq.m. (6,247 apartments). Each phase includes commercial premises on the ground floor that are planned to be sold to end users.

Initial construction works, allocated to the first stage of Phase I, were launched during Q3 2013, and in December 2013 the Company began initial sales of apart-

ments in the Korona residential building. As of the date of publication of this report, 107 contracts for sales of apartments have been signed.

For the convenience of customers, the Company has constructed a sales office with an area of about 600 sq.m. Within this office, potential buyers can receive comprehensive consultation on the project, available apartments as well as apply for a mortgage loan from various banks.

To market the project, AFI Development has appointed two exclusive marketing brokers, Est-a-Tet and BEST Real Estate, both having significant experience in residential sales. The balance sheet value of the project as of 31 December 2013 was US\$127.2 million.

## PAVELETSKAYA II

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

Following the decision of the town-planning land committee ("GZK") and the land plot master-plan ("GPZU") the GBA of the project was determined to be 151,373 sq.m., which includes 61,401 sq.m of residential area, circa 29,828 sq.m. of commercial area and 50,785 sq.m. of underground space.

During the third quarter of 2013, AFI Development finalised negotiations with the Moscow City authorities to change the permitted usage of the land plot. In November 2013, the Company signed a 6-year land lease agreement for further development and construction of the residential and commercial space. This resulted in a US\$81.0 million gross valuation gain (US\$64.8 million net of taxation).

Based on an independent valuation of the Company portfolio by Cushman & Wakefield as of 31 December 2013, the fair value of Paveletskaya Phase II is US\$92.7 million.

## BOLSHAYA POCHTOVAYA

Bolshaya Pochtovaya is a mixed-use project with predominantly residential use. It is located in an attractive neighbourhood in the central administrative district of Moscow. The area benefits from a developed infrastructure: transport, shops and cultural/leisure amenities as well as a nearby river which significantly enhances the views from the project. It boasts a GBA of 170,350 sq.m. on a land area of 5.65 hectares.

The development plan for the property anticipates the development of a GBA of 170,350 sq.m., which includes 67,800 sq.m. of residential area, 39,150 sq.m. of commercial area and 62,200 sq.m. of underground area.

Currently, the Company is working on securing the land lease agreement to allow construction in accordance with the new development plan as well as on the planning and design of the project.

Based on an independent valuation of the Company portfolio by Cushman & Wakefield as of 31 December 2013, the fair value of Bolshaya Pochtovaya is US\$139.4 million.

## LAND BANK

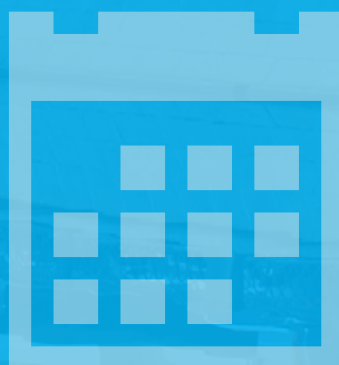
In addition to multiple yielding properties and projects under development, AFI Development also has a land bank which consists of projects that are not currently under development.

By retaining full flexibility regarding future development of these projects, the Company remains well placed to benefit from further recovery in the regional real estate markets. Given its strong track record in bringing projects to completion, this represents a significant competitive advantage for AFI Development.

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



# PRINCIPAL BUSINESS RISKS AND UNCERTAINTIES AFFECTING THE COMPANY



# Principal business risks and uncertainties affecting the Company

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

## Risk management framework

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

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

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

## Credit risk

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

### Trade and other receivables

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

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

### Investments

The Company limits its exposure to credit risk by investing only in liquid securities and only with counterparties that have a high credit rating. Management ac-



tively monitors credit ratings and given that the Group only has invested in securities with high credit ratings, management does not expect any existing counterparty to fail to meet its obligations, except as disclosed in note 24 to the Company's Audited Financial Statements for 2013.

## Guarantees

The Company's policy is to provide financial guarantees only to wholly-owned subsidiaries in exceptional cases. In negotiations with lending banks the Company is aiming to avoid recourse to AFI Development on loans taken by subsidiaries. As at 31 December 2013, there were two outstanding guarantees: one for the amount of US\$1 million in favour of VTB Bank JSC under a loan facility agreement of Bellgate Construction Limited and the second one for the amount of US\$205 million in favour of VTB Bank JSC under a loan facility agreement of Krown Investments LLC.

## Liquidity risk

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

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

## Market risk

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

## Interest rate risk

We are subject to market risk deriving from changes in interest rates, which may affect the cost of our current floating rate indebtedness and future financing. As of 31 December 2013, 41% of our financial liabilities were fixed rate. For more detail see note 34 to our consolidated financial statements.

## Currency risk

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

## Operational risk

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

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

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

## Critical accounting policies

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

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

## Estimates regarding fair value

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

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

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

## Impairment of financial assets

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

Estimating the discounted present value of the estimated future cash flows of a financial asset is inherently uncertain and requires us both to make an estimate of the expected future cash flows from the asset and also to choose a suitable discount rate in order to calculate the present value of those cash flows. Changes in one or more of these estimates can lead us to either recognizing or avoiding impairment charges.





## Impairment of non-financial assets

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

We assess at each reporting date whether there is any indication that a non-financial asset may be impaired. If any such indication exists, we then estimate the recoverable amount of the asset. Estimating the value in use requires us to make an estimate of the expected future cash flows from the asset and also to choose a suitable

discount rate in order to calculate the present value of those cash flows. The development of the value in use amount requires us to estimate the life of the asset, its expected cash flows over that life and the appropriate discount rate, which is primarily based on our weighted average cost of capital, itself subject to additional estimates and assumptions. Changes in one or all of these assumptions can lead to us either recognizing or avoiding impairment charges.

## Deferred income taxes

We are required to estimate our income taxes in each of the jurisdictions in which we operate. This process involves a jurisdiction-by-jurisdiction estimation of actual current tax exposure and the assessment of the temporary differences resulting from differing treatment of items, such as capitalization of expenses, among others, for tax and financial reporting purposes. These differences result in deferred tax assets and liabilities, which are included within our consolidated balance sheet. We must assess, in the course of our

tax planning process, our ability and the ability of our subsidiaries to obtain the benefit of deferred tax assets based on expected future taxable profit and available tax planning strategies. If, in our management's judgment, the deferred tax assets recorded will not be recovered, a valuation allowance is recorded to reduce the deferred tax asset.

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

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

## Share-based payment transactions

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

## Related party transactions

There were no related party transactions (as defined in the UK Listing Rules) in the financial year ended 31 December 2013 or in the period since 31 December 2013.



# CORPORATE GOVERNANCE



# Corporate Governance

## Compliance with the UK Corporate Governance Code

Although the Company is incorporated in Cyprus, its shares are not listed on the Cyprus Stock Exchange, and therefore it is not required to comply with the corporate governance regime of Cyprus. Pursuant to the Listing Rules however, the Company is required to comply with the 2012 UK Corporate Governance Code<sup>1</sup> (the “Code”) or to explain its reasons for non-compliance. The Company’s policy is to achieve best practice in its standards of business integrity in relation to all activities. This includes a commitment to follow the highest standards of corporate governance throughout the AFI Development group.

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

## Working processes at the Board of directors

### Balance of directors

Throughout 2013, the Company had a strong non-executive representation on the Board. Of the seven directors currently on the Board, there are five non-executive directors, four of whom are independent. The four independent non-executive directors are Christakis Klerides, Panayiotis Demetriou, John Porter and Moshe Amit. Christakis Klerides continued to serve as Senior Independent Director, a position he was appointed to in 2010. The Board is satisfied that no one individual or group of directors has unfettered powers of discretion, that an appropriate balance exists between the executive and non-executive members of the Board and that between them, the directors bring the range of skills, knowledge and expertise necessary to lead the Company.

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

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



ate business strategy for Board approval, and ensuring that the agreed strategy is implemented in a timely and effective manner.

When appointing new directors to the Board, objective criteria are applied. Appointments are made on merit with due regard to the benefit of diversity on the Board, both in terms of a broad range of skills, expertise and experience, and with respect to gender. The Company is committed to the principle of diversity and equal opportunities. As of 31 December 2013, female representation across the workforce of AFI Development was approximately 69%, while at the middle management level the figure was approximately 64%. In addition, 40% of the senior management team of OOO AFI RUS, the Company's main operating subsidiary, are female.

## Board practices

The Board of Directors normally meets at least five times a year to review trading performance, budgets and funding; to set and monitor strategy; to examine acquisition opportunities; and to report to shareholders. There is a formal schedule of matters specifically reserved to the Board for decisions<sup>2</sup>.

To enable the Board to perform its duties, each director has full access to all relevant information. It is the Executive Chairman's responsibility to ensure that the Board is provided with accurate, timely and clear information in relation to the Company and its business.

Attendance at Board Meetings in 2013 was as follows:

Name	Board	Audit Committee	Remuneration Committee	Nomination Committee
Lev Leviev	8	-	-	-
Mark Groysman	9	-	-	-
Avraham Novogrocki	9	-	-	-
Christakis Klerides	10	5	4	2
Moshe Amit	9	4	4	2
John Porter	6	5	4	2
Michalis Sarris <sup>3</sup>	1	-	-	-
Panayiotis Demetriou	10	-	4	2
Dates held	10.01.2013			
	18.03.2013	18.03.2013	18.03.2013	
	20.05.2013	20.05.2013		
	04.06.2013			
	04.07.2013			
	08.08.2013	08.08.2013	08.08.2013	08.08.2013
	09.09.2013			
	18.11.2013	18.11.2013	18.11.2013	18.11.2013
	28.11.2013			
	18.12.2013	18.12.2013	18.12.2013	
No. of meetings held during 2013	10	5	4	2

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

<sup>2</sup>A copy of the schedule can be found on the Company website: [www.afi-development.com](http://www.afi-development.com).

<sup>3</sup>Mr Sarris resigned from the Board of Directors on 1 March 2013.

**The matters discussed at the board meetings included:**

- the approval of financial statements;
- the approval of the annual budget;
- the approval of various transactions (including the disposal of Building 1 at the Ozerkovskaya III project);
- the approval of company policies;
- a review of committee recommendations;
- the approval of audit reports and financial statements.

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

During the Board Meeting on 20 May 2013 the Executive Chairman held a meeting with the non-executive directors, without the executive directors being present. At the Board Meeting on 18 December 2013 the non-executive directors met without the Chairman present to appraise the Chairman's performance in 2013.

## Terms of appointment

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

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

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

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

## Board and Chairman appraisals

In 2013 AFI Development conducted performance evaluations for the Board and its committees in-house using the "Board Governance Analysis" service package of the UK Institute of Directors.

The appraisal of Chairman's performance was conducted in December 2013 by the non-executive directors, under the leadership of Mr Christakis Klerides, the Senior Independent Director.

## Resignations from the Board

Mr Michalis Sarris resigned from the Board on 1 March 2013 following his appointment as Finance Minister of the Republic of Cyprus.

## Committees

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

### Nomination Committee

The Nomination Committee is comprised of four directors: Moshe Amit (Chairman), Christakis Klerides, John Porter and Avraham Novogrocki. All members of the Committee, except Mr Novogrocki, are independent non-executive directors. The Nomination Committee meets at least once a year and more frequently if required. It is responsible for preparing selection criteria and appointment procedures for members of the Board and reviewing on a regular basis the structure, size and composition of the Board. In undertaking this role, the



Committee refers to the balance of skills, knowledge, independence and experience required on the Board based on the Company's stage of development and in light of such considerations, makes its appointment recommendations to the Board. When assessing candidates, the Nomination Committee uses objective criteria; all appointments are based on merit. The Nomination Committee also considers future appointments and makes recommendations regarding the composition of the Audit and Remuneration Committees.

During 2013 the Nomination Committee met on two occasions. The Committee made a recommendation to the Board regarding the continued appointment of Mr Mark Groysman as the CEO of AFI RUS LLC (the main Russian operating subsidiary). The recommendation made by the Nomination Committee was adopted by the Board.

## Remuneration Committee

The Remuneration Committee consists of four directors: Panayiotis Demetriou (Chairman), Moshe Amit, Christakis Klerides and John Porter. On 18 November 2013 Mr Panayiotis Demetriou was appointed Chairman of the Committee, to replace Mr. Moshe Amit. All committee members are independent non-executive directors.

### **The Remuneration Committee is responsible for:**

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

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

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

The Remuneration Committee met on four occasions in 2013. It discussed and made recommendations to the Board on annual bonuses to executive directors and senior executives, accepting waivers of two option holders of options to Company shares and on appointing a new Committee Chairman.

The Remuneration Committee did not appoint any external consultants during 2013.

## Audit Committee

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

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

- the integrity of the Company's financial statements, including its annual and interim accounts;
- the adequacy and effectiveness of the Company's internal controls, accountancy standards and risk management systems, assessing consistency and clarity of disclosure as well as the operating and financial review and corporate governance statement;
- the terms of appointment and remuneration of the Company's external auditor, assessing independence

and objectivity and ultimately reviewing the findings and assessing the standard and effectiveness of the external audit; and

- managing the internal audit, including the appointment of an internal auditor, approving annual internal audit plans and reviewing internal audit reports.

The Audit Committee supervises and monitors, and advises the Board on risk management and control systems and the implementation of codes of conduct. In addition, the Audit Committee supervises the submission by the Company of financial information and a number of other audit-related issues (both external and internal) and makes recommendations to the Board accordingly.

The Audit Committee held five meetings during 2013. The Board is satisfied that at all stages during 2013 at least two members of the Audit Committee had recent and relevant financial experience.

The matters reviewed and considered by the Audit Committee in 2013 included:

- The Internal Audit Report on the Plaza Spa Hotel Zheleznovodsk Project;
- The Internal Audit Report on Security;
- The Internal Audit Report on Corporate Governance.

## Dividends

During 2013, the Company did not pay any dividends. In the future, the Company may consider making dividend payments in respect of its ordinary shares, when and if commercially prudent, after taking into account profits, cash flow and capital investment requirements. No dividends will be paid otherwise than out of profits.

## Safety

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

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

## Communication with shareholders

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

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

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



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

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

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

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

## Risk management processes and internal control

### Internal auditor

During 2013, Mr Shaul Dabby, who has been the Company's internal auditor since 2010, continued to serve in his role. On 1 February 2014 Mr Dabby resigned from his position, and the Board of Directors appointed Mr Ami Faivel as the new internal auditor of the Company on 17 March 2014.

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

### Principal aspects of the Company's internal control

The Board has overall responsibility for maintaining the Company's system of internal control to safeguard

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

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

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

These regulations were introduced to improve the quality and accuracy of financial reporting and disclosure for “reporting companies” in Israel, within the meaning thereof in the Securities Law 1968 (hereinafter – “the Israeli Securities Law”), by improving the internal control infrastructure over the financial reporting and disclosure processes in companies and by strengthening management commitment to ensuring their quality and accuracy. For this purpose, the regulations include an obligation on the part of “reporting companies” in Israel to attach to their financial statements a management declaration regarding the accuracy of the financial information included therein. The regulations also introduce a reporting obligation to prepare a separate report of the Board and management regarding the effectiveness of the internal control over financial reporting and disclosure. Additionally, “reporting companies” have an obligation to attach an opinion report of an external auditor regarding the effectiveness of the internal control. As a practical result, management of a “reporting company” is required to establish a system of internal control over the financial reporting and the disclosure processes, which is intended to provide a reasonable level of confidence regarding the accuracy and reliability of financial reports and disclosures.

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

## Internal control framework

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

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

**1. Entity Level Controls** - these are controls that may have an overall impact on the organisation. These organisationlevel controls constitute the infrastructure for the course and nature of the activities executed by the Company. These controls are embedded into the organisational structure of the Company. Controls at the Entity Level include, among others: Decision making process in the Company; Procedures regarding identifying, approving and reporting of transactions with related parties and people of interest; Procedures regarding identifying and approving transactions that are in conflict of interest; The appropriateness of the function of the Board and it’s Committees; Efficiency of the function of the Audit Committee; Segregation of duties between the management and the Board; Risk identification and risk management; Assessment and control over the corporate results; Active supervision of the Board over Company Management.

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

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

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

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

AFI Development Group employs a full time dedicated internal controller, who is responsible for day-to-day management of the internal control system, preparation and maintenance of necessary documentation, liaising with internal auditors and for internal control reporting to senior management.

Authority is delegated from the Board through the senior management to the operating divisions and clear reporting lines and assigned responsibilities exist amongst different management levels within each division. Segregation of duties is applied throughout the Company.

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

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

## Budgeting and reporting

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

## Financial control procedures

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

## Investment appraisal process

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

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



## Operation policies and procedures

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

## Compliance with laws and regulations

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

## Monitoring and review of activities

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

## Review of effectiveness

Based on results of a test of the effectiveness of the Company's risk management and internal control systems conducted as at 31 December 2013, the Board concluded that for the period ending on 31 December 2013 the risk management and internal control systems were effective. The Board continues to monitor the effectiveness of these systems on an ongoing basis as follows:

1. OOO AFI RUS management provides the Board with a quarterly declaration regarding the effectiveness of the financial, operational and compliance internal controls and discloses any information that has been detected during the period.

2. Half year evaluation – OOO AFI RUS management presents an extensive Board presentation regarding the results of the testing of the effectiveness of selected financial, operational and compliance internal controls.

3. Year-end evaluation – OOO AFI RUS management presents an extensive Board presentation regarding the results of testing of the effectiveness of the risk management, financial, operational and compliance internal controls.

## Financial reporting and the 'going concern' basis for accounting

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

The directors are responsible for the preparation of the Annual Report and financial statements of the Company. After making enquiries, the directors have a reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future. For this reason, they continue to adopt the going concern basis in preparing the accounts.





# DIRECTORS' REMUNERATION REPORT





# Directors' remuneration report

## The principles of directors' remuneration

AFI Development became a premium listed company on the London Stock Exchange in 2010 and during 2011 the Remuneration Committee and the Board of Directors revised the principles for executive and non-executive directors' remuneration to meet the requirements of the Code. The same principles were applied during 2013.

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

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

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

## Employee share option plan

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

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

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





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

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

The Remuneration Committee may satisfy (generally with the consent of the participant) an option on exercise by paying to the participant in cash or other assets the gain (i.e. the difference between the market value of the relevant A Ordinary shares or GDRs on the date of exercise and the exercise price), as an alternative to issuing or transferring A Ordinary Shares or transferring or procuring the transfer of GDRs to the participant.

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

In 2013, the Company did not grant any share options under the Share Options Plan.



## Directors' emoluments

The aggregate emoluments of each of the directors (including benefits in kind) for the financial accounting period ending 31 December 2013 were as follows:

Name	Salary / Fee	Benefits in kind	Annual bonuses	Pension	Total
Lev Leviev	US\$1,200,000	US\$0	US\$0	US\$0	US\$1,200,000
Mark Groysman	US\$500,000	US\$0	US\$230,000	US\$0	US\$730,000
Avraham Novogrocki	US\$0	US\$0	US\$0	US\$0	US\$0
Christakis Klerides	US\$80,149	US\$0	US\$0	US\$0	US\$80,149
Moshe Amit	US\$69,000	US\$0	US\$0	US\$0	US\$69,000
John Porter	US\$63,250	US\$0	US\$0	US\$0	US\$63,250
Michalis Sarris <sup>1</sup>	US\$9,350	US\$0	US\$0	US\$0	US\$9,350
Panayiotis Demetriou	US\$72,500	US\$0	US\$0	US\$0	US\$72,500

<sup>1</sup>Mr Michalis Sarris resigned from the Board on 1 March 2013.





## Long term incentive plan

As of 31 December 2013, there was no long term incentive plan available for the directors.

## Options held by directors and senior managers

### GDRs:

As of 31 December 2013, there were valid options over 1,017,240 GDRs granted with an exercise price of US\$7 vesting one-third on the second anniversary of the date of grant, a further one-third on the third anniversary and the remaining one-third on the fourth anniversary of the date of grant provided the participants remain in employment until the vesting date. The vesting is not subject to any performance conditions. The options for all 1,017,240 GDRs vested and their contractual life is 10 years from the date of the grant.

### B Ordinary Shares:

As of 31 December 2013, there were valid options over 46,622,385 B Ordinary shares. Options for 15,191,563 B Ordinary shares were granted on 21 May 2012 with an exercise price of US\$0.7208 and an option for 31,430,822 B Ordinary shares was granted on 22 November 2012 with an exercise price of US\$0.5667. All options are vesting one-third on the second anniversary of the date of grant, a further one-third on the third anniversary and the remaining one-third on the fourth anniversary of the date of grant provided that the participants remain in employment until the vesting date. The vesting is not subject to any performance conditions. As of 31 December 2013, none of the options to B Ordinary shares have vested. If an Optionholder ceases to hold any office in, or be employed by, any Member of the AFI Development Group by reason of dismissal by the Optionholder's employer (except



as a result of the Optionholder having been guilty of gross breach of duty or other serious breach of their employment contract, and as determined by the Remuneration Committee in its absolute discretion), the Optionholder shall remain entitled to exercise the option (to the extent already exercisable as at the date of termination) within the period of 90 calendar days following the date of termination. If and to the extent

that the Option has not been exercised nor otherwise lapsed in accordance with the Rules of the Share Option Plan, it shall lapse on the fifth anniversary of the date of the grant.

As of 31.12.2013, Company directors held the following share options:

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

## Pensions and benefits in kind

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

# FINANCIAL STATEMENTS

## MANAGEMENT DISCUSSION AND ANALYSIS



# Financial Statements

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

### Overview

As at 31 December 2013, the Company's portfolio consisted of 7 investment properties, 8 investment properties under development, 1 trading property under development and 5 hotel projects. The portfolio comprises commercial projects focused on offices, shopping centres, hotels, mixed-use properties and residential projects in prime locations in Moscow. The total value of the Company's assets, based predominantly on independent valuation as of 31 December 2013, was US\$2.4 billion<sup>1</sup>. About 65% of the assets book value is attributed to yielding properties.

Revenues for 2013 increased by 61% year-on-year to US\$202 million driven predominantly by strong rental income and the completion of the disposal transaction of 643 parking places to VTB Bank JSC. Consequently, AFI Development recorded a significant 29% year-on-year increase in gross profit to US\$76.3 million. At the same time, cash, cash equivalents and marketable securities increased by 16% to US\$203 million as at 31 December 2013.

As a result of the improvement in operational activities and the successful disposal of assets net profit for 2013 reached US\$103.9 million, compared to a net loss of US\$275.5 million in 2012.

### Key factors affecting our financial results

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

#### Macroeconomic factors

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

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

	Year ended 31 December 2013	Year ended 31 December 2012
Real Gross Domestic Product growth	1.3%	3.4%
Consumer prices	6.5%	6.6%

Source: State Statistics Agency of the Russian Federation

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



## Company specific factors

The following factors affected our performance in 2013:

- On 28 January 2013, the Company's subsidiary Krown Investments LLC refinanced its construction costs for the Ozerkovskaya III project with a credit line from JSC VTB Bank. The credit line which totaled US\$220.0 million carries an annual interest rate of 3 months Libor + 5.7%. The credit line was fully drawn down in two tranches in February and March 2013. The outstanding balance of the loan at 31 December 2013 was US\$205.4 million.
- In February 2013, AFI Development completed the purchase of the remaining 50% interest in the Ozerkovskaya project from its joint venture partner, Super Passion Limited, for a total cash consideration of US\$227.5 million and settled all outstanding liabilities to its partner Krown Investments LLC (the holding company with the rights to the project). As a consequence of the acquisition, the Company became the sole owner of the Ozerkovskaya III project.
- In January 2013, the Company completed the disposal of its 50% stake in Westec Four Winds Limited, with total consideration received of circa US\$103.4 million. The total profit on disposal was US\$50.7 million, US\$32.1 million of which were recognised as a gain in Q1 2013. The corresponding translation reserve was reclassified to profit or loss upon the disposal of the joint venture in the same quarter. An amount of US\$30.3 million was reclassified as realised foreign exchange loss in financing expenses.
- In June 2013, the Company completed the first stage of the disposal transaction of 643 parking spaces at AFIMALL City to VTB Bank JSC (which was signed in November 2012), incurring revenue from disposal of US\$ US\$54.5 million in Q2 2013.
- In November 2013, the Company signed a 6-year land lease agreement with the Moscow City Government for further development and construction of the residential and commercial space at Paveletskaya which resulted in a US\$81.0 million gross valuation gain (US\$64.8 million net of taxation).
- In December 2013, AFI Development completed the disposal of Building 1 of the Ozerkovskaya III Business Centre, along with part of the underground premises. The consideration paid to the Company was the equivalent of US\$91.5 million plus applicable Russian VAT.

## Disposals and acquisitions

During 2013, the Company made the following disposal:

In November 2013 AFI Development reached a binding agreement to dispose of Building 1 in the Aquamarine III office complex in Moscow (also known as Ozerkovskaya III), which consists of four separate buildings and underground parking ("the Complex"), to Russian diamond miner and producer "Alrosa" JSC. Under the transaction, Krown Investments LLC, the subsidiary holding rights to Aquamarine III, sold premises of the first building in the Complex and part of underground premises with gross area of 10,985.8 sq.m., a terrace of 418.9 sq.m. and approximately a 15.8% share in the title to common areas of the Complex, which total 3,728.6 sq.m. (total transacted area corresponds to approximately 11,994 sq.m.), to "Alrosa" JSC. The consideration was paid in cash and amounted to a Russian Rouble equivalent of US\$91.5 million and applicable Russian VAT. The transaction was successfully completed in December 2013.

During 2013, the Company made the following acquisition:

In January 2013, AFI Development entered into an agreement to purchase the remaining 50% interest and to settle all outstanding liabilities of AFI Development to its partner in Krown Investments LLC (the holding company with the rights to the Ozerkovskaya III project) from its joint venture partner, Super Passion Limited, for a total cash consideration of US\$227.5 million. The transaction was successfully completed in February 2013.

## Presentation of financial information

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

## Financial policies and practices

### Revenue recognition

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

- **Rental income.** We recognise rental income from investment properties leased out under operating leases in our statement of comprehensive income on a straight line basis over the term of the lease.
- **Construction consulting and construction management fees.** We recognise revenues from construction consulting and construction management services in our statement of comprehensive income, in proportion to the stage of the project as at the relevant reporting date. We assess the stage of completion by reference to the amount of work performed.
- **Sales of trading properties.** We recognise revenue from the sale of trading properties in our statement of comprehensive income when the risks and rewards of ownership of the property are transferred to the buyer. When we receive down payments in connection with the sale of trading property that is under construction, we record this figure in the current liabilities on our balance sheet at the time of sale.

### Operating expenses

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

### Administrative expenses

Our administrative expenses comprise primarily 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.

### Revaluation of Investment property

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

### Operating profit before net finance costs

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

### Finance income

Our finance income comprises net foreign exchange gain, if any, and interest income. We recognise foreign exchange gains and losses, principally in connection with US Dollar or other foreign currency denominated payables and receivables of our Russian subsidiaries, whose functional currency is the Russian Rouble. Our

interest income is derived primarily from interest on our bank deposits and interest on loans to our joint ventures.

## Finance expenses

Our finance expense comprises net foreign exchange loss, if any, and interest expense on outstanding loans less interest capitalised. We recognise foreign exchange gains and losses principally in connection with US Dollar denominated payables and receivables of our Russian subsidiaries, whose functional currency is the Russian Rouble. We capitalise our interest expense with respect to our development projects that are under construction, for which amounts are not reflected as expenses in our statement of comprehensive income. When funds are borrowed specifically for a particular project, we 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.

## 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%. Profits on revaluation gains of investment property in companies based in Russia, from which we have derived the vast majority of our profits to date, are subject to deferred income tax at a rate of 20%.

## Capitalisation of costs for Properties under development

We capitalise all costs directly related to the purchase and construction of properties being developed as both investment properties and trading properties, including costs to acquire land rights and premises,

design costs, permit costs, costs of general contractors, costs relating to the lease of the underlying land and the majority of our employee costs related to such projects.

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

## Exchange rates

Our consolidated financial statements are presented in US Dollars, which is our functional currency. The functional currency of our Russian subsidiaries and joint ventures and one Cyprus company is the Russian Rouble. The balance sheets of our Russian subsidiaries are translated into US Dollars in accordance with IAS 21, whereby assets and liabilities are translated into US Dollars at the rate of exchange prevailing at the balance sheet date and income and expense items are translated into US Dollars at the average exchange rate for the period. All resulting foreign currency exchange rate differences are recognised directly in our shareholders' equity under the line item "translation reserve." When a foreign operation is sold, the cumulative amount of the exchange differences deferred in the separate component of equity relating to that foreign operation is recognised in our statement of comprehensive income



when the gain or loss on disposal of the foreign operation is recognised. The monetary assets and liabilities of our Russian subsidiaries that are denominated in currencies other than Russian Roubles are initially recorded by our subsidiaries at the exchange rate between the Russian Rouble and such foreign currency prevailing at such date. Such monetary assets and liabilities are then retranslated into Russian Roubles at the exchange rate prevailing at each subsequent balance sheet date. We recognise the resulting exchange rate differences between the dates at which such assets or liabilities were originally recorded and at subsequent balance sheet dates as foreign exchange losses and gains in our statement of comprehensive income. In particular, during the period under review, we have recognised foreign exchange rate gains and losses in connection with US Dollar denominated payables and receivables of our Russian subsidiaries.

### Recovery of VAT

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

### Deferred taxation

As we continue to advance the development of our projects, we also expect to record higher deferred tax liabilities and assets. Under Russian tax law, we are not allowed to capitalise certain of the costs in relation to the design, construction and financing of projects that we capitalise for the purposes of our consolidated financial statements under IFRS. As a result, our tax

bases in the related assets may be lower than our accounting bases for IFRS purposes, which would result in deferred tax liabilities. However, the recognition of such costs as expenses may result in accumulated tax losses for Russian tax purposes that we may be able to carry forward against estimated future profits, resulting in deferred tax assets. We expect these deferred tax liabilities and assets to grow as our major projects reach more advanced stages. However, such tax losses may only be carried forward to offset gains for a ten-year period under Russian tax law and they may only be utilised in the Russian subsidiary/branch in which such tax losses were generated.

### Fair value calculation

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

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

## Results of operations

### Description of Statement of comprehensive income line items

Summary of statement of comprehensive income for 2013 and 2012



US\$ million	For the year ended 31 December 2013	For the year ended 31 December 2012	Change 2013 / 2012	
Revenue				
Construction consulting / management services	0.2	3.6	(3.4)	(95.3)%
Rental income	144.6	117.1	27.5	23.4%
Sale of residential	57.5	4.8	52.7	1097.5%
	202.3	125.5	76.8	61.2%
Expenses				
Other income	6.4	0.8	5.7	745.4%
Operating expenses	(76.5)	(65.2)	(11.3)	17.4%
Administrative expenses	(16.9)	(20.2)	3.2	(16.1)%
including Bad debt provisions and write-offs	0.9	(4.1)	5.0	(122.7)%
Cost of sales of residential	(32.6)	(3.8)	(28.8)	748.2%
Other expenses	(5.5)	(1.5)	(3.9)	254.7%
	(125.1)	(90.0)	(35.1)	39.0 %
Share of the after tax (loss) / profit of joint ventures	(0.8)	23.9	(24.7)	(103.3)%
Gross profit				
	76.3	59.4	17.0	28.6%
Profit on disposal of investments in subsidiaries				
	32.3	2.4	29.9	1266.6%
Profit on disposal of investment property	27.8	0.0	27.8	n/a
Valuation gain/(loss) on properties	106.2	(265.9)	372.1	(140.0)%
Impairment loss on inventory of real estate	(2.2)	(65.4)	63.3	(96.7)%
Results from operating activities				
	240.5	(269.6)	510.1	1892.1%
Finance income				
	21.0	18.5	2.5	13.3%
Finance expense	(66.9)	(57.3)	(9.6)	16.7%
FX Gain / (Loss)	(28.9)	16.6	(45.6)	(274.0)%
Translation reserve reclassification due to disposal of subsidiary	(30.3)	-	(30.3)	
Net finance income / (costs)	(105.2)	(22.2)	(83.0)	373.8%
Profit before income tax				
	135.3	(291.8)	427.1	(146.4)%
Income tax expense				
	(31.4)	16.3	(47.7)	(292.2)%
Profit from continuing operations	103.9	(275.5)	379.5	(137.7)%

### Revenue – general overview

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

### Rental income

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

US\$ million	For the year ended 31 December 2013	For the year ended 31 December 2012	Change 2013 / 2012	
			US\$ million	%
Investment property				
AFIMALL City	104.1	81.4	22.7	27.9%
H2O office building	2.6	3.1	(0.5)	(16.5)%
Berezhkovskaya office building	5.4	5.0	0.5	9.4%
Paveletskaya I	5.0	4.7	0.3	7.1%
Premises at Bolshaya Pochtovaya	5.7	5.6	0.1	2.3%
Premises at Plaza IV (Gruzinsky Val)	0.2	0.2	(0.0)	0.6%
Premises at Tverskaya Zastava Square	3.9	3.5	0.4	11.9%
Other land bank assets	0.0	0.2	(0.2)	(100.0)%
Hotels				
Aquamarine hotel	9.8	10.0	(0.2)	(1.8)%
Plaza Spa Hotel (Zheleznovodsk)	7.9	3.5	4.5	128.7%
Total	144.7	117.1	27.6	23.6%

### Sale of Trading properties

US\$ million	For the year ended 31 December 2013	For the year ended 31 December 2012	Change 2013 / 2012	
			US\$ million	%%
Revenue				
AFI Mall Parking	54.5	-	54.5	-
Ozerkovskaya II	1.7	2.8	(1,1)	(40.3)%
4 Winds residential	1.4	2.0	(0.6)	(31.4)%
Total	57.5	4.8	52.7	1097.5%

On 3 June 2013 the Company completed the first stage of the sale of 643 parking spaces of AFIMALL City to VTB Bank and therefore recognised revenue of US\$54.5 million in the income statement. For additional information, please refer to “Company Specific Factors” section above.

**Operating expenses.** Our operating expenses increased with a net change of US\$11.3 million, from US\$65.2million in 2012 to US\$76.5 million in 2013. The year-on-year increase of 17.4% is attributable to increased property tax and property management expenses at AFIMALL City (following full operation



of the parking), overall increased utilities expenses at yielding properties, full annual operation of Plaza Spa Zheleznovodsk, and overall market inflation of expenses.

**Administrative expenses.** Our administrative expenses decreased by US\$3.3 million or 16.2% year-on-year, from US\$20.2 million in 2012 to US\$16.9 million in 2013. The decrease was achieved through significant improvement in rent collections at AFIMALL City and other yielding assets, which resulted in decreased bad debt provisions. The reverse of bad debt provisions for 2013 was US\$0.9 million compared to a bad debt provision expense of US\$4.1 million in 2012.

**Profit on sale of investment properties.** In December 2013, the Company successfully completed the sale of Building 1 in the Aquamarine III office complex (also known as Ozerkovskaya III) to Russian diamond miner and producer “Alrosa” JSC. The total profit on disposal was US\$27.8 million. The consideration was paid in cash and amounted to US\$91.5 million. For additional information, please refer to the “Disposals and acquisitions” section above.

**Profit on sale / disposal of properties / investment.** In January 2013, the Company completed the disposal of its 50% stake in Westec Four Winds Limited (along with its partner, Snegiri Development), which had developed and operated Four Winds. The resulting profit on the sale amounting to US\$32.1 million was recognised in the income statement and a translation reserve of US\$30.3 million was reclassified as a realised exchange loss in financing expenses of the income statement (please refer to the “Translation reserve reclassification due to disposal of subsidiary” line in the Summary of statement of comprehensive income for 2013 and 2012 table above). The total profit on disposal was US\$50.7 million, US\$18.6 million of which was recognised as a fair value gain in 2012. For additional information, please refer to “Company Specific Factors” section above.

**Net valuation gain/(losses) on properties.** Net result of investment property valuation increased from a loss of US\$265.9 million in 2012 to a gain of US\$106.2 million in 2013. For additional information, please refer to the “Portfolio Valuation” section below.

**Finance income.** Our finance income increased by US\$2.5 million or 13.3% year-on-year, from US\$18.5 million in 2012 to US\$21.0 million in 2013. The increase was achieved by successful management of available cash balances during 2013. As a result, the Company earned US\$3.3 million of additional income compared to US\$2.1 million in 2012.

**Finance expense.** Our finance expense increased by US\$9.6 million or 16.7% year-on-year, from US\$57.3 million in 2012 to US\$66.9 million in 2013. This was a result of a new loan facility drawn down by Krown Investments LLC from VTB Bank JSC in the amount of US\$220 million (for additional information, please refer to the “Company Specific Factors” section above). However, the effect of increased balances of debt financing was reduced by a saving in interest payments due to a decrease in the average interest rate from 8.07% as of December 31, 2012 to 6.97% as of December 31, 2013.

**FX Gain/(Loss).** We recorded a foreign exchange loss of US\$28.9 million in 2013, against a gain of US\$16.6 million in 2012. This was a result of Russian Rouble depreciation versus the US Dollar during 2013.

**Income tax expense.** Our current tax expense increased to US\$8.9 million compared to US\$2.0 million in 2012 mainly due to tax obligations incurred as a result of the sale of the office building in Ozerkovskaya III.

**Profit/Loss for the year.** Due to the factors described above, we recorded a US\$103.9 million net gain for 2013 compared to net loss of US\$275.5 million for 2012.

## Liquidity and capital resources

### Cash flows

Summary of cash flows for 2013 and 2012

US\$ thousand	For the year ended 31 December 2013	For the year ended 31 December 2012
<b>Net cash from operating activities</b>	<b>19,095</b>	<b>41,046</b>
<b>Net cash from / (used in) investing activities</b>	<b>(202,892)</b>	<b>123,743</b>
<b>Net cash from / (used in) financing activities</b>	<b>198,760</b>	<b>(62,816)</b>
Effect of exchange rate fluctuations	3,518	1,039
Net increase in cash and cash equivalents	18,481	103,012
Cash and cash equivalents at 1 January	174,849	71,837
<b>Cash and cash equivalents at 31 December*</b>	<b>193,330</b>	<b>174,849</b>

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

### Net cash from operating activities

Net cash from operating activities decreased to US\$19.1 million in 2013, from US\$41.0 million in 2012. This decrease was attributable to the advance payment of US\$51.4 million on the first phase of the disposal of 643 parking spaces at AFIMALL City in 2012. The Company obtained advance payments from respective buyers at the end of 2012 which were closed upon completion of both transactions Q1 and Q2 of 2013 respectively.

### Net cash from investing activities

Net cash outflow from investing activities amounted to US\$202.9 million, including US\$202.5 million of cash outflow due to acquisition of the remaining 50% of the assets and liabilities of Krown Investments LLC and inflow of US\$91.5 million related to the disposal of Building 1 in Ozerkovskya III.

### Net cash used in financing activities

Net cash from financing activities increased to a positive US\$198.8 million in 2013 from a negative US\$62.8 million in 2012 as a result of increased debt financing and the new loan facility of US\$220 million obtained by Krown Investments LLC (please refer to the "Capital Resources" section below for more information).

## Capital resources

### Capital requirements

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

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

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

We completed 2013 with a strong liquidity position of approximately US\$203 million cash, cash equivalents and marketable securities on our balance sheet and a debt to equity level of 47%. This strong position reflects the Company's ability to successfully balance liquidity requirements from a number of sources.

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

As of December 31, 2013 our debt portfolio was as follows:

Project	Lending bank	Max debt limit	Principal balance as of Dec-31, 2013	Available (US\$ mn)	Nominal Interest rate	Currency	Maturity
		(US\$ mn)	(US\$ mn)				(dd.mm.yy)
AFIMALL City	VTB Bank JSC	640.5	290.5	40.7	9.5%	RUB	01.04.2018
			309.4		3-month LIBOR + 5.02%	US\$	
Krown Investments LLC	VTB Bank JSC	220.0	205.0	0	3-month LIBOR + 5.7%	US\$	26.01.2015

The total balance of Debt financing reached US\$805.3 million as at 31 of December 2013, including US\$804.9 million of Principal Debt and US\$0.4 million of Accrued Interest with Average Interest Rate 6.97% per annum as at 31.12.2013 (8.07% respectively as at 31.12.2012)

(for more details see notes 29 to our consolidated financial statements).

As at 31 December 2013, our loans and borrowings were payable as follows:



US\$ million	As at 31 December 2013	As at 31 December 2012
Less than one year	27,027	17,345
Between one and five years	778,909	96,620
More than five years	0	457,931
<b>Total</b>	<b>805,936</b>	<b>571,896</b>

## Portfolio valuation

As at 31 December 2013, based on the Cushman & Wakefield LLC ("C&W") independent appraisers' report, the value of AFI Development's portfolio of investment properties stood at US\$1.6 billion, while the value of the portfolio of investment property under development stood at US\$0.6 billion.

Consequently, the total value of the Company assets, based predominantly on independent valuation as of 31 December 2013, was US\$2.4 billion. Although there were revaluations in certain projects in 2013, the total value of the portfolio did not change relative to the value as of 31 December 2012.

Major drivers of the portfolio revaluation were as follows:

1. Significant increase in value:

### *Paveletskaya Phase II*

In November 2013, the Company subsidiary MKPK JSC

and the Moscow City authorities signed an addendum to the land lease agreement for the Paveletskaya Phase II project, amending the permitted use of land from industrial to the construction of residential and commercial premises. The addendum was in line with the previous decisions of the Moscow authorities on development rights of the Company in this project. However, the addendum provided the level of certainty required to change the fair value of the project to market value on the Company's balance sheet: the market value of the project confirmed by Cushman & Wakefield, the Company's independent appraisers, was US\$92.6 million (as at 30 September 2013) as opposed to the previous book value of US\$11.6 million. The resulting US\$81.0 million gross valuation gain (US\$64.8 million net of taxation) was included in AFI Development's Q3 2013 results.

As at 31 December, 2013, the value of the Paveletskaya Phase II project based on Cushman & Wakefield LLC ("C&W") independent appraisers' report stood at US\$92.7 million.



Property <sup>4</sup>	Valuation 31/12/2013, US Dollars	Valuation 31/12/2012, US Dollars	Change in valuation, %	Balance sheet value 31/12/2013, US Dollars	Balance sheet value 31/12/2012, US Dollars
<b>Investment property</b>					
1 H2O	17,300,000	18,800,000	-8%	17,300,000	18,800,000
2 Ozerkovskaya Phase III	323,700,000	194,127,221	67%	323,700,000	194,127,221
3 Berezhkovskaya <sup>1</sup>	28,490,000	31,524,000	-10%	38,500,000	42,600,000
4 AFIMALL City	1,160,000,000	1,160,000,000	0%	1,160,000,000	1,160,000,000
5 Paveletskaya I	29,600,000	30,300,000	-2%	29,600,000	30,300,000
6 Plaza II	31,900,000	30,600,000	4%	31,900,000	30,600,000
7 Plaza Ib	8,800,000	10,000,000	-12%	8,800,000	10,000,000
<b>Total</b>	<b>1,599,790,000</b>	<b>1,475,351,221</b>	<b>8%</b>	<b>1,609,800,000</b>	<b>1,486,427,221</b>
<b>Investment property under development</b>					
8 Plaza Ic	110,600,000	106,600,000	4%	110,600,000	106,600,000
9 Plaza IIa	12,400,000	32,000,000	-61%	12,400,000	32,000,000
10 Plaza IV <sup>2</sup>	159,980,000	159,600,000	0%	168,400,000	168,000,000
11 Paveletskaya Phase II <sup>3</sup>	91,930,590	116,425,580	-21%	92,700,000	11,593,379
12 Kossinskaya	106,700,000	102,700,000	4%	106,700,000	102,700,000
13 Bolshaya Pochtovaya	139,400,000	141,300,000	-1%	139,400,000	141,300,000
14 Ozerkovskaya Phase III	-	422,779	-100%	-	422,779
15 AFIMALL parking for sale (665 lots)	n/a	n/a	-	-	29,771,814
<b>Total</b>	<b>621,010,590</b>	<b>660,022,779</b>	<b>-6%</b>	<b>630,200,000</b>	<b>592,387,972</b>
<b>Trading property &amp; Trading property under development</b>					
16 Odzburg	n/a	n/a	-	127,212,941	112,014,885
17 Botanic Garden	n/a	n/a	-	0	-
18 Four Winds Residential	n/a	n/a	-	1,104,444	1,127,016
19 Ozerkovskaya II	n/a	n/a	-	5,304,038	985,257
<b>Total</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>133,621,424</b>	<b>114,127,158</b>
<b>Land Bank Properties</b>					
20 Ruza	n/a	n/a	-	3,665,000	3,665,000
21 St. Petersburg	1,400,000	1,830,000	-23%	1,400,000	1,830,000
22 Boryspol (Ukraine)	n/a	n/a	-	0	-
<b>Total</b>	<b>1,400,000</b>	<b>1,830,000</b>	<b>-23%</b>	<b>5,065,000</b>	<b>5,495,000</b>
<b>Hotels</b>					
23 Aquamarine Hotel	n/a	n/a	-	30,855,838	34,333,252
24 Plaza Spa Hotel in Kislovodsk	n/a	n/a	-	24,829,575	26,352,350
25 Kalinina Hotel in Zheleznovodsk	n/a	n/a	-	22,417,076	24,261,386
26 Park Plaza hotel developments in Kislovodsk*	n/a	n/a	-	7,276,236	7,737,544
27 Versailles project in Kislovodsk*	9,200,000	9,200,000	0%	7,122,840	8,789,447
<b>Total</b>	<b>9,200,000</b>	<b>9,200,000</b>	<b>-91%</b>	<b>92,501,565</b>	<b>101,473,979</b>
<b>Held for sale</b>					
28 Four Winds Office	0	153,400,000	-100%	-	160,495,899
29 Four Winds Residential (incl. fitness & retail)	0	23,050,000	-100%	-	17,821,997
<b>Total</b>	<b>0</b>	<b>176,450,000</b>	<b>-100%</b>	<b>-</b>	<b>178,317,896</b>
<b>Grand Total</b>	<b>2,235,065,590</b>	<b>2,322,854,000</b>	<b>-4%</b>	<b>2,471,187,989</b>	<b>2,478,229,226</b>

<sup>1</sup>Valuation figures represent Company's share (74%)

<sup>2</sup>Valuation figures represent Company's share (95%)

<sup>3</sup>Valuation figures represent Company's share (99%)

<sup>4</sup>The project portfolio includes 50% owned joint ventures, which are accounted by equity method







# FINANCIAL STATEMENTS

BOARD OF DIRECTORS  
REPORT AND DIRECTORS  
RESPONSIBILITY  
STATEMENT



# Consolidated financial statements

For the year ended 31 December 2013

## Board of Directors and professional advisers

Board of Directors . . . . . Lev Leviev - Chairman

Mark Groysman

Moshe Amit

Avraham Noach Novogrocki

Christakis Klerides

John Robert Camber Porter

Panayiotis Demetriou

Secretary . . . . . Fuamari Secretarial Limited

Independent Auditors . . . . . KPMG Limited

Bankers . . . . . Joint Stock Company VTB Bank

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

Raiffeisen Bank International AG

OJSC "Promsvyazbank" Moscow, Russia

Registered Office . . . . . Spyrou Araouzou 165,

Lordos Waterfront Building,

3035 Limassol,

Cyprus

## Board of Directors' report

The Board of Directors of AFI Development Plc (the "Company") presents to the members its annual report together with the audited consolidated financial statements of the Company for the year ended 31 December 2013.

### Principal activities

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

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

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

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

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

As at 31 December 2013, the Company's portfolio consisted of 7 investment properties, 8 investment properties under development, 1 trading property under development and 5 hotel projects. The portfolio comprises commercial projects focused on offices, shopping centres, hotels, mixed-use properties and residential projects in prime locations in Moscow.

### Financial results

The Group's results are set out in the consolidated income statement on page 8. The profit of the Group for the year before taxation amounted to US\$135,331 thousand (2012: loss US\$291,796 thousand). The profit after taxation attributable to the Group's shareholders amounted to US\$103,074 thousand (2012: loss US\$269,098 thousand).



## Board of Directors' report

### Dividends

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

### Main risks and uncertainties

The most significant risks faced by the Group and the steps taken to manage these risks are described in note 34 of the consolidated financial statements.

### Future developments

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

### Share capital

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

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

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

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

### Branches

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

# Board of Directors' report

## Board of Directors

The members of the Board of Directors as at 31 December 2013 and at the date of this report are shown on page 78. The directors' date of appointment and 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 year.

## Post balance sheet events

Events which took place after the reporting date and which have a bearing on the understanding of the financial statements are described in note 42 of the consolidated financial statements.

## Independent auditors

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

By order of the Board

Fuamari Secretarial Limited

Secretary

Nicosia, 17 March 2014

## Directors' responsibility statement

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

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

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

### The Board of Directors

#### Executive directors

Lev Leviev – Chairman

Mark Groysman

#### Non-executive director

Avraham Noach Novogrocki

#### Non-executive independent directors

Moshe Amit

Christakis Klerides

John Robert Camber Porter

Panayiotis Demetriou



# FINANCIAL STATEMENTS

## AUDITORS REPORT AND CONSOLIDATED FINANCIAL STATEMENTS



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# Independent Auditors' Report

To the Members of AFI Development Plc

## Report on the Consolidated Financial Statements

We have audited the accompanying consolidated financial statements of AFI Development Plc ("the Company") and its subsidiaries (together with the Company, the "Group"), which comprise the consolidated statement of financial position as at 31 December 2013, and the consolidated statements of income statement, comprehensive income and changes in equity and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

### *Board of Directors' Responsibility for the Consolidated Financial Statements*

The Board of Directors is responsible for the preparation of consolidated financial statements that give a true and fair view in accordance with International Financial Reporting Standards as adopted by the European Union (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 that are free from material misstatement, whether due to fraud or error.

### *Auditors' Responsibility*

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

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

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

### *Opinion*

In our opinion, the consolidated financial statements give a true and fair view of the financial position of the Group as at 31 December 2013, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the EU and the requirements of the Cyprus Companies Law, Cap. 113.

## Report on Other Legal Requirements

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

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

## Other Matter

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

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  
17 March 2014



## CONSOLIDATED INCOME STATEMENT

For the year ended 31 December 2013



	Note	2013 US\$ '000	2012 US\$ '000
Revenue	7	202,261	125,473
Other income	8	6,409	760
Operating expenses	9	(76,517)	(65,191)
Carrying value of trading properties sold	22	(32,623)	(3,846)
Administrative expenses	10	(16,911)	(20,169)
Other expenses	11	(5,480)	(1,545)
Total expenses		(131,531)	(90,751)
Share of the after tax (loss)/profit of joint ventures	17	(798)	23,881
<b>Gross Profit</b>		<b>76,341</b>	<b>59,363</b>
Profit on disposal of investments in subsidiaries	36	32,278	2,362
Profit on disposal of investment property	15	27,835	-
Valuation gain / (loss) on properties	15,16	106,234	(265,877)
Impairment loss on inventory of real estate	20	(2,186)	(65,445)
<b>Net valuation gain / (loss) on properties</b>		<b>104,048</b>	<b>(331,322)</b>
<b>Results from operating activities</b>		<b>240,502</b>	<b>(269,597)</b>
Finance income		20,961	35,124
Finance costs		(126,132)	(57,323)
<b>Net finance costs</b>	12	<b>(105,171)</b>	<b>(22,199)</b>
<b>Profit / (loss) before tax</b>		<b>135,331</b>	<b>(291,796)</b>
Tax (expense) / benefit	13	(31,386)	16,269
<b>Profit / (loss) for the year</b>		<b>103,945</b>	<b>(275,527)</b>
<b>Profit attributable to:</b>			
Owners of the Company		103,074	(269,098)
Non-controlling interests		871	(6,429)
		<b>103,945</b>	<b>(275,527)</b>
<b>Earnings per share</b>			
Basic and diluted earnings per share (cent)	14	9.84	(25.68)

The notes on pages 92 to 140 are an integral part of these consolidated financial statements.

# CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2013



	2013 US\$ '000	2012 US\$ '000
Profit/(loss) for the year	103,945	(275,527)
Items that are or may be reclassified to profit or loss		
Realised translation difference on disposal of subsidiaries transferred to income statement	30,042	275
Foreign currency translation differences for foreign operations	(35,960)	33,172
Total comprehensive income for the year	98,027	(242,080)
Total comprehensive income attributable to:		
Owners of the parent	97,230	(235,217)
Non-controlling interests	797	(6,863)
	98,027	(242,080)

The notes on pages 92 to 140 are an integral part of these consolidated financial statements.

## CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2013



	Attributable to the owners of the Company					Non-controlling interests	Total
	Share Capital	Share Premium	Translation Reserve	Retained Earnings	Total		
	US\$ '000	US\$ '000	US\$ '000	US\$ '000	US\$ '000	US\$ '000	US\$ '000
Balance at 1 January 2012	1,048	1,763,409	(178,491)	277,503	1,863,469	3,887	1,867,356
<b>Total comprehensive income</b>							
Loss for the year	-	-	-	(269,098)	(269,098)	(6,429)	(275,527)
Other comprehensive income	-	-	33,881	-	33,881	(434)	33,447
<b>Total comprehensive income</b>	-	-	33,881	(269,098)	(235,217)	(6,863)	(242,080)
<b>Transactions with owners of the Company Contributions and distributions</b>							
Share option expense	-	-	-	1,256	1,256	-	1,256
Balance at 31 December 2012	1,048	1,763,409	(144,610)	9,661	1,629,508	(2,976)	1,626,532
Balance at 1 January 2013	1,048	1,763,409	(144,610)	9,661	1,629,508	(2,976)	1,626,532
<b>Total comprehensive income</b>							
Profit for the year	-	-	-	103,074	103,074	871	103,945
Other comprehensive income	-	-	(5,844)	-	(5,844)	(74)	(5,918)
<b>Total comprehensive income</b>	-	-	(5,844)	103,074	97,230	797	98,027
<b>Transactions with owners of the Company Contributions and distributions</b>							
Share option expense	-	-	-	4,920	4,920	-	4,920
Balance at 31 December 2013	1,048	1,763,409	(150,454)	117,655	1,731,658	(2,179)	1,729,479

The notes on pages 92 to 140 are an integral part of these consolidated financial statements.



# CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2013



	Note	2013 US\$ '000	2012 US\$ '000
<b>Assets</b>			
Investment property	15	1,609,800	1,292,300
Investment property under development	16	635,266	567,737
Share of investment in joint ventures	17	5,555	82,414
Property, plant and equipment	18	69,735	76,555
Long-term loans receivable	19	21,652	113,491
VAT recoverable	21	430	493
Goodwill		-	153
<b>Non-current assets</b>		<b>2,342,438</b>	<b>2,133,143</b>
Trading properties	22	6,409	3,597
Trading properties under construction	23	127,213	141,787
Other investments	24	9,982	-
Inventory		574	623
Short-term loans receivable	19	774	92
Trade and other receivables	25	106,425	78,276
Current tax assets	13	-	2,341
Cash and cash equivalents	26	193,330	174,849
Assets held for sale	27	-	71,292
<b>Current assets</b>		<b>444,707</b>	<b>472,857</b>
<b>Total assets</b>		<b>2,787,145</b>	<b>2,606,000</b>
<b>Equity</b>			
Share capital	28	1,048	1,048
Share premium	28	1,763,409	1,763,409
Translation reserve	28	(150,454)	(144,610)
Retained earnings	28	117,655	9,661
<b>Equity attributable to owners of the Company</b>		<b>1,731,658</b>	<b>1,629,508</b>
<b>Non-controlling interests</b>		<b>(2,179)</b>	<b>(2,976)</b>
<b>Total equity</b>		<b>1,729,479</b>	<b>1,626,532</b>
<b>Liabilities</b>			
Long-term loans and borrowings	29	778,909	554,551
Long-term amounts payable	30	-	38,324
Deferred tax liabilities	31	125,260	81,947
Deferred income	33	22,048	20,163
<b>Non-current liabilities</b>		<b>926,217</b>	<b>694,985</b>
Short-term loans and borrowings	29	27,027	17,345
Trade and other payables	32	100,355	267,138
Current tax liabilities	13	4,067	-
<b>Current liabilities</b>		<b>131,449</b>	<b>284,483</b>
<b>Total liabilities</b>		<b>1,057,666</b>	<b>979,468</b>
<b>Total equity and liabilities</b>		<b>2,787,145</b>	<b>2,606,000</b>

The consolidated financial statements were approved by the Board of Directors on 17 March 2014.

Lev Leviev                      Mark Groysman

Chairman                      Director

The notes on pages 92 to 140 are an integral part of these consolidated financial statements.

## CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2013



	Note	2013 US\$ '000	2012 US\$ '000
<b>Cash flows from operating activities</b>			
Profit / (loss) for the year		103,945	(275,527)
Adjustments for:			
Depreciation	18	1,874	1,971
Interest income	12	(5,858)	(18,494)
Interest expense	12	65,694	53,165
Share option expense		4,920	1,256
Net valuation (gain) / loss on properties	15,16	(104,048)	331,322
Share of loss / (profit) in joint ventures	17	798	(23,881)
Profit on disposal of investments in joint venture / subsidiaries	36	(32,278)	(2,362)
Translation reserve reclassified upon disposal of joint venture	12	30,042	-
Profit on disposal of investment property	15	(27,835)	-
(Profit) / loss on sale of property, plant and equipment		(16)	6
Goodwill written off		153	-
Loans payable written off	12	(15,103)	-
Loans receivable written off		88	-
Change in fair value of other investments	12	18	-
Unrealised loss / (profit) on foreign exchange		28,942	(18,091)
Tax expense / (benefit)	13	31,386	(16,269)
		82,722	33,096
Change in trade and other receivables		(21,011)	(1,977)
Change in inventories		4	(31)
Change in trading properties and trading properties under construction		12,632	(6,514)
Change in trade and other payables		(57,336)	21,259
Change in deferred income		3,429	(631)
<b>Cash generated from operating activities</b>		20,440	45,202
Taxes paid		(1,345)	(4,156)
<b>Net cash from operating activities</b>		19,095	41,046
<b>Cash flows from investing activities</b>			
Receipts in advance for the sale of an investment		-	100,000
Net cash inflow from the disposal of subsidiaries	36	3,382	5,789
Net cash outflow for the acquisition of assets and liabilities	17	(202,462)	-
Proceeds from sale of investment property	15	91,329	-
Proceeds from sale of property, plant and equipment		334	444
Interest received		3,391	8,964
Change in advances and amounts payable to builders		(8,788)	(4,886)
Payments for construction of investment property under development	15,16	(32,946)	(20,390)
Payments for the acquisition of investment property	30	(43,544)	(43,967)
Capital contributions in joint ventures		-	(37)
Payments for loans receivable from joint ventures		-	(200,590)
Proceeds from repayment of loans receivable from joint ventures		-	175,974
Dividends received from joint ventures		-	66,041
Change in VAT recoverable		(1,781)	43,535
Acquisition of property, plant and equipment	18	(1,807)	(7,134)
Acquisition of other investments	24	(10,000)	-
<b>Net cash (used in) / from investing activities</b>		(202,892)	123,743

## CONSOLIDATED STATEMENT OF CASH FLOWS (CONTINUED)

For the year ended 31 December 2013



	Note	2013 US\$'000	2012 US\$'000
<b>Cash flows from financing activities</b>			
Payments for loan receivable		(214)	(102)
Proceeds from repayment of loans receivable		-	102
Proceeds from loans and borrowings	29	306,854	572,216
Repayment of loans and borrowings		(34,130)	(580,255)
Repayment of a loan from a related party		(14,354)	-
Interest paid		(59,396)	(54,777)
<b>Net cash from/(used in) financing activities</b>		<b>198,760</b>	<b>(62,816)</b>
Effect of exchange rate fluctuations		3,518	1,039
<b>Net increase in cash and cash equivalents</b>		<b>18,481</b>	<b>103,012</b>
Cash and cash equivalents at 1 January		174,849	71,837
<b>Cash and cash equivalents at 31 December</b>	<b>26</b>	<b>193,330</b>	<b>174,849</b>

The notes on pages 92 to 140 are an integral part of these consolidated financial statements.



# Notes to the consolidated financial statements

For the year ended 31 December 2013

## 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. The Company is a 64.88% (31/12/2012: 64.88%) subsidiary of Africa Israel Investments Ltd (“Africa-Israel”), which is listed in the Tel Aviv Stock Exchange (“TASE”). The remaining shareholding of “A” shares is held by a custodian bank in exchange for the GDRs issued and listed in the London Stock Exchange (“LSE”). On 5 July 2010 the Company issued by way of a bonus issue, 523,847,027 “B” shares, which were admitted to

a premium listing on the Official List of the UK Listing Authority and to trading on the main market of LSE. On the same date, the ordinary shares of the Company were designated as “A” shares.

The consolidated financial statements of the Company as at and for the year ended 31 December 2013 comprise the Company and its subsidiaries (together referred to as the “Group” and individually as “Group entities”) and the Group’s interest in jointly controlled entities. The principal activity of the Group is real estate investment and development.

The principal activity of the Company is the holding of investments in subsidiaries and joint ventures as presented in note 35 “Group Entities”.

## 2. Basis of preparation

### Statement of compliance

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

The consolidated financial statements were authorised for issue by the Board of Directors on 17 March 2014.

### Basis of measurement

The consolidated financial statements have been prepared on the historical cost basis as modified, up to 31 December 2003, by the provisions of IAS 29 “Report-

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

### Functional and presentation currency

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

### 3. Use of judgements and estimates

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

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

#### Judgements

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

- Note 17 – classification of joint arrangements;
- Note 35 – consolidation: whether the Group has de facto control over the investee
- Note 38 – lease classification;

#### Assumptions and estimation uncertainties

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

- Note 18 – valuation of land and buildings and buildings under construction
- Note 22 – valuation of trading properties
- Note 23 – valuation of trading properties under construction
- Note 13 – provision for tax liabilities
- Note 25 – recoverability of receivables
- Note 31 – utilisation of tax losses
- Note 40 – recognition and measurement of contingencies

#### Measurement of fair values

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

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

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 Audit Committee.

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

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

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

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

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

- Note 15 – investment property
- Note 16 – investment property under development

- Note 24 – other investments
- Note 28 – share-based payment arrangements
- Note 34 – financial instruments

## 4. Changes in accounting policies

Except for the changes below, the Group has consistently applied the accounting policies set out in Note 5 to all periods presented in the consolidated financial statements.

The Group has adopted the following new standards and amendments to standards, including any consequential amendments to other standards, with a date of initial application of 1 January 2013.

- IFRS 10 Consolidated Financial Statements (2011)
- IFRS 11 Joint Arrangements
- IFRS 12 Disclosure of Interests in Other Entities
- IFRS 13 Fair value Measurement
- Presentation of items of Other Comprehensive Income (Amendments to IAS 1)

The nature and effects of the changes are explained below.

### a) Subsidiaries

As a result of IFRS 10 (2011), the Group has changed its accounting policy for determining whether it has control over and consequently whether it consolidated its investees. IFRS 10 (2011) introduces a new control model that focuses on whether the Group has power over an investee, exposure or rights to variable returns from its involvement with the investee and ability to use its power to affect those returns.

IFRS 10 (2011) had no impact on the consolidation of investments held by the Group.

### b) Joint arrangements

As a result of IFRS 11, the Group has changed its accounting policy for its interests in joint arrangements. IFRS 11 removes the option to account for jointly con-

trolled entities (JCEs) using proportionate consolidation. Instead, JCEs that meet the definition of a joint venture under IFRS 11 must be accounted for using the equity method.

The application of this new standard impacted the financial position of the Group by replacing proportionate consolidation of all the joint ventures of the Group, with the equity method of accounting (see note 17).

### c) Disclosure of interests in other entities

As a result of IFRS 12, the Group has expanded its disclosure about its interests in subsidiaries (see notes 35 and 37.) and equity-accounted investees (see Note 17).

### d) Fair value measurement

IFRS 13 establishes a single framework for measuring fair value and making disclosures about fair value measurements when such measurements are required or permitted by other IFRSs. It unifies the definition of fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. It replaces and expands the disclosure requirements about fair value measurements in other IFRSs, including IFRS 7. As a result, the Group has included additional disclosures in this regard. (see notes 15 and 34).

In accordance with the transitional provisions of IFRS 13, the Group has applied the new fair value measurement guidance prospectively and has not provided any comparative information for new disclosures. Notwithstanding the above, the change had no significant impact on the measurements of the Group's assets and liabilities.



## e) Presentation of items of “Other Comprehensive Income” (OCI)

As a result of the amendments to IAS 1, the Group has modified the presentation of items of OCI in its statements of profit or loss and OCI, to present separately

items that would be reclassified to profit or loss from those that would never be. Comparative information has been re-presented accordingly.

## 5. Significant accounting policies

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

Certain comparative amounts in the Income Statement and OCI have been re-presented as a result of a change in the accounting policy regarding joint arrangements (see Note 4(b)) and the presentation of items of OCI (see Note 4(e)).

### 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 that control commences until the date that control ceases.

#### *Non-controlling interests (NCI)*

NCI are measured at their proportionate share of the acquiree's identifiable net assets at the acquisition date.

Changes in the Group's interest in a subsidiary that do not result in a loss of control are accounted for as equity transactions.

#### *Loss of control*

When the Group loses control over a subsidiary, it derecognises the assets and liabilities of the subsidiary and any related NCI and other components

of equity. Any resulting gain or loss is recognised in profit or loss. Any interest in the former subsidiary is measured at fair value when control is lost.

#### *Interests in equity-accounted investees*

The Group's interest 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 recognised initially at cost, which includes transaction costs. Subsequent to initial recognition, the consolidated financial statements include the Group's share of the profit or loss and OCI of equity-accounted investees, until the date on which joint control ceases,

#### *Transactions eliminated on consolidation*

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

## Foreign currency

### Foreign currency transactions

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

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

### Foreign operations

The assets and liabilities of foreign operations are translated into US Dollars at the exchange rates at the reporting date. The income and expenses of foreign operations are translated into US Dollars at the exchange rates at the dates of transactions or average rate for the year for practical reasons.

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. If the Group disposes of part of its interest in a subsidiary but retains control, then the relevant proportion of the cumulative amount is reattributed to NCI. When the Group disposes of only part of joint venture while retaining joint control, the relevant proportion of the cumulative amount is reclassified to profit or loss.

If the settlement of a monetary item receivable from or payable to a foreign operation is neither planned nor likely to occur in the foreseeable future, then foreign currency differences arising from such item form part

of the net investment in a foreign operation. Accordingly, such differences are recognised in OCI, and accumulated in the translation reserve.

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

As of:	Exchange rate Russian Roubles	
	for US\$1	% Change
31 December 2013	32.7292	7.8
31 December 2012	30.3727	(5.7)
<b>Average rate during:</b>		
Year ended 31 December 2013	31.8480	2.4
Year ended 31 December 2012	31.0930	5.8

## Financial Instruments

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

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

Non derivative financial assets and financial liabilities-recognition and derecognition

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

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

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

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

#### *Non-derivative financial assets-measurement*

##### *Financial assets at fair value through profit or loss*

A financial asset is classified as at fair value through profit or loss if it is classified as held for trading or is designated as such on initial recognition. Directly attributable transaction costs are recognised in profit or loss as incurred. Financial assets at fair value through profit or loss are measured at fair value and changes therein, including any interest or dividend income are recognised in profit or loss.

##### *Loans and receivables*

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

#### *Non derivative financial liabilities-measurement*

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

##### *Share capital*

##### *Ordinary shares*

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

## Investment property

Investment property is measured at fair value. Any gain or loss arising from a change in fair value is recognised in profit or loss.

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

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

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

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

## Investment property under development

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

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



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

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

### *Capitalisation of financing costs*

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

## Property, plant and equipment

### *Recognition and measurement*

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

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

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

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

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

### *Subsequent expenditure*

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

### *Depreciation*

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

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

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

Buildings	1-2%
Office equipment	10-33⅓%
Motor vehicles	33⅓%

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

## Intangible assets and goodwill

### *Goodwill*

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

### *Subsequent measurement*

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

## Trading properties

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

### *Trading properties under construction*

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

A group of buildings is considered one project when the buildings at the same building site are being constructed according to one building plan and under one building license, and are offered for sale at the same

time. Trading properties include cost of land or of rights to the land that constitutes the relative portion of the area, on which the construction work on projects is performed, plus the cost of the work executed on the projects as well as other costs allocated thereto, less the cumulative amounts recognised in profit or loss as cost of trading properties sold up to the end of the reported period.

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

### *Inventory of real estate*

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

## Deferred income

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

## Impairment

### *Non-derivative financial assets*

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

#### **Objective evidence that financial assets are impaired includes:**

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

#### **Financial assets measured at amortised cost**

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

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

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

#### **Equity-accounted investees**

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

### *Non-financial assets*

At each reporting date, the Group reviews the carrying amounts of its non-financial assets (other than investment property, investment property under development, VAT recoverable, inventories and deferred tax assets) to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated. Goodwill is tested annually for impairment. An impairment loss is recognised if the carrying amount of an asset exceeds its estimated recoverable amount. Impairment losses are recognised in profit or loss.

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

## Assets held for sale

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

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

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

## Employee benefits

### *Short-term employee benefits*

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

### *Share-based payment transactions*

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

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

## Provisions

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

## Revenue

### *Sale of trading properties*

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

### *Construction Management fee*

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

### *Investment Property Rental income*

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

### *Hotel operation income*

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

## Gross Profit

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

## Finance income and finance costs

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

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

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

## Income tax

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

### *Current tax*

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

### *Deferred tax*

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

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

Deferred tax 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 by the reporting date.

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

A deferred tax asset is recognised for unused tax losses, 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 utilised. 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.

The provision for taxation either current or deferred is based on the tax rates 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 that has been disposed of or is held for sale, or is a subsidiary acquired exclusively with a view to resale. Classification as a discontinued operation occurs on disposal or when the operation meets the criteria to be classified as held for sale, if earlier. When an operation is classified as a discontinued operation, the comparative statement of comprehensive income 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 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 and the weighted average number of ordinary shares outstanding for the effects of all dilutive potential ordinary shares, which comprise share options granted to employees.

## Segment reporting

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

Adoption of new and revised International Financial Reporting Standards and Interpretations

As from 1 January 2013, the Company adopted all changes to International Financial Reporting Standards (IFRSs) which are relevant to its operations.

### (i) Standards and Interpretations adopted by the EU which the Group elected to early adopt as from 1 January 2013.

- IFRS 10 "Consolidated Financial Statements" (effective the latest, as from the commencement date of its first financial year starting on or after 1 January 2014).
- IFRS 11 "Joint Arrangements" (effective the latest, as from the commencement date of its first financial year starting on or after 1 January 2014).
- IFRS 12 "Disclosure of Interests in Other Entities" (effective the latest, as from the commencement date of its first financial year starting on or after 1 January 2014).

The effect of this early adoption on the financial statements of the Company is discussed in note 4.

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

### (ii) Standards and Interpretations adopted by the EU

The following Standards, Amendments to Standards and Interpretations have been issued but are not yet effective for annual periods beginning on 1 January 2013. Those which may be relevant to the Company are set out below. The Company does not plan to adopt these Standards early.

- Investment Entities - Amendments to IFRS 10, 12 and IAS 27 (effective the latest, as from the commencement date of its first financial year starting on or after 1 January 2014).
- Transition Guidance - Amendments to IFRS 10, 11 and 12 (effective the latest, as from the commencement date of its first financial year starting on or after 1 January 2014).



- IAS 27 (Revised) "Separate Financial Statements" (effective the latest, as from the commencement date of its first financial year starting on or after 1 January 2014).
- IAS 28 (Revised) "Investments in Associates and Joint ventures" (effective the latest, as from the commencement date of its first financial year starting on or after 1 January 2014).
- IAS 32 (Amendments) "Offsetting Financial Assets and Financial Liabilities" (effective for annual periods beginning on or after 1 January 2014).
- IAS 36 (Amendments) "Recoverable Amount Disclosures for Non-Financial Assets" (effective for annual periods beginning on or after 1 January 2014).
- IAS 39 (Amendments) "Novation of Derivatives and Continuation of Hedge Accounting" (effective for annual periods beginning on or after 1 January 2014).

### (iii) Standards and Interpretations not adopted by the EU

- IFRS 7 (Amendments) "Financial Instruments: Disclosures" – "Disclosures on transition to IFRS 9" (effective for annual periods beginning on or after 1 January 2015).
- IFRS 9 "Financial Instruments" (effective for annual periods beginning on or after 1 January 2015).
- IFRS 9 "Financial Instruments: Hedge accounting and Amendments to IFRS 9, IFRS 7 and IAS 39" (effective for annual periods beginning on or after 1 January 2015).
- IFRS 14 "Regulatory Deferral Accounts" (effective for annual periods beginning on or after 1 January 2016).
- IAS 19 (Amendments) "Defined Benefit Plans: Employee Contributions" (effective for annual periods beginning on or after 1 July 2014).
- Improvements to IFRSs 2010-2012 (effective for annual periods beginning on or after 1 July 2014).
- Improvements to IFRSs 2011-2013 (effective for annual periods beginning on or after 1 July 2014).
- IFRIC 21 "Bank Levies" (effective for annual periods beginning on or after 1 January 2014).

## 6. Operating segments

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

- Development Projects – Commercial projects: Include construction of property for future lease.
- Development Projects – Residential projects: Include construction and selling of residential properties.
- Asset Management: Includes the operation of investment property for lease.

- Hotel Operation: Includes the operation of Hotels
- Other – Land bank: Includes the investment and holding of property for future development.

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

	Development projects											
	Commercial projects		Residential projects		Asset management		Hotel Operation		Other - land bank		Total	
	2013	2012	2013	2012	2013	2012	2013	2012	2013	2012	2013	2012
	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000
External revenues	54,494	25	3,049	4,805	111,942	94,138	17,749	13,501	15,027	13,004	202,261	125,473
Inter-segment revenue	1	-	1	2	-	-	18	-	469	539	489	541
Profit on disposal of investment property	-	-	-	-	27,835	-	-	-	-	-	27,835	-
Interest revenue	3	7,769	6	11	397	408	722	713	4,729	9,593	5,857	18,494
Depreciation	(17)	-	(7)	-	(438)	(537)	(1,286)	(1,400)	(144)	(206)	(1,892)	(2,143)
Reportable segment profit before tax	25,662	10,194	(2,113)	321	6,418	27,643	3,350	(2,595)	(14,338)	(20,239)	18,979	15,324
Other material non-cash items:												
Net valuation gains / (loss) on properties	82,012	(203,920)	(2,186)	(65,801)	45,415	(50,334)	-	-	(21,193)	(11,267)	104,048	(331,322)
Reportable segment assets	318,962	267,282	178,199	133,019	1,582,780	1,263,638	53,938	56,549	390,957	418,051	2,524,836	2,138,539
Reportable segment liabilities	-	193,404	-	11,151	1,011,865	723,945	-	17,667	4,163	5,105	1,016,028	951,272

Note: Development projects: investment projects under construction, including construction of residential properties.

Asset management: yielding property management (all commercial properties).

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

	2013 US\$'000	2012 US\$'000
<b>Revenues</b>		
Total revenue for reportable segments	202,750	126,014
Elimination of inter-segment revenue	(489)	(541)
Consolidated revenue	202,261	125,473
<b>Profit or loss</b>		
Total profit or loss for reportable segments	18,979	15,324
Other profit or loss	(19,176)	(2,041)
Share of the after tax (loss) / profit of joint ventures	(798)	23,881
Profit on disposal of investment in joint venture / subsidiaries	32,278	2,362
Valuation gain / (loss) on investment property	106,234	(265,877)
Impairment loss on inventory of real estate	(2,186)	(65,445)
Consolidated profit / (loss) before tax	135,331	(291,796)
<b>Assets</b>		
Total assets for reportable segments	2,524,836	2,138,539
Other unallocated amounts	262,309	467,461
Consolidated total assets	2,787,145	2,606,000
<b>Liabilities</b>		
Total liabilities for reportable segments	1,016,028	951,272
Other unallocated amounts	41,638	28,196
Consolidated total liabilities	1,057,666	979,468

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





	Reportable segment totals US\$'000	Adjustments US\$'000	Consolidated totals US\$'000
<b>Other material items 2012</b>			
Interest revenue	18,494	-	18,494
Interest expense	(57,322)	(9,495)	(47,827)
Net valuation loss on properties	(331,322)	-	(331,322)

## Geographical segments

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

## Major customer

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

## 7. Revenue



	2013 US\$'000	2012 US\$'000
Investment property rental income	126,965	103,643
Sales of trading properties (note 22)	57,540	4,805
Hotel operation income	17,738	13,456
Construction consulting / management fees	18	3,569
	202,261	125,473

## 8. Other income



Other income consist of:	2013 US\$'000	2012 US\$'000
Penalties charged to tenants	2,198	-
Profit on sale of property, plant and equipment	57	32
Sundries	4,154	728
	6,409	760

## 9. Operating expenses

	2013 US\$'000	2012 US\$'000
Maintenance, utility and security expenses	25,422	23,530
Agency and brokerage fees	4,552	802
Advertising expenses	4,186	3,996
Salaries and wages	19,398	17,248
Consultancy fees	1,516	1,330
Depreciation	1,721	779
Insurance	799	2,007
Rent	3,086	1,486
Property and other taxes	15,750	14,013
Other operating expenses	87	-
	76,517	65,191

## 10. Administrative expenses

	2013 US\$'000	2012 US\$'000
Consultancy fees	2,149	4,613
Legal fees	998	1,437
Auditors' remuneration	805	523
Valuation expenses	174	397
Directors' remuneration	1,497	510
Salaries and wages	6	178
Depreciation	155	163
Insurance	280	373
Provision for Doubtful Debts	(926)	4,076
Share option expense	4,920	1,256
Donations	4,527	4,209
Other administrative expense	2,326	2,434
	16,911	20,169

## 11. Other expenses



	2013 US\$'000	2012 US\$'000
Prior years' VAT non recoverable (note 21)	1,564	1,230
Compensation paid for fire damages	811	-
Sundries	3,105	315
	5,480	1,545

## 12. Finance income and finance costs



	2013 US\$'000	2012 US\$'000
Interest income	5,858	18,494
Loans written off	15,103	-
Net foreign exchange gain	-	16,630
Finance income	20,961	35,124
Interest expense on loans and borrowings	(156)	(2,703)
Interest expense on bank loans	(60,221)	(50,267)
Interest capitalised	-	5,143
Net change in fair value of financial assets	(18)	(124)
Translation reserve reclassified upon disposal of joint venture (note 36)	(30,288)	-
Other finance costs	(6,508)	(9,372)
Net foreign exchange loss	(28,941)	-
Finance costs	(126,132)	(57,323)
Net finance costs	(105,171)	(22,199)

Subject to the provisions of IAS23 "Borrowing costs" in 2013 the Group did not capitalise any amount (2012: US\$5,143 thousand) of financing costs to the projects that are in construction phase.

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



## 13. Tax expense

	2013 US\$'000	2012 US\$'000
<b>Current tax expense</b>		
Current year	8,666	1,734
Adjustment for prior years	245	213
	8,911	1,947
<b>Deferred tax expense / (benefit)</b>		
Origination and reversal of temporary differences	22,475	(18,216)
<b>Total tax expense / (benefit)</b>	<b>31,386</b>	<b>(16,269)</b>

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% (2012: 10%) corporate rate whereas Russian subsidiaries are subject to 20% corporate rate.

	%	2013 US\$'000	%	2012 US\$'000
Profit / (loss) for the year after tax		103,945		(275,527)
Total tax expense / (benefit)		31,386		(16,269)
Profit / (loss) before tax		135,331		(291,796)
Tax using the Company's domestic tax rate	12.5	16,916	(10.00)	(29,180)
Effect of tax rates in foreign jurisdictions	7.5	10,246	(0.14)	(413)
Tax exempt income	(6.3)	(8,570)	(0.50)	(1,467)
Non deductible expenses	8.2	11,047	5.79	16,896
Change in estimates related to prior years	0.2	241	(1.11)	(3,248)
Current year losses for which no deferred tax asset recognised	1.1	1,506	0.39	1,143
	23.2	31,386	(5.57)	(16,269)

The current tax liabilities of US\$4,067 thousand as at 31 December 2013, represents the net amount of income tax payable in respect of current and prior periods. The current tax assets of US\$2,341 thousand

as at 31 December 2012, represents the net amount of income tax overpayment in respect of year ended 31 December 2012 and prior periods net of payments made up to the year end.

## 14. Earnings per share

Basic earnings per share	2013 US\$'000	2012 US\$'000
Profit / (loss) attributable to ordinary shareholders	103,074	(269,098)
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)	9.84	(25.68)

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

## 15. Investment property

### a) Reconciliation of carrying amount

	2013 US\$'000	2012 US\$'000
Balance 1 January	1,292,300	1,246,988
Reclassification from investment property under development	1,852	40,600
Acquisitions	388,254	-
Disposal of investment property	(61,397)	(3,160)
Renovations/additional cost	13,186	16,557
Fair value adjustment	42,455	(50,334)
Effect of movement in foreign exchange rates	(66,850)	41,649
Balance 31 December	1,609,800	1,292,300

Acquisitions represent the effect of the acquisition of the 100% of the previously 50% owned joint venture Krown Investments LLC, which was thereafter treated as a subsidiary. See note 17 for further details.

The disposal of investment property represents Building 1 of the Ozerkovskaya (Aquamarine) phase III office complex in Moscow, which was disposed on 20 December 2013. Under the transaction, Krown Investments LLC, the subsidiary holding the rights to Ozerkovskaya (Aquamarine) phase III, sold premises of the first building in the Complex and part of underground premises with gross area of 10,985.8 sq.m., a terrace

of 418.9 sq.m. and approximately a 15.8% share in the title to common areas of the Complex, which total 3,728.6 sq.m. (total transacted area corresponds to approximately 11,994 sq.m.), to a Russian state controlled corporation. The consideration was received in cash and amounted to Russian rouble equivalent of US\$91.5 million and applicable Russian VAT resulting in a profit of US\$27.8 million before taxes.

The decrease due to the effect of the foreign exchange rates is a result of the weakening of the rouble compared to the US Dollar by 7.8%, during 2013. The fair value adjustment gain is mostly related to this rouble weakening.

## b) Measurement of fair value

### Fair value hierarchy

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

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

### Level 3 fair value

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

### Valuation technique and significant unobservable inputs

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

Valuation technique	Significant unobservable inputs	Inter-relationship between key unobservable inputs and fair value measurement
Discounted cash flows: The valuation model considers the present value of net cash flows to be generated from each property, taking into account rental rates and expected rental growth rate, occupancy rate and void periods together reflected in vacancy rates, construction cost, opening and completion dates, lease incentive costs such rent free periods, taxes* and other costs not paid by tenants. The expected net cash flows are discounted using the risk-adjusted discount rates plus the final year stream is discounted with an all-risk Yield. Among other factors, discount rate estimation considers type of property offered (retail, commercial, office) quality of building and its location, tenant credit quality and lease terms.	<ul style="list-style-type: none"> <li>● Average Rental rates per sq.m.: Office class A \$870, class B \$530, prime \$1,200 Retail \$500-\$4,000</li> <li>● Expected market rental growth office 7-12% average, retail 3-5% average</li> <li>● Vacancy rate (class A 16.4% class B 11% average 12%)</li> <li>● Risk-adjusted discount rates (14%-25%)</li> <li>● All-Risk Yield 8.5%-9%</li> </ul>	<p>The estimated fair value would increase/ (decrease) if:</p> <ul style="list-style-type: none"> <li>● Average rental rates were higher (lower)</li> <li>● Expected market rental growth were higher (lower)</li> <li>● Void periods were shorter (longer)</li> <li>● The vacancy rates were lower (higher)</li> <li>● The risk-adjusted discount rate were lower (higher)</li> <li>● All-risk yields were lower (higher)</li> </ul>

(\*) For the purposes of valuations, a general assumption that the cadastral value of the subject premises will be equal to their respective market value (and if, for some reason, the new cadastral value happens to be higher, the efficient property owner will be able to contest the incorrect cadastral value and bring it in line with the market value). Also the new property tax scheme outlined in note 34 involves only the property tax on the existing improvements i.e. cadastral value of existing premises excluding the cadastral value of underlying land. The land tax continues to be calculated separately and the land tax scheme remained unchanged from the last year.

Investments properties at fair value are categorised in the following:

	2013 US\$'000	2012 US\$'000
Retail properties	1,160,000	1,160,000
Office space properties	449,800	132,300
	1,609,800	1,292,300

### *Fair value sensitivity analysis*

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

#### **AFIMALL City**

Capitalization Rates	Increase of 1 %	Rate used in fair value calculation as at 31/12/2013 10%	Decrease of 1%
Fair value	1,098,569	1,160,000	1,233,717
Average rental rates per sq.m	Decrease of 5%	Rate used in fair value calculation as at 31/12/2013 US\$1,428 sq.m.	Increase of 5%
Fair value (US\$ '000)	1,117,059	1,160,000	1,202,941
Occupancy rates	Decrease of 2%	Rate used in fair value calculation as at 31/12/2013 97%	Increase of 2%
Fair value (US\$ '000)	1,139,539	1,160,000	1,183,892



## 16. Investment property under development

	2013 US\$'000	2012 US\$'000
Balance 1 January	567,737	805,998
Construction costs	17,050	3,833
Acquisition	846	-
Capitalised interest	-	4,761
Transfer to investment property	(1,852)	(40,600)
Fair value adjustment	63,779	(215,543)
Effect of movements in foreign exchange rates	(12,294)	9,288
Balance 31 December	635,266	567,737

In November 2013 the Company's subsidiary MKPK JSC and the Moscow city authorities signed an addendum to the land lease agreement for "Paveletskaya Phase II" project, amending the permitted use of land from industrial to the construction of commercial and residential premises. The addendum is in line with the previous decisions of the Moscow city authorities on development rights of the Company in this project. However the addendum provides the level of certainty required to change the fair value of the project to market value. The market value of the project determined by Cushman & Wakefield, the Company's independent appraisers, was US\$92.6 million, as of 30 September 2013, as opposed to book value of US\$11.6 million. The resulting US\$81 million gross valuation gain (US\$64.8 million net of taxation) was recognised in profit or loss on 30 September 2013.

According to the article dated 29.10.2013 and published on the official web-site of the Moscow Government, the Construction Department of Moscow Government has made decision to start an active phase of

redevelopment at Tverskaya Zastava Square in 2014 (and the first stage of redevelopment will focus on construction of an additional overhead road across the railway lines), whereas the date of completion of these works remains unclear, which will incur significant delay and, thus, pose high uncertainty with the timeline of the subject Plaza Ila project. Based on these facts, the Company recognised a decrease in the fair value of the property of US\$13.3 million. The valuation was also determined by the Company's independent appraisers and the fair value loss was recorded in profit or loss on 30 September 2013.

The decrease due to the effect of the foreign exchange rates is a result of the weakening of the rouble compared to the US Dollar by 7.8%, during 2013. Part of the fair value adjustment gain is related to this rouble weakening.

Fair value measurement and hierarchy is discussed in note 15 above.

## 17. Share of investment in joint ventures



	2013 US\$'000	2012 US\$'000
Balance 1 January	82,414	174,975
Capital contribution	-	37
Dividends received	-	(52,441)
Share of (loss)/profit (net of share of tax)	(798)	23,881
Acquisition of 100% of assets and liabilities of joint venture	(75,599)	-
Transfer to assets held for sale	-	(71,292)
Effect of movements in exchange rates	(462)	7,254
Balance 31 December	5,555	82,414

### The Group's joint ventures comprise the following:

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

The Group owned a 50% interest in Westec Four Winds Ltd and its subsidiary Dulverton Ltd, owner of investment property in Moscow, which was disposed early January 2013, see notes 27 and 36.

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

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



Percentage ownership interest	2013 US\$'000 50%	2012 US\$'000 50%
Non-Current assets	31,699	410,135
Current assets	9,488	5,621
Non-Current liabilities	(36,191)	(266,991)
Current liabilities	(11,324)	(22,047)
Net (liabilities) / assets (100%)	(6,328)	126,718
Group's share of net (liabilities) / assets (50%)	(3,164)	63,359
Fair value adjustments at acquisition	8,719	19,055
Carrying amount of interest in joint ventures	5,555	82,414
Revenue	28,161	127,251
Expenses	(29,758)	(79,489)
Profit and total comprehensive income (100%)	(1,597)	47,762
Group's share of profit and total comprehensive income (50%)	(798)	23,881
Dividends received by the Group	-	52,441

The above mentioned acquisition of the additional 50% shareholding in the previously joint venture Krown Investments LLC had the following effect on the Group's assets and liabilities:

	US\$'000
<b>Assets</b>	
Investment property	388,254
Investment property under development	846
Investment in joint ventures	(75,599)
Loan receivable from joint ventures	(91,893)
Trading properties	6,944
Trade and other receivables	6,966
Current tax asset	1,666
Cash	684
	237,868
<b>Liabilities</b>	
Deferred tax liabilities	(21,315)
Trade and other payables	(13,407)
Total net assets at fair value / Purchase consideration transferred	203,146
<b>Analysis of cash flows on acquisition:</b>	
Consideration paid	(203,146)
Cash acquired	684
<b>Net cash outflow for acquisition of assets and liabilities</b>	<b>(202,462)</b>

## Change in accounting policy

Under IAS 31 Interests in Joint Ventures (prior to the transition to IFRS 11), the Group's interest in these joint ventures was classified as a jointly controlled entity and the Group's share of the assets, liabilities, revenue, income and expenses were proportionately

consolidated in the consolidated financial statements. Upon adoption of IFRS 11, the Group has determined its interest to be a joint venture and it is required to be accounted for using the equity method. The effect of applying IFRS 11 is as follows:

>	Impact on the comparative income statement	2012 US\$'000	CHAIRMAN STATEMENT
	Decrease in the reported revenue	(37,166)	EXECUTIVE DIRECTOR'S STATEMENT
	Decrease in other income	(2,521)	
	Decrease in operating expenses	9,252	
	Decrease in administrative expenses	241	
	Decrease in other expenses	1,077	
	Decrease in valuation loss of investment property	(19,781)	
	Decrease in the carrying value of trading properties sold	5,372	UNDERSTANDING AFI DEVELOPMENT
	Decrease in gross profit	(43,526)	
	Decrease in finance cost	11,753	
	Decrease in profit on disposal of investments in subsidiaries	(367)	
	Decrease in operating profit	(32,140)	OPERATIONAL REVIEW
	Increase in share of profit in joint venture	23,881	
	Decrease in profit before tax	(8,259)	
	Increase in income tax benefit	8,259	
	Net impact on profit after tax	-	
>	Impact on comparative statement of financial position	2012 US\$'000	PRINCIPAL BUSINESS RISKS
	Increase in net investment in joint venture (non-current)	82,414	CORPORATE GOVERNANCE
	Decrease in investment property and investment property under development	(194,550)	
	Increase in loans receivable	112,732	
	Decrease in inventories and trade and other receivables	(868)	
	Decrease in cash and cash equivalents	(3,346)	DIRECTORS' REMUNERATION REPORT
	Decrease in current tax assets	(536)	
	Increase in trading properties	1,485	
	Decrease in property, plant and equipment	(26,355)	
	Decrease in assets held for sale	(114,596)	
	Decrease in trade and other payables (current)	6,377	
	Decrease in deferred tax liability	22,646	
	Decrease in liabilities held for sale	114,597	
	Net impact on equity	-	

There is no material impact on the consolidated statement of cash flows or the basic and diluted Earnings per share.



## 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
<b>Cost</b>					
Balance at 1 January 2013	17,284	59,848	3,942	1,944	83,018
Additions	159	1,267	258	123	1,807
Disposals	(8)	(669)	(9)	(197)	(883)
Effect of movement in foreign exchange rates	(5,639)	(1,133)	(344)	(160)	(7,276)
Balance at 31 December 2013	11,796	59,313	3,847	1,710	76,666
<b>Accumulated depreciation</b>					
Balance at 1 January 2013	-	2,221	2,625	1,617	6,463
Charge for the year	-	1,210	534	130	1,874
Disposals	-	(666)	(1)	(205)	(872)
Effect of movement in foreign exchange rates	-	(148)	(250)	(136)	(534)
Balance at 31 December 2013	-	2,617	2,908	1,406	6,931
<b>Carrying amount</b>					
At 31 December 2013	11,796	56,696	939	304	69,735
<b>Cost</b>					
Balance at 1 January 2012	31,571	34,157	3,510	1,920	71,158
Additions	6,088	519	276	251	7,134
Transfer of completed building	(23,532)	23,532	-	-	-
Interest capitalised	368	-	-	-	368
Disposals	-	(441)	(13)	(294)	(748)
Effect of movement in foreign exchange rates	2,789	2,081	169	67	5,106
Balance at 31 December 2012	17,284	59,848	3,942	1,944	83,018
<b>Accumulated depreciation</b>					
Balance at 1 January 2012	-	1,009	1,971	1,515	4,495
Charge for the year	-	1,193	554	224	1,971
Disposals	-	(74)	(12)	(212)	(298)
Effect of movement in foreign exchange rates	-	93	112	90	295
Balance at 31 December 2012	-	2,221	2,625	1,617	6,463
<b>Carrying amount</b>					
At 31 December 2012	17,284	57,627	1,317	327	76,555

During the year 2012 the Company completed the construction of a new Hotel in the Zheleznovodsk area called Sanatorium Plaza SPA, which was put into op-

eration during that year. Upon completion it was reclassified to Land and Buildings and depreciated on a straight line method over 100 years.

## 19. Loans receivable



	2013 US\$'000	2012 US\$'000
<b>Long-term loans</b>		
Loans to joint ventures (note 41)	21,438	112,732
Loans to non-related companies	214	759
	21,652	113,491
<b>Short-term loans</b>		
Loans to non-related companies	774	92
	774	92

### Terms and loan repayment schedule

Terms and conditions of outstanding loans were as follows:



	Currency	Nominal interest rate	Year of maturity	2013 US\$'000	2012 US\$'000
Unsecured loans to joint ventures	USD	11.5%	2017	11,787	95,426
	RUR	19.5%	2017	9,651	17,306
Unsecured loans to non-related companies	RUR	-	2016	214	-
	RUR	CBR rate* 1.1	2014	34	36
	USD	2.5%	2014	740	723
	RUR	11%	On demand	-	92
				22,426	113,583

## 20. Inventory of real estate

A subsidiary of the Company, Nordservice LLC was a “co-investor” in the project called “Botanic Gardens” together with Novoe Koltso Moskvyy OJSC (“NKM”), fully owned by the City of Moscow, which was the main investor and beneficiary of land lease rights for Botanic Gardens project. On 31 December 2011, the Company reclassified its project “Botanic Gardens” from current assets “Trading properties under construction” to non-current assets as “Inventory of real estate”, because the project was held for future development of trading properties which are not expected to be constructed within the Company’s 3-year operating cycle. Thereafter, during 2012 the company proceeded with the impairment of this project to zero. The impairment of the inventory of real estate reflects the Company’s decision to write-off its Botanic Gardens project because of a claim filed with a Moscow court on 2 August 2012 by a third party creditor seeking to declare the main investor bankrupt, while its assets were previously arrested for the benefit of the same creditor. The Company considered, based on the opinion of its legal advisers, that any recovery of the Company’s costs relating to its investments in the project was unlikely. Given the circumstances, the Company has decided to write-off its rights in the project from its books. Notwithstanding, the Company has continued its efforts to recover its costs and/or receive the development rights to the project. As a result of negotiations with the

Moscow city authorities, the Company’s development rights to the project have been recognised through an addendum to the investment contract for the Botanic Gardens project signed in February 2013.

According to this addendum, NKM shall not have any claims to the investments made by AFI Development in the Botanic Gardens project and its subsidiary, Nordservice LLC, will become the only investor under the investment contract. In line with its decision on the investment contract, the city authorities have agreed to change the lessee in the short term land lease agreement from NKM to Nordservice LLC. After thorough assessment of risks to the Company’s development rights in respect of the project, AFI Development agreed to make payments to the city of Moscow under the addendum to the investment contract in return for additional development rights. The total aggregate amount of the payments for additional development rights is approximately US\$18.5 million, which is to be paid in several instalments, out of which an amount of approximately US\$12 million was paid until 31 December 2013. The decision was based on the opinion of external legal advisers of the Company that, in the event that the addendum is declared void or is cancelled (following a claim by the creditors of NKM), the amounts paid to the city of Moscow would be repayable back to the Company.

## 21. VAT recoverable

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

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

## 22. Trading properties

	2013 US\$'000	2012 US\$'000
Balance 1 January	3,597	7,372
Acquisition	6,944	-
Transfer from trading properties under construction	29,772	-
Disposals	(32,623)	(3,846)
Effect of movements in exchange rates	(1,281)	71
Balance 31 December	6,409	3,597

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

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

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

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



## 23. Trading properties under construction

	2013 US\$'000	2012 US\$'000
Balance 1 January after reclassification of comparative	141,787	129,598
Transfer to trading properties	(29,772)	-
Construction costs	17,805	9,592
Effect of movements in exchange rates	(2,607)	2,597
Balance 31 December	127,213	141,787

Trading properties under construction comprise “Od-inburg” project which involves primarily the construction of residential properties.

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

## 24. Other investments

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

## 25. Trade and other receivables

	2013 US\$'000	2012 US\$'000
Advances to builders	40,241	29,836
Amounts receivable from related parties (note 41)	12,999	5,290
Trade receivables net	9,659	13,891
Other receivables	26,515	12,827
VAT recoverable (note 21)	15,711	15,033
Tax receivable	1,300	1,399
	106,425	78,276

### Trade receivables net

Trade receivables are presented net of an accumulated provision for doubtful debts of US\$12,658 thousand (2012: US\$13,584 thousand).

## 26. Cash and cash equivalents



Cash and cash equivalents consist of:	2013 US\$'000	2012 US\$'000
Cash at banks	193,027	174,750
Cash in hand	303	99
	193,330	174,849

## 27. Assets held for sale

In December 2012 the Company entered into an agreement to dispose of, its 50% of stake in Westec Four Winds Limited (along with its partner, Snegiri Development), which had developed and operated Four Winds. The deal was completed in January 2013 with total consideration received by the Company of circa US\$103.4 million. The transaction also resulted in reduction of overall debt of AFI Development following the removal of the project loan by Nordea

Bank JSC from its consolidated balance sheet. The total profit on disposal was US\$50,725 thousand, US\$18,637 thousand of which were recognised as a fair value gain in 2012 and the rest upon completion. The corresponding translation reserve was reclassified to profit or loss upon the disposal of the joint venture in January 2013. An amount of US\$30,288 was reclassified as realised foreign exchange loss in financing expenses.

## 28. Share capital and reserves

Share capital	2013 US\$'000	2012 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 2013.

### Share premium

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

### Employee share option plan

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

As of 31 December 2013 the following options were outstanding.

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

one-third on the third anniversary and the remaining one-third, on the fourth anniversary of the date of grant provided that the participants remain in employment until the vesting date. The vesting is not subject to any performance conditions. Their contractual life is five years from the date of grant.

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

## Translation reserve

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

## Retained earnings

The amount at each reporting date is available for distribution. No dividends were proposed, declared or paid during the year ended 31 December 2013.



## 29. Loans and borrowings

	2013 US\$'000	2012 US\$'000
<b>Non-current liabilities</b>		
Secured bank loans	778,909	554,551
<b>Current liabilities</b>		
Secured bank loans	26,367	1,357
Unsecured loans from other non-related companies	660	15,988
	27,027	17,345

The outstanding loans on 31 December 2013 comprise of the following:

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

The Company has discretion over the currency of each tranche, which can be drawn down either in US dollars or in Russian roubles. The loan facility has differentiated interest rates which are currency dependent: 9.5% for loans drawn down in Russian roubles and 3 months LIBOR plus 6.7% for loans drawn down in US dollars. The interest on the loans is payable on a quarterly basis, throughout the term of the credit line. Bellgate has undertaken to make equal quarterly payments of US\$6.5 million from 2014 to 2016, on account of the principal of the loans, while it has been agreed that the remainder of the loan will mature in April 2018. The terms of

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

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

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

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

On 25 January 2013 Krown Investments LLC ("Krown"), a 100% subsidiary, acquired a new secured loan from VTB Bank JSC ("the Bank") for refinancing the repayment of borrowings due to related parties. This loan agreement offers a credit line of US\$220 million, which was drawn down during the first quarter of 2013. The agreed interest is three-month LIBOR plus 5.7% p.a., payable every quarter. The loan repayment date is in 731 days from the date of signing the loan agreement. Securities provided to the Bank are on the 100% of the shares of Krown and on properties/buildings of

Aquamarine Phase III. A decrease in the market value of the pledged buildings by more than 15% will enable the bank to demand repayment of the loan before the agreed maturity date. In case of disposal of the pledged building, at least 70% of sale proceeds should be directed to the Bank for the repayment of the loan. The outstanding loan amount as at 31 December 2013 amounted to US\$205 million, including interest expenses. An amount of US\$15 million was repaid during the year out of the proceeds from sale of Building 1 of the Ozerkovskaya (Aquamarine) phase III as disclosed in note 15.

During the year Eitan K LLC, a 100% subsidiary, repaid in full the outstanding loan amount obtained from Sberbank, which as at 1 January 2013 amounted to US\$20 million, ahead of the contractual repayment date.

## Terms and debt repayment schedule

Terms and conditions of outstanding loans were as follows:

	Currency	Nominal interest rate	Year of maturity	2013 US\$'000	2012 US\$'000
Secured loan from VTB Bank	RUR	9.5%	2018	290,529	226,545
Secured loan from VTB Bank	USD	3m USD LIBOR+5.02%	2018	309,386	309,386
Secured loan from VTB Bank	USD	3m USD LIBOR+5.7%	2015	205,361	-
Secured loan from Sberbank	USD	13.5%	2014	-	19,977
Unsecured loans from non-related companies	USD	12%	2014	-	1,041
	USD	0%	on demand	-	454
	RUR	18.5%	on demand	-	6,796
	RUR	0%	on demand	7	6,876
	RUR	12%	on demand	54	85
	RUR	0.1% - 5%	on demand	599	736
				805,936	571,896

The loans and borrowings are payable as follows:	2013 US\$'000	2012 US\$'000
Less than one year	27,027	17,345
Between one and five years	778,909	96,620
More than five years	-	457,931
	805,936	571,896

As of 31 December 2013 the Group is in compliance with all loan covenants.

## 30. Long term amounts payable

Represented an amount payable to the City of Moscow, for the acquisition of the parking area under the AFIMALL City. The amount is payable in three yearly installments starting from February 2012 and with the last falling due in February 2014. On the 28 Feb-

ruary 2013 the company paid the second installment of RUR 1,333 million (approx. US\$ 43,544 thousand) and the third installment, which is payable within the next twelve months, is presented as a current liability in "Trade and other payables", see note 32 below.

## 31. Deferred tax assets and liabilities



Deferred tax (assets) and liabilities are attributable to the following:	2013 US\$'000	2012 US\$'000
Investment property	138,666	111,708
Investment property under development	50,427	20,881
Property, plant and equipment	(4,151)	(3,137)
Trading properties	(348)	61
Trading properties under construction	(3,341)	5,267
Trade and other receivables	(4,177)	(4,268)
Trade and other payables	(2,230)	1,229
Short-term loans and borrowings	2,869	(9)
Other items	846	85
Tax losses carried forward	(53,301)	(49,870)
Deferred tax liability	125,260	81,947

## 32. Trade and other payables



	2013 US\$'000	2012 US\$'000
Trade payables	11,175	2,821
Payables to related parties (note 41)	4,088	6,095
Amount payable to builders	9,556	5,999
VAT and other taxes payable	28,260	17,074
Receipts in advance from sale of investment	-	100,000
Receipts in advance for the sale of parking places	-	61,734
Amount payable for the acquisition of properties (note 30)	39,967	43,068
Advances from customers	107	-
Other payables	7,202	30,347
	100,355	267,138

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

### Payables to related parties

Include an amount of US\$3,282 thousand (31/12/12: US\$3,761 thousand) payable to Danya Cebus Rus LLC, related party of the Group, for contracts signed in relation to the construction of Group's projects.

### Receipts in advance from sale of investment

In 2012 the Company received an advance payment for the disposal of the Westec Four Winds plaza which was classified as current liability until the completion of the transaction in January 2013.

## 33. Deferred income

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

## 34. Financial instruments—fair values and risk management

### Accounting classifications and fair values

The following table shows the carrying amounts and fair values of financial assets and financial liabilities, including their levels and the fair value hierarchy. It does

not include fair value information for financial assets and financial liabilities not measured at fair value if the carrying amount is a reasonable approximation of fair value.

31 December 2013

Financial assets measured at fair value	Note	Designated at fair value	Loans and receivables	Other financial liabilities	Total
Investment in listed Debt Securities					
Carrying amount	24	9,982	-	-	9,982
		Level 1	Level 2	Level 3	Total
Fair Values		9,982	-	-	9,982

31 December 2012

There were no financial assets and liabilities measured at fair value on 31 December 2012

### Financial risk management

The Group has exposure to the following risks from its use of financial instruments:

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

### Risk management framework

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

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



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

#### *Credit risk*

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

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

#### *Trade and other receivables*

Financial assets which are potentially subject to credit risk consist principally of trade and other receivables as well as credit exposures with respect to rental customers and buyers of residential 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, where possible rental contracts are made with customers with an appropriate credit history.

#### *Cash and cash equivalents*

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

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

#### *Investments*

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

#### *Guarantees*

The Company's policy is to provide financial guarantees only to wholly-owned subsidiaries in exceptional cases. In negotiations with lending banks the Company is aiming to avoid recourse to AFI Development on loans taken by subsidiaries. As at 31 December 2013, there were two outstanding guarantees: one of AFI Development Plc for the amount of US\$1 million in favour of VTB Bank under a loan facility agreement of Bellgate Construction Limited and another one of AFI Development Plc for the amount of US\$205 million in favour of VTB Bank JSC under a loan facility agreement of Krown Investments LLC (project Aquamarine III).

#### *Liquidity risk*

Liquidity risk is the risk that the Group will encounter difficulty in meeting its financial obligations as they fall due. The Group's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when 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 2013:**

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

- A secure bank loan facility from VTB Bank JSC for US\$220 million, acquired for refinancing the construction costs for Ozerkovskaya III project.

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

31 December 2013	Carrying Amount US\$'000	Contractual Cash flow US\$'000	6 months or less US\$'000	6-12 months US\$'000	1-2 years US\$'000	2-5 years US\$'000	More than 5 years US\$'000
Secured bank loans	805,276	(981,298)	(40,277)	(39,813)	(272,115)	(629,093)	-
Unsecured loans	660	(677)	-	(677)	-	-	-
Trade and other payables	100,355	(100,355)	(100,355)	-	-	-	-

31 December 2012	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	More than 5 years US\$'000
Secured bank loans	555,908	(778,765)	(23,791)	(24,893)	(90,984)	(171,519)	(467,578)
Unsecured loans	15,988	(17,404)	-	(17,404)	-	-	-
Long term payables	38,324	(41,473)	-	-	(41,473)	-	-
Trade and other payables	105,404	(105,404)	(105,404)	-	-	-	-

**Market risk**

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

**Currency risk**

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

**Sensitivity analysis**

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

A 10% strengthening of the United States Dollar against the following currencies at 31 December 2013 would have increased/(decreased) equity and profit for the year by the amounts shown below.

This analysis assumes that all other variables, in particular interest rates, remain constant. The analysis is performed on the same basis for 2012.

	Equity US\$ '000	Profit for the year US\$ '000
<b>31 December 2013</b>		
Russian Roubles	8,460	(51,049)
Ukrainian Hryvnia	(2,297)	3
Euro	-	142
<b>31 December 2012</b>		
Russian Roubles	18,802	1,305
Ukrainian Hryvnia	2,303	89

A 10% weakening of the United States Dollar against the above currencies at 31 December 2013 would have the equal but opposite effect on the above currencies to the amounts shown above, on the basis that all other variables remain constant.

#### *Interest rate risk*

##### *Profile*

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

	Carrying amount	
	2013 US\$ '000	2012 US\$ '000
<b>Fixed rate instruments</b>		
Financial assets	315,118	288,394
Financial liabilities	(291,189)	(262,510)
	(23,929)	25,884
<b>Variable rate instruments</b>		
Financial assets	34	38
Financial liabilities	(514,747)	(309,386)
	(514,713)	(309,348)

#### *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 2012.



	Equity US\$ '000	Profit for the year US\$ '000
31 December 2013		
Variable rate instruments	-	(5,147)
31 December 2012		
Variable rate instruments	-	(3,093)

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

## Operational risk

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

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

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

- requirements for appropriate segregation of duties, including the independent authorisation of transactions
- requirements for the reconciliation and monitoring of transactions
- compliance with regulatory and other legal requirements
- documentation of controls and procedures

- requirements for the periodic assessment of operational risks faced, and the adequacy of controls and procedures to address the risks identified
- requirements for the reporting of operational losses and proposed remedial action
- development of contingency plans
- training and professional development
- ethical and business standards
- risk mitigation, including insurance where this is effective

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

## Capital management

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

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

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

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



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

#### *Russian business environment*

The Russian Federation continues to display some characteristics of an emerging market and economic conditions continue to limit the volume of activity in the financial markets. Market quotations may be outdated or reflect distress sale transactions and therefore not represent fair values of financial instruments.

#### *Changes in property tax law*

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

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

The Company has received cadastral value for several of its properties. Based on the new cadastral values, the Company may face significant (more than two-fold) increase in property tax expense in 2014. The Company intends to challenge these cadastral values based on the fact that they do not reflect the existing market values of these properties. In case the legal challenge of the new cadastral values by the Company fails, it may have significant negative influence on the company results.

## 35. Group entities

Ultimate controlling party:	Lev Leviev	Israel
Ultimate holding company:	Africa Israel Investments Limited	Israel
Holding company:	Africa Israel Investments Limited	Israel



Significant Subsidiaries	Ownership interest		Country of incorporation
	2013	2012	
1. 000 AFI RUS	100	100	Russian Federation
2. 000 Avtostoyanka Tverskaya Zastava	100	100	Russian Federation
3. 000 Krown Investments	100	50	Russian Federation
4. OAO Moskovskiy Kartonazhno-poligraphiche skiy Kombinat (MKPK)	99.17	99.17	Russian Federation
5. Bellgate Constructions Limited	100	100	Cyprus
6. 000 Regionalnoe AgroProizvodstvennoe Objedinenie (RAPO)	100	100	Russian Federation
7. 000 Aristeya	100	100	Russian Federation
8. Scotson Limited	100	100	Cyprus
7. ZAO Nedra Publishing	90.17	90.17	Russian Federation
8. 000 Titon	100	100	Russian Federation
9. ZAO MTOK	99.71	99.71	Russian Federation
10. 000 Eitan K	100	100	Russian Federation
11. 000 Semprex	100	100	Russian Federation
12. 000 Zheldoruslugi	95	95	Russian Federation
13. 000 Bizar	74	74	Russian Federation
13. AFI D Finance SA	100	100	British Virgin Islands

During the year ended 31 December 2013 the Group acquired the additional 50% of 000 Krown investment as described in note 17.

## 36. Disposal of investments in joint ventures / subsidiaries



	2013 US\$'000	2012 US\$'000
The profit on disposal of subsidiaries consists of:		
Profit on disposal of Westec Four Winds Ltd	32,088	-
Profit on disposal of non-significant subsidiaries*	190	-
Profit on disposal of OOO Ozerkovka	-	2,637
Loss on disposal of Roppler Engineering Limited and its subsidiary OOO CDM	-	(275)
	32,278	2,362

\* Comprises of a number of subsidiaries which are individually insignificant, namely OOO Ko-Project, OOO North Investments and OOO UMM.

The selling price of the disposal of Westec Four Winds Ltd was US\$103,380 thousand. The resulting profit on sale amounting to US\$32,088 thousand was recognised in income statement and a translation reserve of US\$30,288 thousand was reclassified as a realised exchange loss in financing expenses of the profit or loss.

The selling price of the disposal of non-significant subsidiaries was US\$2 thousand. The resulting loss on sale amounting to US\$56 and the realised exchange gain amounting to US\$246 thousand were recognised in profit or loss.

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



	31/12/13 US\$'000
Investment property	(177,996)
Property, plant and equipment	(109)
VAT recoverable	(2)
Trading properties	(322)
Trade and other receivables	(2,831)
Cash disposed off reclassified to assets held for sale at the end of 2012	(4,691)
Long-term loans and borrowings	81,408
Deferred tax liabilities	26,614
Deferred income	3,366
Trade and other payables	2,694
Current tax payable	519
Net identifiable assets	(71,350)
Consideration received in cash	103,382
Amount received in advance in the prior year	(100,000)
Net cash inflow from the disposal of joint venture / non-significant subsidiaries during the period	3,382

## 37. Non-controlling interests

There were no individually significant subsidiaries which have material NCI.

## 38. Operating leases

### Leases as lessee

Non-cancellable operating lease rentals are payable as follows:

	2013 US\$'000	2012 US\$'000
Less than a year	15,980	6,224
Between one and five years	21,676	11,318
More than five years	60,167	54,880
	97,823	72,422
Amount recognised as an expense during the year	3,086	1,486

The ownership of land in the Russian Federation is rare and especially within Moscow region, in which all of the property with only a few exceptions, is owned by the City of Moscow. The majority of land is occupied by private entities pursuant to lease agreements between occupants, of the building located on the land, and the City of Moscow. The Group has several long-term operating leases for land. These leases are entered into with the intention and right to develop the land and carry out construction. Typically they run for an initial period of one to five years which is the period of development and upon completion of development the developer has the right to renew for a long term period of usually up to 49 years. Under both leases the lessee is required to make periodic lease payments, generally on a quarterly basis to the City of Moscow.

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

### Leases as lessor

The Group leases out investment property under operating leases. The future minimum lease payments under non-cancellable leases are as follows:

	2013 US\$'000	2012 US\$'000
Less than a year	125,244	110,586
Between one and five years	204,548	273,720
More than five years	46,928	38,461
	376,720	422,767
Amount recognised as income during the year	126,814	103,643



## 39. Capital commitments

Up to 31 December 2013 the Group has entered into a number of contracts for the construction of investment or trading properties:

Project name	Commitment	
	2013 US\$'000	2012 US\$'000
Odinburg	53,058	-
Kosinskaya	20,253	-
TVZ Plaza IC	12,776	-
Serebryakova	7,332	-
Pavaletskaya II	3,733	-
TVZ Plaza IV	3,592	-
TVZ Plaza II	1,297	-
Bolshaya Pochtovaya	334	-
	102,375	-

## 40. Contingencies

There were not any contingent liabilities as at 31 December 2013.

## 41. Related parties

Outstanding balances with related parties	2013 US\$'000	2012 US\$'000
<b>Assets</b>		
Amounts receivable from joint ventures	16	4,978
Amounts receivable from ultimate holding company	203	203
Amounts receivable from other related companies	12,780	109
Long term loan receivable from joint ventures	21,438	112,732
<b>Liabilities</b>		
Amounts payable to joint ventures	170	1,631
Amounts payable to ultimate holding company	435	461
Amounts payable to other related companies	3,483	4,003
Deferred income from related company	266	267

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



Transactions with the key management personnel	2013 US\$'000	2012 US\$'000
Key management personnel compensation comprised:		
Short-term employee benefits	4,401	2,175
Share option scheme expense	4,920	1,256

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	2013 US\$'000	2012 US\$'000
<b>Revenue</b>		
Joint venture – consulting services	-	2,122
Joint venture – rental income	2	93
Joint venture – other income	11	-
Joint venture – interest income	2,523	16,343
Related company – rental income	1,358	1,251
<b>Expenses</b>		
Ultimate holding company – administrative expenses	433	370
Joint venture – interest expense	-	2,072
Joint venture – operating expenses	193	269
Joint venture – administrative expenses	9	2
Other related companies – administrative expenses	6	-



Other related party transactions	2013 US\$'000	2012 US\$'000
<b>Construction services capitalised</b>		
Related company – construction services	9,076	-

## 42. Subsequent events

Subsequent to 31 December 2013 there were no events that took place which have a bearing on the understanding of these financial statements except of the following:

In February 2014, the Company subsidiary, Bellgate Construction Ltd. ("Bellgate") paid the last fourth instalment of RUR1,333 million (approx. US\$37.5 million) to Moscow municipal organisation GUP "Tsentr City" for the underground parking premises at AFIMALL City. According to the agreement between Bellgate and GUP "Tsentr City", the purchase price had to be paid in four instalments. The amount was paid by using the last tranche of the loan by VTB bank as described in note 29.

During February-March 2014 Russia got involved in a conflict with Ukraine over Crimea, following the change of regime in the Ukraine, while the steps undertaken by the Russian government in Crimea are viewed negatively by the United States and some EU states. The consequences of this conflict may have a negative effect on the Russian economy; however it cannot be quantified or predicted at the current stage of events.

During January – March 2014 the Russian Rouble depreciated by about 12% against US Dollar. This depreciation may have a negative effect on the Company's equity.

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# FINANCIAL STATEMENTS

## PARENT COMPANY SEPARATE FINANCIAL STATEMENTS



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

For the year ended 31 December 2013



	Note	2013 US\$'000	2012 US\$'000
Revenue	4	1,048	50,451
Other income		1,359	37
Impairment of investments and loans to subsidiaries	8,10	(430)	(93,631)
Administrative expenses	5	(18,652)	(13,098)
Profit / (loss) on disposal of investments in subsidiaries	8,13	97,271	(25,729)
		78,189	(132,458)
<b>Results from operating activities</b>		80,596	(81,970)
Finance income		10,165	13,376
Finance costs		(5,158)	(2,137)
<b>Net finance income</b>	6	5,007	11,239
<b>Profit / (loss) before tax</b>		85,603	(70,731)
Tax expense	7	-	(118)
<b>Profit / (loss) for the year</b>		85,603	(70,849)
<b>Other comprehensive income</b>		-	-
<b>Total comprehensive income for the year</b>		85,603	(70,849)

The notes on pages 146 to 160 are an integral part of these consolidated financial statements.

## PARENT COMPANY SEPARATE STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2013



	Share capital US\$ '000	Share premium US\$ '000	Retained earnings US\$ '000	Total US\$ '000
Balance at 1 January 2012	1,048	1,763,409	68,922	1,833,379
Total comprehensive income for the year	-	-	(70,849)	(70,849)
<b>Transactions with owners of the Company</b>				
<b>Contributions and distributions</b>				
Share option expense	-	-	1,256	1,256
Balance at 31 December 2012	1,048	1,763,409	(671)	1,763,786
Balance at 1 January 2013	1,048	1,763,409	(671)	1,763,786
Total comprehensive income for the year	-	-	85,603	85,603
<b>Transactions with owners of the Company</b>				
<b>Contributions and distributions</b>				
Share option expense	-	-	4,920	4,920
Balance at 31 December 2013	1,048	1,763,409	89,852	1,854,309

The notes on pages 146 to 160 are an integral part of these consolidated financial statements.

## PARENT COMPANY SEPARATE STATEMENT OF FINANCIAL POSITION

As at 31 December 2013

	Note	2013 US\$'000	2012 US\$'000
<b>Assets</b>			
Investment in subsidiaries	8	1,666,326	1,506,537
Investment in jointly controlled entities	9	-	9,659
Loans receivable	10	217,926	300,071
<b>Total non current assets</b>		<b>1,884,252</b>	<b>1,816,267</b>
Trade and other receivables	11	11,649	10,613
Refundable tax		2,215	2,215
Cash and cash equivalents	12	43,239	103,503
Assets held for sale	13	-	6,108
<b>Total current assets</b>		<b>57,103</b>	<b>122,439</b>
<b>Total assets</b>		<b>1,941,355</b>	<b>1,938,706</b>
<b>Equity</b>			
Share capital		1,048	1,048
Share premium		1,763,409	1,763,409
Retained earnings		89,852	(671)
<b>Total equity</b>	<b>14</b>	<b>1,854,309</b>	<b>1,763,786</b>
<b>Liabilities</b>			
Loans and borrowings	15	85,473	-
<b>Total non current liabilities</b>		<b>85,473</b>	<b>-</b>
Trade and other payables	16	1,573	174,920
<b>Total current liabilities</b>		<b>1,573</b>	<b>174,920</b>
<b>Total liabilities</b>		<b>87,046</b>	<b>174,920</b>
<b>Total equity and liabilities</b>		<b>1,941,355</b>	<b>1,938,706</b>

The financial statements were approved by the Board of Directors on 17 March 2014.

Lev Leviev

Chairman

Mark Groysman

Director

# PARENT COMPANY SEPARATE STATEMENT OF CASH FLOWS

For the year ended 31 December 2013



	Note	2013 US\$'000	2012 US\$'000
<b>Cash flows from operating activities</b>			
Profit / (loss) for the year		85,603	(70,849)
Adjustments for:			
Unrealised exchange loss/(gain)	6	444	(3,861)
Impairment charge		430	93,631
(Gain) / loss on disposal of investments in subsidiaries	8,13	(97,271)	25,729
Dividend income	4	(1,048)	(50,451)
Interest income	6	(10,165)	(9,515)
Interest expense	6	4,689	2,097
Share option expense		4,920	1,256
Income tax expense	7	-	118
		(12,398)	(11,845)
Change in trade and other receivables		(268)	(366)
Change in trade and other payables		(1,220)	(31,804)
<b>Cash used in operating activities</b>		<b>(13,886)</b>	<b>(44,015)</b>
Tax paid		-	(118)
<b>Net cash used in operating activities</b>		<b>(13,886)</b>	<b>(44,133)</b>
<b>Cash flows from investing activities</b>			
Receipts in advance for the sale of an investment	13	-	100,000
Proceeds received from the sale of subsidiaries	13	3,380	6,011
Additional contribution of capital to existing subsidiaries and jointly controlled entities		-	(4,967)
Payment for acquisition of investments in subsidiaries	8	(101,261)	-
Dividends received		1,048	64,051
Interest received	6	1,345	1,623
<b>Net cash (used in) / from investing activities</b>		<b>(95,488)</b>	<b>166,718</b>
<b>Cash flows from financing activities</b>			
Payments for loans receivable		(6,705)	(67,021)
Proceeds from repayment of loans receivable		91,272	63,471
Repayment of loans and borrowings		(4,000)	(47,945)
Repayment of a loan from joint venture partner	16	(116,264)	-
Proceeds from loans and borrowings	15	88,789	-
Interest paid		(4,000)	(11,154)
<b>Net cash from / (used in) financing activities</b>		<b>49,092</b>	<b>(62,649)</b>
Effect of exchange rate fluctuations on cash held		18	(2,835)
<b>Net (decrease) / increase in cash and cash equivalents</b>		<b>(60,264)</b>	<b>57,101</b>
Cash and cash equivalents at 1 January		103,503	46,402
<b>Cash and cash equivalents at 31 December</b>	12	<b>43,239</b>	<b>103,503</b>
<b>The cash and cash equivalents consists of:</b>			
Cash at banks		43,239	103,503

The notes on pages 146 to 160 are an integral part of these consolidated financial statements.



# Notes to the Parent Company Separate Financial Statements

For the year ended 31 December 2013

## 1. Incorporation and principal activities

AFI Development PLC (the "Company") was incorporated in Cyprus on 13 February 2001 as a limited liability company under the name Donkamill Holdings Limited. In April 2007 the Company was transformed into public company and changed its name to AFI Development PLC. The address of the Company's registered office is 165 Spyrou Araouzou Street, Lordos Waterfront Building, 5th floor, Flat/office 505, 3035 Limassol, Cyprus. The Company is a 64.88% (31/12/2012: 64.88%) subsidiary of Africa Israel Investments Ltd ("Africa-Israel"), which is listed in the Tel Aviv Stock Exchange ("TASE"). The remaining shareholding of "A" shares is

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

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

## 2. Basis of preparation

### (a) Statement of compliance

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

Users of these parent's separate financial statements should read them together with the Group's consolidated financial statements as at and for the year ended 31 December 2013 in order to obtain a proper understanding of the financial position, the financial performance and the cash flows of the Company and the Group.

### (b) Basis of measurement

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

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

As from 1 January 2013, the Company adopted all changes to International Financial Reporting Standards (IFRSs) which are relevant to its operations. This adoption did not have a material effect on the separate financial statements of the Company.

*(i) Standards and Interpretations adopted by the EU which the Group elected to early adopt as from 1 January 2013.*

- IFRS 10 "Consolidated Financial Statements" (effective the latest, as from the commencement date of its first financial year starting on or after 1 January 2014).
- IFRS 11 "Joint Arrangements" (effective the latest, as from the commencement date of its first financial year starting on or after 1 January 2014).
- IFRS 12 "Disclosure of Interests in Other Entities"

(effective the latest, as from the commencement date of its first financial year starting on or after 1 January 2014).

The following Standards, Amendments to Standards and Interpretations have been issued but are not yet effective for annual periods beginning on 1 January 2013. Those which may be relevant to the Company are set out below. The Company does not plan to adopt these Standards early.

- Investment Entities - Amendments to IFRS 10, 12 and IAS 27 (effective the latest, as from the commencement date of its first financial year starting on or after 1 January 2014).
- Transition Guidance - Amendments to IFRS 10, 11 and 12 (effective the latest, as from the commencement date of its first financial year starting on or after 1 January 2014).
- IAS 27 (Revised) "Separate Financial Statements" (effective the latest, as from the commencement date of its first financial year starting on or after 1 January 2014).
- IAS 28 (Revised) "Investments in Associates and Joint ventures" (effective the latest, as from the commencement date of its first financial year starting on or after 1 January 2014).
- IAS 32 (Amendments) "Offsetting Financial Assets and Financial Liabilities" (effective for annual periods beginning on or after 1 January 2014).
- IAS 36 (Amendments) "Recoverable Amount Disclosures for Non-Financial Assets" (effective for annual periods beginning on or after 1 January 2014).
- AS 39 (Amendments) "Novation of Derivatives and Continuation of Hedge Accounting" (effective for annual periods beginning on or after 1 January 2014).

### *(iii) Standards and Interpretations not adopted by the EU*

- IFRS 7 (Amendments) "Financial Instruments: Disclosures" – "Disclosures on transition to IFRS 9" (effective for annual periods beginning on or after 1 January 2015).
- IFRS 9 "Financial Instruments" (effective for annual periods beginning on or after 1 January 2015).
- FRS 9 "Financial Instruments: Hedge accounting and Amendments to IFRS 9, IFRS 7 and IAS 39"

(effective for annual periods beginning on or after 1 January 2015).

- IFRS 14 "Regulatory Deferral Accounts" (effective for annual periods beginning on or after 1 January 2016).
- IAS 19 (Amendments) "Defined Benefit Plans: Employee Contributions" (effective for annual periods beginning on or after 1 July 2014).
- Improvements to IFRSs 2010-2012 (effective for annual periods beginning on or after 1 July 2014).
- Improvements to IFRSs 2011-2013 (effective for annual periods beginning on or after 1 July 2014).
- IFRIC 21 "Bank Levies" (effective for annual periods beginning on or after 1 January 2014).

## **(d) Use of estimates and judgements**

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

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

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

### **• Income taxes**

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

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

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

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

### (e) Functional and presentation currency

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

## 3. Significant accounting policies

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

### Subsidiary companies

Investments in subsidiary companies are stated at cost less provision for impairment in value, which is recognised as an expense in the period in which the impairment is identified.

### Interests in jointly controlled entities

The Company's share in a jointly controlled entity is stated at cost less provision for impairment in value, which is recognised as an expense in the period in which the impairment is identified.

### Finance income and finance costs

Finance income comprises interest income on funds invested and on loans offered to related parties. Interest income is recognised as it accrues in profit or loss, using the effective interest method.

Finance costs comprise interest expense on borrowings and impairment losses recognised on financial assets (other than trade receivables). Borrowing costs are recognised in profit or loss using the effective interest method.

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

### Foreign currency translation

#### (i) Functional and presentation currency

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

#### (ii) Transactions and balances

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

## Revenue

### *Dividend income*

Dividend income is recognised in profit or loss when the right to receive payment is established i.e. dividends are declared and approved by the investee companies.

## Tax

Tax liabilities and assets for the current and prior periods are measured at the amount expected to be paid to or recovered from the taxation authorities, using the tax rates and laws that have been enacted, or substantively enacted, by the reporting date. Current tax includes any adjustments to tax payable in respect of previous periods.

## Dividends

Dividend distribution to the Company's shareholders is recognised in the Company's financial statements in the year in which they are approved by the Company's shareholders.

## Financial instruments

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

### *(i) Loans granted*

Loans originated by the Company by providing money directly to the borrower are categorised as loans and are carried at amortised cost. This is defined as the fair value of cash consideration given to originate those loans as is determined by reference to market prices at origination date. All loans are recognised when cash is advanced to the borrower.

An allowance for loan impairment is established if there is objective evidence that the Company will not be able to collect all amounts due according to the original contractual terms of loans. The amount of the provision is the difference between the carrying amount

and the recoverable amount, being the present value of expected cash flows including amounts recoverable from guarantees and collateral, discounted at the original effective interest rate of loans.

### *(ii) Cash and cash equivalents*

For the purpose of the statement of cash flows, cash and cash equivalents comprise cash at bank and short term highly liquid investments with maturities of three months or less from the acquisition date that are subject to an insignificant risk of changes in their fair value and are used by the Company in the management of its short term commitments.

### *(iii) Borrowings*

Borrowings are recorded initially at the proceeds received, net of transaction costs incurred. Borrowings are subsequently stated at amortised cost. Any differences between the proceeds (net of transaction costs) and the redemption value is recognised in profit or loss over the period of the borrowings using the effective interest method.

## Derecognition of financial assets and liabilities

### *Financial assets*

**A financial asset (or, where applicable a part of a financial asset or part of a group of similar financial assets) is derecognised when:**

- the rights to receive cash flows from the asset have expired;
- the Company retains the right to receive cash flows from the asset, but has assumed an obligation to pay them in full without material delay to a third party under a 'pass through' arrangement; or
- the Company has transferred its rights to receive cash flows from the asset and either (a) has transferred substantially all the risks and rewards of the asset, or (b) has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.



### *Financial liabilities*

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires.

When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognised in profit or loss.

### Impairment of assets

Assets that have an indefinite useful life are not subject to amortisation and are tested annually for impairment. Assets that are subject to depreciation or amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash generating units).

### Offsetting financial instruments

Financial assets and financial liabilities are offset and the net amount reported in the statement of financial position if, and only if, there is a currently enforceable legal right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the asset and settle the liability simultaneously. This is not generally the case with master netting agreements, and the related assets and liabilities are presented gross in the statement of financial position.

### Non-current assets held for sale

Non-current assets are classified as held for sale if their carrying amount will be recovered through a sale transaction rather than through continuing use. This condition is regarded as met only when the sale is highly probable and the asset is available for immediate sale in its present condition. Management must be committed to the sale, which should be expected to qualify for recognition as a completed sale within one year from the date of classification. Non-current assets classified as held for sale are presented separately in the statement of financial position and are to be measured at the lower of the asset's previous carrying amount and fair value less costs to sell.

### Share capital

Ordinary shares are classified as equity. The difference between the fair value of the consideration received by the Company and the nominal value of the share capital being issued is taken to the share premium account.

### Non current liabilities

Non current liabilities represent amounts that are due more than twelve months from the reporting date.

### Comparatives

Where necessary, comparative figures have been adjusted to conform to changes in presentation in the current year.

## 4. Revenue

	2013 US\$'000	2012 US\$'000
Dividend income	1,048	50,451

During the year the Company received dividends from its subsidiary which were recognised as income upon declaration and approval.

## 5. Administrative expenses

	2013 US\$'000	2012 US\$'000
Consultancy and brokerage fees	5,678	4,225
Donations	4,518	4,200
Legal fees	763	1,326
Share option expense	4,920	1,256
Directors' remuneration	1,497	510
Auditors' remuneration	345	469
Valuation expenses	118	388
Insurance	192	173
Impairment of receivables	-	17
Other administrative expense	621	534

## 6. Finance income and finance costs

	2013 US\$'000	2012 US\$'000
Interest income	10,165	9,515
Net foreign exchange gain	-	3,861
Finance income	10,165	13,376
Interest expense on loans and borrowings	(4,689)	(2,097)
Other finance costs	(25)	(40)
Net foreign exchange loss	(444)	-
Finance costs	(5,158)	(2,137)
Net finance income	5,007	11,239

## 7. Taxation

	2013 US\$'000	2012 US\$'000
<b>Current tax expense</b>		
Adjustment for prior years	-	118

The corporation tax rate is 12.5% (2012: 10%).

## 8. Investment in subsidiaries

	2013 US\$'000	2012 US\$'000
Balance at 1 January	1,506,537	837,032
Additional capital contribution in existing subsidiaries	49,299	791,825
Transfer from investment in jointly controlled entities	9,659	-
Acquisition/(disposal) of investment in subsidiaries	101,261	(31,740)
Impairment	(430)	(90,580)
Balance at 31 December	1,666,326	1,506,537

On 12 February 2013 the Company acquired the remaining 50% shareholding in Krown Investments LLC, which was thereafter treated as a subsidiary. The agreement provided for the full settlement of all liabilities to the joint venture partner amounting to US\$116,264 thousand (note 16) and the remaining US\$101,245 thousand was recorded as cost of acquisition.

The Company also incorporated during the year six new subsidiaries at a total cost of US\$16 thousand.

During the year AFI D Finance S.A. and Rognerstar Finance Ltd, Company's wholly owned subsidiaries have increased their share capital by US\$44,130 thousand and US\$5,169 thousand respectively and offered the additional shares to the Company in exchange of loans receivable from group subsidiaries assigned.

During 2012 the Company has also decided to write off an amount of US\$90,580 thousand from its investments in Talena Trading Ltd, Bioka Investments Ltd, Amerone Development Ltd, Rubiosa Management Ltd, Keyiri Trade and Invest Ltd, AFI Ukraine Ltd and Corin

Development LLC since there is no certainty whether and when the necessary permits for the development of their projects will be obtained. As a result the fair value of these investments was estimated to zero. During 2013 an additional impairment of US\$430 thousand for the Company's investment in Keyiri Trade & Invest Ltd was recorded.

During 2012, according to an internal restructuring plan, the Company assigned its rights under the existing loan agreements with most of its Cypriot and Russian subsidiaries to AFI D Finance S.A. On 25 July 2012, as a consideration of this assignment, AFI D Finance S.A. issued 8,065,571 new shares to the Company at nominal value of \$100 each.

During 2012 the Company disposed off its investments in OOO Ozerkovka and Roppler Engineering Limited together with its subsidiary OOO CDM. The selling price of the disposal was US\$6,011 thousand. The resulting loss on sale amounting to US\$25,729 thousand was recognised in profit or loss.

The details of the subsidiaries are as follows:

Investment	Country of incorporation	Principal activities	2013 US\$'000	2012 US\$'000
Investment in Cypriot companies	Cyprus	Holding of investments / Financing	605,585	600,830
Investment in Russian companies	Russian Federation	Real estate development	210,053	99,150
Investment in BVI companies	BVI	Financing	850,688	806,557
			1,666,326	1,506,537

## 9. Investment in jointly controlled entities

	2013 US\$'000	2012 US\$'000
Balance at 1 January	9,659	15,731
Transfer to assets held for sale	-	(6,108)
Acquisition of 100% of a joint venture – Transfer to investment in subsidiaries	(9,659)	-
Additional contribution of capital to existing jointly controlled entities	-	36
Balance at 31 December	-	9,659

The Company owned a 50% interest in Krown Investments LLC, owner of investment and trading properties in Moscow. On 12 February 2013 the Company acquired the remaining 50% shareholding, thereafter treated as a subsidiary, see note 8 above.

The transfer to the assets held for sale during 2012 represented investment in Westec Four Winds Ltd, which was disposed early January 2013 to a third party realising a gain of US\$97,271 thousand (see more details in note 13).

The details of the jointly controlled entities are as follows:

Investment	Country of incorporation	Principal activities	2013 US\$'000	2012 US\$'000
Investment in Russian company	Russian Federation	Real estate	-	9,659



## 10. Loans receivable

	2013 US\$'000	2012 US\$'000
Loans to subsidiaries (Note 17)	217,926	300,071
Less current portion	-	-
Non current portion	217,926	300,071
The loans are repayable as follows:		
Between one and five years	217,926	300,071

The above loans to subsidiaries are unsecured and are repayable on 31 December 2016. They bear interest from 2.5% to 6% p.a.

During 2012 the Company, through an internal restructuring plan, assigned its rights under the existing loan agreements with a number of its Cypriot and Russian subsidiaries to AFI D Finance S.A, a BVI registered subsidiary with primary activity the financing of related entities, in exchange for new shares issued. On 25 July

2012 according to this plan a total amount of \$242,016 thousand loans was assigned. For further details, refer to note 8 above.

Loan receivables from subsidiaries which were considered impaired were written off during 2012. An amount of \$3,051 thousand was transferred to profit or loss.

The fair values of non current receivables approximate to their carrying amounts as presented above.

## 11. Trade and other receivables

	2013 US\$'000	2012 US\$'000
Receivables from related parties (Note 17)	8,319	10,136
Other receivables	3,330	477
	11,649	10,613

The fair values of trade and other receivables due within one year approximate to their carrying amounts as presented above.

The exposure of the Company to credit risk and impairment losses in relation to trade and other receivables is reported in note 18 of the financial statements.

## 12. Cash and cash equivalents



	2013 US\$'000	2012 US\$'000
Cash and cash equivalents consists of:		
Cash at banks	43,239	103,503

## 13. Assets held for sale

In December 2012 the Company entered into an agreement to dispose of its 50% of stake in Westec Four Winds Limited (along with its partner, Snegiri Development), which had developed and operated Four Winds. The deal was completed in January 2013 with total consideration received by the Company of circa

US\$103.4 million. US\$100 million was received in 2012 and the remaining US\$3.4 million in 2013 with the completion of the transaction. The profit recognised at the level of the parent company separate financial statements was US\$97.3 million.

## 14. Share capital and reserves



Share capital	2013 US\$'000	2012 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 2013.

## Share premium

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

## Employee share option plan

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

As of 31 December 2013 the following options were outstanding.

- During 2007 and 2008 options over GDRs with an exercise price of US\$7 which have already vested, one-third on the second anniversary of the date of grant, a further one-third on the third anniversary and the remaining one-third, on the fourth anniversary of the date of grant provided that the participants remained in employment until the vesting date. The vesting was not subject to any performance conditions. On 31 December 2013 1,017,240 options, 0.1% of the issued share capital, were outstanding which have already vested and have a contractual life of ten years from the date of grant.

- On 21 May 2012, the Board of Directors approved the grant of additional options to Company's employees. Options over 16,763,104 B shares, 1.6% of the issued share capital, were granted with an exercise price equal to US\$0.7208, vesting one-third on the second anniversary of the date of grant, a further one-third on the third anniversary and the remaining one-third, on the fourth anniversary of the date of grant provided that the participants remain in employment until the vesting date. The vesting is not subject to any performance conditions. Their contractual life is five years from the date of grant. Up to the year-end 1,571,541 options were cancelled, 15,191,563 valid options remain.

- On 22 November 2012, the Board of Directors approved the grant of additional options to the Company's executive chairman. Options over 31,430,822 B shares, 3% of the issued share capital, were granted with an exercise price equal to US\$0.5667, vesting one-third on the second anniversary of the date of grant, a further one-third on the third anniversary and the remaining one-third, on the fourth anniversary of the date of grant provided that the participants remain in employment until the vesting date. The vesting is not subject to any performance conditions. Their contractual life is five years from the date of grant.

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

## Retained earnings

The amount at each reporting date is available for distribution. No dividends were proposed, declared or paid during the year ended 31 December 2013.

## 15. Loans and borrowings



	2013 US\$'000	2012 US\$'000
<b>Long term liabilities</b>		
Loans from related parties (Note 17)	85,473	-
<b>Maturity of non current borrowings:</b>		
Between one and five years	85,473	-

During the year the Company obtained an US\$88,789 thousand long-term unsecured loan from its subsidiary AFI D Finance S.A. The loan is denominated in US\$, bears interest of 6% p.a. and is repayable by 31 December 2016.

The exposure of the Company to interest rate risk in relation to financial instruments is reported in note 18 of the financial statements.

## 16. Trade and other payables



	2013 US\$'000	2012 US\$'000
Receipts in advance from sale of investment	-	100,000
Amount payable to joint venture partners	-	72,134
Other payables	306	554
Payables to related parties (Note 17)	1,267	2,232
	1,573	174,920

### Receipts in advance from sale of investment

During 2012 the Company received an advance payment for the disposal of its 50% stake in Westec Four Winds Limited (see note 13) which was classified as current liability until the completion of the transaction in January 2013.

### Amount payable to joint venture partner

The amount payable to joint venture partner of Krown Investments LLC was fully settled in the year, on the date the Company acquired the remaining 50% shareholding of Krown Investments LLC as described in note 8. The amount of US\$116,264 thousand was settled as part of the agreement.



## 17. Related party transactions

The transactions with related parties are as follows:

### (i) Transactions with the Key Management Personnel

	2013 US\$'000	2012 US\$'000
Key management personnel compensation comprised:		
Short-term employee benefits	1,200	130
Share option scheme expense	4,920	1,256

### (ii) Other related party transactions

	2013 US\$'000	2012 US\$'000
Interest income charged to subsidiaries	9,056	7,931
Interest expense charged from subsidiary	4,689	-
Interest expense charged from jointly controlled entities	-	2,097
Consulting fees charged from holding company	433	370
Management fees charged from subsidiaries	1,249	1,045

The balances with related parties are as follows:

### (i) Receivables from related parties (Note 11)

	2013 US\$'000	2012 US\$'000
Receivables from subsidiaries	8,319	2,518
Receivables from jointly controlled entities	-	7,618
	8,319	10,136

### (ii) Loans to related parties (Note 10)

	2013 US\$'000	2012 US\$'000
Loans to subsidiaries	217,926	300,071

The above loans to subsidiaries are unsecured and are repayable on 31 December 2016. They bear interest from 2.5% to 6% p.a.

### (iii) Payables to related parties (Note 16)

	2013 US\$'000	2012 US\$'000
Payables to subsidiaries	837	1,771
Payables to holding company	430	461
	1,267	2,232

### (iv) Loan from related party (Note 15)

	2013 US\$'000	2012 US\$'000
Loan from subsidiary	85,473	-

During the year the Company obtained a long-term unsecured loan from its subsidiary AFI D Finance S.A. The loan is denominated in US\$, bears interest of 6% p.a. and is repayable by 31 December 2016.

## 18. Financial instruments and risk management

### Financial risk factors

**The Company is exposed to the following risks from its use of financial instruments:**

- Credit risk
- Liquidity risk
- Market risk

The Board of Directors has overall responsibility for the establishment and oversight of the Company's risk management framework.

The Company's risk management policies are established to identify and analyse the risks faced by the Company, to set appropriate risk limits and controls, and monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions and the Company's activities.

#### (i) Credit risk

Credit risk arises when a failure by counter parties to discharge their obligations could reduce the amount of future cash inflows from financial assets on hand at the reporting date. The Company has no significant concentration of credit risk. Cash balances are held with

high credit quality financial institutions and the Company has policies to limit the amount of credit exposure to any financial institution.

#### Trade and other receivables

The Company establishes an allowance for impairment that represents its estimate of incurred losses in respect of trade and other receivables. The main components of this allowance are a specific loss component that relates to individually significant exposures and a collective loss component established for groups of similar assets in respect of losses that have been incurred but not yet identified.

#### Cash and cash equivalents

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

#### (ii) Liquidity risk

Liquidity risk is the risk that arises when the maturity of assets and liabilities does not match. An unmatched position potentially enhances profitability, but can also

increase the risk of losses. The Company has procedures with the object of minimising such losses such as maintaining sufficient cash and other highly liquid current assets and by having available an adequate amount of committed credit facilities.

### *(iii) Market risk*

Market risk is the risk that changes in market prices, such as foreign exchange rates, interest rates and equity prices will affect the Company's income or the value of its holdings of financial instruments.

### *Interest rate risk*

Interest rate risk is the risk that the value of financial instruments will fluctuate due to changes in market interest rates. Borrowings issued at variable rates expose the Company to cash flow interest rate risk. Borrowings issued at fixed rates expose the Company to fair value interest rate risk. The Company's management monitors the interest rate fluctuations on a continuous basis and acts accordingly.

### *Currency risk*

Currency risk is the risk that the value of financial instruments will fluctuate due to changes in foreign exchange rates. Currency risk arises when future commercial transactions and recognised assets and liabilities are denominated in a currency that is not the Company's measurement currency. The Company is exposed to foreign exchange risk arising from various currency exposures primarily with respect to the Euro and the Russian Rouble. The Company's management monitors the exchange rate fluctuations on a continuous basis and acts accordingly.

### *Capital management*

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

## 19. Fair values

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

## 20. Contingent liabilities

The Company had no contingent liabilities as at 31 December 2013.

## 21. Events after the reporting period

Subsequent to 31 December 2013 there were no events that took place which have a bearing on the understanding of these financial statements except of the following:

During February-March 2014 Russia got involved in a conflict with Ukraine over Crimea, following the change of regime in the Ukraine, while the steps undertaken by the Russian government in Crimea are viewed neg-

atively by the United States and some EU states. The consequences of this conflict may have a negative effect on the Russian economy; however it cannot be quantified or predicted at the current stage of events.

During January – March 2014 the Russian Rouble depreciated by about 12% against US Dollar. This depreciation may have a negative effect on the Company's investments.







**AFI DEVELOPMENT PLC**

SPYROU AROUZOU 165

LORDOS WATERFRONT BUILDING

OFFICE 505

3035 LIMASSOL

CYPRUS

TEL. +357 25 310975