

**THIS DOCUMENT IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION.**

If you are in any doubt about this document or the action you should take, you are recommended to seek your own financial advice from your stockbroker, bank manager, solicitor, accountant or other independent adviser authorised under the UK Financial Services and Markets Act 2000 (“FSMA”) (as amended) if you are resident in the United Kingdom or, if not, from another appropriately authorised independent financial adviser.

If you have sold or otherwise transferred all of your Shares in AFI Development Plc, please forward this document, together with the accompanying documents, as soon as possible, to the purchaser or transferee, or to the stockbroker, bank manager or other agent through whom the sale or transfer was effected, for delivery to the purchaser or transferee. If you have sold or otherwise transferred only part of your holding, you should retain these documents.

Your attention is drawn to AFI Development Plc’s Annual Report and Accounts for the year ended 31 December 2015, as on the Company’s website at [www.afi-development.com/en/investor-relations/reports-presentations](http://www.afi-development.com/en/investor-relations/reports-presentations).

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## **AFI DEVELOPMENT PLC**

(incorporated and registered in Cyprus under company number HE 118198)



### **CIRCULAR TO SHAREHOLDERS RELATING TO THE PROPOSED DISPOSAL OF INTERESTS IN BELLGATE, SEMPREX AND KROWN AND NOTICE OF GENERAL MEETING TO APPROVE CERTAIN ORDINARY RESOLUTIONS**

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**This document should be read as a whole. Your attention is drawn, in particular, to the letter from the Senior Independent Non-executive Director of AFI Development Plc which is set out in Section 1 (Letter from the Senior Independent Non-Executive Director) and which sets out the unanimous recommendation of the Directors that you vote in favour of the Resolutions to be proposed at the General Meeting referred to below.**

**For a discussion of certain risk factors which should be taken into account when considering what action you should take in connection with the General Meeting, please see Section 2 (Risk Factors) of this document.**

Notice of the General Meeting of the Company to be held at the offices of Fuamari Secretarial Ltd at 6 Spyrou Kyprianou Av., 3070 Limassol Cyprus on 1 August 2016 at 10.00 a.m. EEST is set out at the end of this document.

Holders of A ordinary shares are requested to complete and return the Form of Proxy enclosed with this document as soon as possible but in any event, to be valid, so as to be received by the Company Secretary, Fuamari Secretarial Limited, no later than 10.00 a.m. EEST on 29 July 2016. Holders of B ordinary shares are requested to complete and return the Form of Proxy enclosed with this document as soon as possible but in any event, to be valid, so as to be received by the Company’s Registrars, Capita Asset Services, no later than 10.00 a.m. UK time on 28 July 2016. Holders of Depository Interests will have received a Form of Direction instead of a Form of Proxy. The Form of Direction should be completed and returned to Capita Asset Services no later than 10.00 a.m. UK time on 27 July 2016.

The return of the Form of Proxy will not preclude a member from attending and voting at the General Meeting in person should he or she subsequently decide to do so.

If you have any questions about this document, the General Meeting or on the completion and return of the Form of Proxy, please call the Capita Asset Services shareholder helpline between 9.00 a.m. and 5.30 p.m. (UK time) Monday to Friday (except UK public holidays) on +44 (0)371 664 0437. Calls will be charged at the standard geographic rate and will vary by provider. Calls outside the United Kingdom will be charged at the applicable international rate.

Strand Hanson Limited (“**Strand Hanson**”), which is regulated in the United Kingdom by the FCA, is acting exclusively for AFI Development Plc and no one else in connection with the Disposal and will not be responsible to anyone other than AFI Development Plc for providing the protections afforded to its clients, for the contents of this document or for providing any advice in relation to this document or the Disposal. Apart from the responsibilities and liabilities, if any, which may be imposed by the FCA or FSMA, Strand Hanson and any person affiliated with it, does not accept any responsibility whatsoever and makes no representation or warranty, express or implied, in respect of the contents of this document including its accuracy or completeness or for any other statement made or purported to be made by any of them, or on behalf of them, in connection with AFI Development Plc and nothing in this document is, or shall be, relied upon as a promise or representation in this respect, whether as to the past or future. In addition, Strand Hanson does not accept responsibility for, nor authorise the contents of, this document or its issue. Strand Hanson accordingly disclaims all and any liability whatsoever, whether arising in tort, contract or otherwise (save as referred to above) which it might otherwise have to any person, other than AFI Development Plc, in respect of this document.

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Capitalised terms have the meaning ascribed to them in Section 8 (Definitions) of this document.

The contents of this document or any subsequent communication from AFI Development Plc or any of its respective affiliates, officers, directors, employees or agents are not to be construed as legal, financial or tax advice. Shareholders should consult their own legal, financial or tax adviser for legal, financial or tax advice. The delivery of this document shall not imply that there has been no change in the AFI Development Plc’s affairs or that the information set forth in this document is correct as of any date subsequent to the date hereof.

You may request a hard copy of this document and the information incorporated into this document by reference to another source by contacting AFI Development Plc’s Registrars, Capita Asset Services, the Registry, 34 Beckenham Road, Beckenham, Kent BR3 4TU.

A copy of this document will be made available on AFI Development Plc’s website at [www.afi-development.com](http://www.afi-development.com) as soon as practicable during the course of today, being 15 July 2016.

This document is published on 15 July 2016.

## TABLE OF CONTENTS

<b>Sections</b>	<b>Page</b>
<b>1. Letter from the Senior Independent Non-Executive Director .....</b>	<b>8</b>
<b>2. Risk Factors .....</b>	<b>19</b>
<b>3. Financial Information on the Companies .....</b>	<b>23</b>
<b>4. Pro Forma Statement of Net Assets.....</b>	<b>30</b>
<b>5. Valuation Report.....</b>	<b>33</b>
<b>6. Summary of the Transaction Documents.....</b>	<b>42</b>
<b>7. Other Information.....</b>	<b>45</b>
<b>8. Definitions .....</b>	<b>53</b>
<b>9. Notice of the General Meeting .....</b>	<b>60</b>

## EXPECTED TIMETABLE OF PRINCIPAL EVENTS:

*All times shown in this document are UK times unless otherwise stated:*

Announcement date of the Disposal	15 July 2016
Publication of this document	15 July 2016
Latest time and date for receipt of Forms of Direction for use at the General Meeting	10.00 a.m. UK time on 27 July 2016
Latest time and date for receipt of the Form of Proxy in respect of B ordinary shares for use at the General Meeting	10.00 a.m. UK time on 28 July 2016
Latest time and date for receipt of the Form of Proxy in respect of the A ordinary shares for use at the General Meeting	10.00 a.m. EEST on 29 July 2016
General Meeting	10.00 a.m. EEST on 1 August 2016
Expected date the English Law Governed Transaction Documents will be entered into	1 August 2016
Expected date of Completion	on or before the end of September 2016

*These dates are given on the basis of the Board's current expectations and are subject to change. If any of the above times and/or dates change, the revised times and/or dates will be notified to Shareholders by announcement and will be available on [www.afi-development.com](http://www.afi-development.com).*

### Forward-looking Statements

This document may contain “forward-looking statements” with respect to the Group’s financial condition, results of operations and business and certain of the Group’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 Group operates and changes to the associated legal, regulatory, competition and tax environments;
- changes in the economies and markets in which the Group operates;
- changes in the markets from which the Group raises finance;
- the impact of legal or other proceedings against, or which may affect, the Group; 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 Group or any persons acting on their behalf are expressly qualified in their entirety by the factors referred to above. No assurances can be given that the forward-looking statements in this document will be realised. Subject to compliance with applicable law and regulations, the Group does not intend to update these forward-looking statements and does not undertake any obligation to do so.

Other than in accordance with its legal or regulatory obligations (including under the Listing Rules and the Disclosure and Transparency Rules), the Company is under no obligation and the Company expressly disclaims any intention or obligation to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise. Forward-looking statements contained in this document do not in any way seek to qualify the working capital statement in Section 7 (Other Information) of this document.

### **Presentation of Financial Information**

References to “\$”, “US\$” and “US dollars” are to the lawful currency of the United States of America. References to “RUB” or to “Russian Rubles” are to the lawful currency of the Russian Federation.

Percentages in tables may have been rounded and accordingly may not add up to 100 per cent. Certain financial data has been rounded, and, as a result of this rounding, the totals of data presented in this document may vary slightly from the actual arithmetic totals of such data.

**DIRECTORS, SECRETARY AND REGISTERED OFFICE OF  
AFI DEVELOPMENT PLC**

**Directors**

Mr Lev Leviev	Executive Chairman
Mr Panayiotis Demetriou	Senior Independent Non-Executive Director
Mr Avraham Noach Novogrocki	Non-Executive Director
Mr Moshe Amit	Independent Non-Executive Director

**Secretaries and Registered Office**

Fuamari Secretarial Limited (Company Secretary)  
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Lordos Waterfront Building  
Office 505  
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Cyprus

**Sponsor**

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26 Mount Row  
London W1K 3SQ

**Financial Adviser**

Hannam & Partners (Advisory) LLP  
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London W1K 2HX

**Legal Advisers to the Company on English Law**

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London E1 6AD

**Legal Advisers to the Company on Russian Law**

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125009, Russia

**Legal Advisers to the Company on Cypriot Law**

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Cyprus

**Reporting Accountants**

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London E14 5GL

**Auditors**

KPMG Limited  
14 Esperidon St  
1087 Nicosia

**Registrars**

Capita Asset Services  
The Registry  
34 Beckenham Road  
Beckenham  
Kent BR3 4TU

## 1. LETTER FROM THE SENIOR INDEPENDENT NON-EXECUTIVE DIRECTOR

### AFI DEVELOPMENT PLC

*(incorporated and registered in Cyprus under company number HE 118198)*

*Registered office:*  
165 Spyrou Araouzou  
Lordos Waterfront Building  
Office 505  
3035 Limassol  
Cyprus

15 July 2016

Dear Shareholder

#### **Proposed Disposal of Interests in Bellgate, Semprex and Krown and Notice of General Meeting**

I am writing to you with details of our General Meeting, which we are holding at the offices of Fuamari Secretarial Ltd. in Limassol, Cyprus at 10.00 a.m. EEST on 1 August 2016. The notice convening the General Meeting is set out at Section 9 (Notice of the General Meeting) of this document.

If you would like to vote on the Resolutions but cannot attend the General Meeting, please complete the relevant Form of Proxy enclosed with this document and, if you are a holder of A ordinary shares, return it to the Company Secretary, Fuamari Secretarial Ltd., or if you are a holder of B ordinary shares, return it to our Registrars, Capita Asset Services, as soon as possible. The Forms of Proxy in respect of the A ordinary shares must be received by the Company Secretary no later than 10.00 a.m. EEST time on 29 July 2016 and the Forms of Proxy in respect of the B ordinary shares must be received by the Registrars no later than 10.00 a.m. UK time on 28 July 2016. Holders of Depository Interests will have received a Form of Direction instead of a Form of Proxy. The Form of Direction should be completed and returned to Capita Asset Services no later than 10.00 a.m. UK time on 27 July 2016.

Explanatory notes on the business to be considered at the General Meeting appear on pages 61 to 62 of this document.

#### **1. Introduction**

As detailed below, the Company has been in ongoing negotiations with VTB in respect of approximately US\$619.1 million of Loans owed by the Group to VTB.

Following these negotiations, the Company announced today that, subject to obtaining Shareholder approval for the Disposal at the General Meeting, it intends to enter into the Transaction Documents with VTB. Completion of the Disposal will release the Group from all of its obligations in respect of the Loans in exchange for the Disposal to VTB of the following Properties:

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



The purpose of this document is to provide you with:

- a) information on and details of the terms of the Disposal;
- b) an explanation of why the Board unanimously believes that the Disposal is in the best interests of the Company and its Shareholders as a whole; and
- c) to seek your consent to the Disposal at the forthcoming General Meeting and to recommend that you vote in favour of the Resolutions set out in the notice of the General Meeting at the end of this document.

The Bank has confirmed to the Company that it will exercise its rights under the Loan Facility Agreements if the English Law Governed Transaction Documents are not entered into by the 1 August 2016.

In addition, as at the date of this document, the Guarantee continues to be discussed between the Bank and Mr Leviev, the Executive Chairman of the Company. If these discussions result in the Guarantee being agreed prior to Completion then, subject to obtaining all approvals (including any Shareholder approvals) required in relation to the Guarantee, the Board may determine not to proceed with the Disposal. However, the Board notes that there is no certainty as to whether the Guarantee will be agreed, approved (if necessary), or entered into prior to Completion.

The Disposal, because of its size in relation to the Group, is a class 1 transaction for the Company under the Listing Rules and is therefore conditional upon Shareholder approval.

Accordingly, in order to be able to enter into the English Law Governed Transaction Documents by 1 August 2016, the Company is today issuing the Notice, set out in Section 9 (Notice of the General Meeting) to convene the General Meeting to be held on 1 August 2016 to seek such approval.

You should read the whole of this document and not just rely on the summarised information set out in this letter.

## **2. Background to and reasons for the Disposal**

### *a) Background*

As set out in its results for the year ended 31 December 2015, the Company has experienced difficult trading conditions driven by macro-economic and geopolitical developments affecting the Russian economy as a whole and a deterioration in demand for real estate assets across the country. Whilst the general economy has shown some signs of stabilisation during the first half of 2016 (with higher oil prices and inflation on a downward trend), the performance of the real estate sector remains weak.

Against this backdrop, AFI Development reported net losses during the year ended 31 December 2015 of US\$467 million, which predominately related to a decrease in the value of the Group's property assets by approximately US\$0.5 billion to US\$1.4 billion. Cash and cash equivalents and marketable securities also declined by US\$50.8 million during 2015 to US\$42.5 million as at 31 December 2015.

For the three-month period ended 31 March 2016, AFI Development reported a net loss after tax of US\$31.9 million, which related to a further decrease in the value of the Group's property assets of US\$60.3 million, and as at 31 March 2016 current liabilities exceeded current assets by US\$410 million, as a result of the Loans being reclassified from long-term liabilities to current liabilities (described further below). These, together with the discussions with the Bank regarding the acceleration and enforcement of the Loan Facility Agreements (described further below), indicated the existence of a material uncertainty which cast significant doubt on the Group's ability to continue as a going concern.

b) *Loan Facility Agreements*

There are two Loan Facility Agreements between the Group and VTB, with a current outstanding balance of, in aggregate, US\$619.1 million as at 14 July 2016 (being the latest practicable date prior to the date of this document):

- Bellgate, one of the Group's subsidiaries, entered into a loan with RCB on 22 June 2012. The rights and obligations of RCB under the loan facility agreement and related security documents were subsequently transferred to the Bank on 28 August 2013. The AFIMALL City Loan Facility offered a credit line totalling RUB 21 billion, maturing on 1 April 2018 and drawable in both US dollars and Russian Rubles. The purpose of the AFIMALL City Loan Facility was to refinance the construction costs related to the AFIMALL City Shopping Centre. The current outstanding balances under the loan as at 14 July 2016 (being the latest practicable date prior to the date of this document) amounted to, in aggregate, approximately US\$428.0 million, being US\$276.9 million for US\$ liabilities and approximately US\$151.1 million for RUB liabilities.
- On 25 January 2013, Krown, a 100 per cent. subsidiary of the Group, received a secured loan from the Bank for the purpose of refinancing the construction costs of the Ozerkovskaya III project. The Ozerkovskaya III Loan Facility offered a credit line of US\$220 million maturing in January 2015. On 21 January 2015, Krown signed an addendum to the Ozerkovskaya III Loan Facility extending the term of the loan to 26 January 2018 in return for a partial repayment of US\$10 million principal and the introduction of the Krown Covenants being LTV, which should not exceed 65 per cent., and DSCR, which should be at least 1.2 times EBITDA after tax. The outstanding balance of the loan as at 14 July 2016 (being the latest practicable date prior to the date of this document) is US\$191.1 million.

The AFIMALL City Loan Facility is secured by the AFI Bellgate Suretyship from the Company (the liability of which is limited to US\$1.0 million) and a suretyship from Semprex, a Cypriot law pledge by the Company of 100 per cent. of the share capital of Bellgate (the liability of which is limited to US\$1.0 million), various Russian law real estate mortgages over the AFIMALL City Shopping Centre and the Aquamarine Hotel, and direct debit rights in respect of the bank accounts opened by Bellgate, which receive the rental income for AFIMALL City Shopping Centre, the Company and Semprex, with VTB.

The Ozerkovskaya III Loan Facility is secured by the AFI Krown Suretyship from the Company, a Russian law pledge by the Company of 100 per cent. participation interest in the charter capital of Krown, a Russian law real estate mortgage over Ozerkovskaya III located in the centre of Moscow, and direct debit rights in respect of the bank accounts opened by Krown and the Company with VTB through which the rental income for Ozerkovskaya III is received.

c) *Enforcement action by the Bank*

Due to the difficult trading conditions referred to above, Ozerkovskaya III performed below expectations and in the Company's half yearly report for the six months ended 30 June 2015, announced on 25 August 2015, the Company reported a risk that the LTV covenant would be breached when tested in Q4 2015. Accordingly, AFI Development commenced discussions with the Bank regarding the possible postponement of the starting date of the Krown Covenants. In the Company's Q3 results statement, announced on 24 November 2015, the Company reported that it had received notice from the Bank of its decision to postpone the applicability of the Krown Covenants to the start of Q2 2017 onwards. Detailed negotiations and the drafting of the documentation to effect the postponement of the Krown Covenants continued until after the publication by the Company on 18 March 2016 of its preliminary results for the year ended 31 December 2015, which showed a further deterioration in the Company's financial condition.

As no binding agreement to postpone the starting dates of the Krown Covenants was reached, the Company remains in breach of the Krown Covenants. In addition, according to the latest valuation of the Ozerkovskaya III business centre, its market value has decreased. In such circumstances, the Ozerkovskaya III Loan Facility requires Krown to provide additional security to the Bank, which has not yet been provided. Consequently, Krown is also in breach of this covenant. As a consequence of these breaches:

- The Bank is entitled under the terms of the Ozerkovskaya III Loan Facility to accelerate repayment of the Ozerkovskaya III Loan Facility, requiring repayment of the loan within five days. If the Bank were to accelerate repayment of the loan, Krown does not have sufficient funds to repay the loan within this period and it would therefore be in breach of the Ozerkovskaya III Loan Facility.
- Non-payment by Krown of the loan would, in turn, entitle the Bank to serve an enforcement notice on the Company, as surety for the Ozerkovskaya III Loan Facility, demanding repayment by the Company of the loan within five days. AFI Development, similarly, does not have sufficient funds to repay the Ozerkovskaya III Loan Facility.
- Non-payment of the Ozerkovskaya III Loan Facility by the Company as surety would entitle the Bank to seek enforcement action against the Company, including against assets not encumbered in favour of VTB and potentially initiating a bankruptcy procedure against the Company.
- The Company is a security provider under the AFIMALL City Loan Facility and any non-payment by the Company of the Ozerkovskaya III Loan Facility pursuant to its obligations under the AFI Krown Suretyship would also trigger a security provider default by the Company in the AFIMALL City Loan Facility, entitling the Bank to accelerate repayment of the AFIMALL City Loan Facility. Bellgate would be unable to repay the loan and the Bank would be entitled to seek enforcement of its security under the AFIMALL City Loan Facility.

In addition, on 29 March 2016, the Company received notice from VTB that it had reached a conclusion that Bellgate and Krown (the borrowers under the AFIMALL City Loan Facility and the Ozerkovskaya III Loan Facility respectively) had experienced, in the opinion of the Bank, material adverse changes in their financial conditions (in accordance with the terms of the Loan Facility Agreements, which provide that VTB can reach such an opinion at its sole discretion) and there had appeared other circumstances that indicated that their obligations under the Loan Facility Agreements could not be met on time. According to the letter, details of which were announced by the Company on 30 March 2016, the Bank proposed that the Company “implement steps aimed at removing possible negative consequences of the aforesaid circumstances, no later than 30 calendar days from today”, otherwise the Bank would exercise its right under the Loan Facility Agreements to claim early repayment of the Loans.

*d) Other financing alternatives*

As set out in its Q1 2016 results, the Company has examined refinancing the Loans through new bank loans or obtaining financing from its controlling shareholder, Africa Israel, which has a 64.9 per cent. interest in the Company, who has stated that it is not willing to provide such financing.

Approaches made by the Company to alternative Russian banks did not yield any offers to refinance the Loans. As a result of these discussions and in light of the current economic climate facing Russia and its property sector and the international sanctions against Russia, the Directors are of the opinion that:

- real estate loans for Russian assets are currently only capable of being financed locally in Russian Rubles, whereas the Loans are predominately denominated in US dollars and would need to be refinanced in US dollars;

- there are only a very limited number of Russian banks who are able to provide a loan of the size of the Loans and the Company has not been able to obtain a refinancing of the Loans;
- it would not be possible to obtain a loan against Ozerkovskaya III which is a non-yielding asset; and
- for the limited extent to which banks are providing new loans to the real estate sector in Russia, interest rates are significantly in excess of rates which apply to the Loans (a blended rate of approximately 7.15 per cent.), which the Company would be unable to service given the non-yielding status of Ozerkovskaya III.

e) *Discussions with VTB*

Following the Bank informing the Company that it believed that Bellgate and Krown had experienced material adverse changes in their respective financial conditions on 29 March 2016, the Company and the Bank have been negotiating possible solutions, including a transfer of properties to the Bank, raising cash from a sale of properties to third parties to repay the Loans, and the Disposal which has now been agreed with the Bank.

The Company had also requested a six-month period to be able to effect a sale of properties to third parties to repay the Loans. However, on 13 May 2016, the Bank informed the Company that, based on its assessment of the financial condition of Bellgate and Krown and its view of the fair value of the pledged assets, it was not willing to agree to such additional time. The Bank communicated to the Company that it expected to reach an agreement on the cessation of the indebtedness by no later than 31 May 2016 (as announced on 17 May 2016 in the Company's Q1 2016 results).

Subsequently, on 26 May 2016, the Company announced that it was still discussing the Disposal with VTB and that the Bank had confirmed that it would exercise its rights to accelerate the repayment of the Loans unless the Disposal was completed by 10 June 2016. This deadline was subsequently extended to 15 June 2016 as announced on 10 June 2016.

As announced on 16 June 2016, following on from and further to the discussions between the Company and VTB with respect to the Disposal, the Executive Chairman of the Company had begun negotiating the possibility of his providing a personal Guarantee to the Bank in respect of the Group's obligations under the Ozerkovskaya III Loan Facility as an alternative to the Disposal. The Guarantee continues to be discussed between the Bank and the Executive Chairman of the Company. If these discussions result in the Guarantee being agreed prior to Completion then, subject to obtaining all approvals (including any Shareholder approvals) required in relation to the Guarantee, the Board may determine not to proceed with the Disposal. However, the Board notes that there is no certainty as to whether the Guarantee will be agreed, approved (if necessary), or entered into prior to Completion.

As set out in the announcement of 16 June 2016 in the event that the Guarantee is not agreed or the Disposal is not completed by 1 August 2016 and the Bank exercises its rights under the Loan Facility Agreements, it remains highly probable that there would be a material adverse effect on the Group's operations and on the value of the Company's shares.

Accordingly, in order to achieve the Bank's deadline as described above, the Company intends, subject to obtaining Shareholder approval of the Resolutions at the General Meeting, to enter into the English Law Governed Transaction Documents on 1 August 2016. Completion is expected to occur on or before the end of September 2016 upon satisfaction of the Conditions.

In the event that the Disposal does not occur, the Directors believe that it is likely that the Bank will take actions against the Group in order to protect its position and will exercise its enforcement rights under the Loan Facility Documents. This the Directors believe may include, in addition to the enforcement action referred to above, the Bank taking interim measures against the Company in the

Russian courts, including the arrest of shares and/or participation interest in the Russian companies owned by the Company to secure VTB's claims against the Company.

The Directors also believe that the Group would only be able to meet a demand for accelerated repayment of the Loans from the proceeds of a disposal of property assets. However, the Directors believe that the Bank will not allow the Company sufficient time to conduct an orderly disposal of property assets and the Group has no realistic prospect of being able to meet a demand for early repayment from VTB. Accordingly, the Directors believe that the Disposal is in the best interests of the Company and Shareholders as a whole and that unless the Disposal is completed, the Company would likely be unable to meet its financial commitments as they fall due and consequently would be unable to continue to trade resulting in the likely appointment of receivers, liquidators or administrators, which would have had a material adverse impact on the Group's other assets and on Shareholder value.

As announced on 4 July 2016, the Company applied to the Bank to grant it a deferral from its quarterly principal payments of, in aggregate, US\$8.3 million due on 30 June 2016 under the Loan Facility Agreements, to 1 August 2016. Accordingly, the Company did not make the principal payment due on 30 June 2016 and on 11 July 2016, the Bank agreed to the deferral of the principal payment and that if the Disposal proceeds, the principal payment will not be payable.

### 3. The Disposal

The proposed Disposal will involve the transfer by the Group to VTB of the Properties.

The total value of the Properties is approximately US\$867.4 million, details of which are set out in Section 5 (Valuation Report) for AFIMALL City Shopping Centre and Ozerkovskaya III. The valuation is broken down by each Property (together with certain income data) as follows:

Property	Valuation	For the year ended 31 December 2015	
		Revenue	Net annual rent <sup>(3)</sup>
AFIMALL City Shopping Centre	US\$656.0m as at 30 June 2016 <sup>(1)</sup>	US\$71.0m	US\$56.3m
Ozerkovskaya III	US\$197.4m as at 30 June 2016 <sup>(1)</sup>	US\$0.6m	(US\$1.0m)
Aquamarine Hotel	US\$14.0m as at 31 March 2016 <sup>(2)</sup>	US\$5.1m	US\$1.1m

Notes:

1. Market valuation as at 30 June 2016 as set out in Section 5 (Valuation Report) of this document.
2. Book value as at 31 March 2016.
3. Net annual rent is rental income less operating expenses.

Given the immateriality of the Aquamarine Hotel, representing less than 1.6 per cent. of the aggregate value of the Properties, and on the basis that the Group accounts for the hotel on a costs basis and not on a market value basis as for AFIMALL City Shopping Centre and Ozerkovskaya III, an independent Valuation Report has not been prepared for the Aquamarine Hotel.

The total amount outstanding under the Loans, as at 14 July 2016 (being the latest practicable date prior to the date of this document), is US\$619.1 million, which is US\$248.3 million less than the Properties' valuations, as described above and further in Section 5 (Valuation Report).

The Bank has stated that the Properties are the minimum group of assets that the Bank is willing to accept in consideration for the Release and the Board is of the view that the terms of the Disposal are consistent with valuations that could be achieved for the Properties in a distressed sale. As AFIMALL

City Shopping Centre and Ozerkovskaya III are recorded in the Group's financial accounts at market value, the Disposal will result in the realisation of a significant loss in the Group's financial accounts.

#### **4. Summary of the terms of the Disposal**

The Company intends to enter into the Settlement Deed which provides that upon completion of the Disposal, VTB will release and discharge the Company and its affiliates (including AFI RUS LLC and AFI D Finance SA) from their present and future obligations under, and any liability and claims in relation to the Suretyship Agreements (the "**Release**").

In connection with and in exchange for the Release provided under the Settlement Deed, the proposed Disposal is to be effected pursuant to:

- (i) the Bellgate SPA pursuant to which AFI Development transfers to the Purchaser 100 per cent. of the shares in Bellgate, the company through which AFIMALL City Shopping Centre is held;
- (ii) the Krown SPA pursuant to which AFI Development transfers to the Purchaser 100 per cent. of the participation interest in Krown, the company through which Ozerkovskaya III is held; and
- (iii) the Semprex SPA pursuant to which AFI Development Hotels Ltd. transfers to the Purchaser 100 per cent. of the participation interest in Semprex, the company through which the Aquamarine Hotel is held.

Further details of the terms of the Transaction Documents are set out in Section 6 (Summary of the Transaction Documents) of this document.

The Disposal constitutes a class 1 transaction for the Company under the Listing Rules. As such, the approval of a simple majority of the Shareholders of the Company is required before the Disposal can be completed. A notice of the General Meeting to be held on 1 August 2016, at which your approval will be sought for the Disposal, is set out at the end of this document. As of the date of this document, the Board believes that the Transaction Documents are in agreed form. The Board expects to enter into the English Law Governed Transaction Documents on 1 August 2016 following your approval of the Disposal at the General Meeting and is not aware of any reason why they would not be entered into. Completion is expected to occur on or before end of September 2016 upon satisfaction of the Conditions. Following the Disposal, the Company will no longer have any equity interest in Bellgate, Krown and Semprex.

The Board believes that the Disposal is in the best interests of the Company and Shareholders as a whole and that, unless the Disposal occurs, the Company will likely be unable to meet its financial commitments as they fall due and consequently will be unable to continue to trade resulting in the likely appointment of receivers, liquidators or administrators. In coming to this conclusion, the Directors have had particular regard to the following matters:

- the fact that all alternative methods of obtaining finance have been exhausted and that the only option remaining to the Company is the Disposal;
- that the terms of the Disposal are consistent with valuations that could be achieved for the Properties in a distressed sale; and
- the likelihood that VTB would take enforcement action against the Group if it were not to enter into the Disposal which would likely lead to the Company not being able to meet its financial commitments as they fall due and consequently not being able to continue to trade.

## **5. Financial effects of the Disposal on the Group**

A pro forma statement of the net assets showing the effect of the Disposal on the Group is set out in Section 4 (Pro Forma Statement of Net Assets) of this document (the “**Pro Forma**”).

As AFIMALL City Shopping Centre and Ozerkovskaya III are recorded in the Group’s financial accounts at market value, the Disposal will result in the realisation of a significant loss in the Group’s financial accounts. It is estimated that the effect of the Disposal will be a decrease in the Group’s consolidated net assets by an amount of approximately US\$253 million. Further, the loss from the Disposal is estimated to be US\$197 million (including deferred tax benefit of US\$5 million and translation reserve adjustment in the amount of US\$54 million). In addition, the net rental income (being rental income less operating expenses) will reduce on Completion as the Properties will no longer be part of the Group.

## **6. Current operations and trading**

AFI Development announced its unaudited results for the three months ended 31 March 2016 on 17 May 2016 and noted that rental income and income from hotel operations declined to US\$20.0 million (from US\$24.4 million in Q1 2015) as a result of the continuously difficult macroeconomic environment. AFIMALL City Shopping Centre’s contribution was US\$16.1 million, compared to US\$19.1 million in Q1 2015.

At the same time, gross profit increased to US\$15.1 million compared to US\$11.2 million in Q1 2015.

However, net loss for the quarter amounted to US\$31.9 million compared to net profit of US\$6.0 million in Q1 2015, mainly due to a valuation loss for AFIMALL City Shopping Centre and Ozerkovskaya III.

Cash, cash equivalents and marketable securities were US\$32.5 million as of 31 March 2016.

Since 31 March 2016, trading has been in line with management expectations with the continued delivery of Building 1 of Odinburg during Q2 2016, resulting in the associated revenues and expenses being recognised in Q2 2016. The Company will announce its results for the six months ended 30 June 2016 on 18 August 2016.

## **7. Future prospects of the Group**

Following the Disposal, the Company will continue to be focused on developing high quality commercial and residential real estate assets within Russia, with a portfolio of completed office properties and hotels (principally being Paveletskaya I, H2O and Berezhkovskaya business centres and the Plaza Spa Kislovodsk (50 per cent. stake) and Plaza Spa Zheleznovodsk hotels) generating an operating income and projects under development, generating forward sale of flats and apartments as well as a land bank of projects that have not currently commenced, which had, in aggregate, as at 31 March 2016, an unaudited asset value of approximately US\$546 million.

The Group is committed to continuing the development of its existing projects and the Directors believe that the Disposal will not negatively impact on the continuing construction of these projects, specifically:

- the ongoing construction of its residential projects Odinburg, which commenced in January 2015 with delivery of the first block of apartments in Building 1 commencing in March 2016 while the construction of Building 2 continues;
- AFI Paveletskaya II, which commenced in December 2015; and

- the proposed commencement of the construction of the Bolshaya Pochtovaya in September 2016 and Botanic Garden residential projects during Q4 2016.

On Completion, the development of the Group's existing projects currently under construction and in the development pipeline, as set out above, will be funded from existing cash resources and forward sales and as at 30 June 2016, the number of sale contracts signed amounted to 690 (95 per cent. of total) in Building 1 and 189 (27 per cent. of total) in Building 2 in respect of Odinburg and 67 flats and 8 'apartments' had been pre-sold in respect of Paveletskaya II.

However, the Group may look to accelerate the development of its existing projects currently under construction and in the development pipeline and as set out in the Group's Q1 2016 results, the Company is in negotiations with other banks regarding new bank facilities and loans in this regard.

Following the Disposal, other than the short-term loan from Julius Baer & Co Ltd, for an amount of US\$1.6 million (the balance as of 31 March 2016), for the acquisition of marketable securities, the Company will not have any outstanding loans.

The Board is confident that, following the Disposal, the Company will continue to operate and create future value for Shareholders.

## **8. General Meeting**

Set out in Section 9 (Notice of the General Meeting) of this document is a notice convening the General Meeting to be held at 10.00 a.m. EEST at the offices of Fuamari Secretarial Ltd at 6 Spyrou Kyprianou Av., 3070 Limassol Cyprus on 1 August 2016 at which the Resolutions will be proposed as ordinary resolutions to approve the Disposal.

Such approval will be sought by way of ordinary resolutions. As a result, the Disposal in its entirety will either be approved or voted down pursuant to the Resolutions at the General Meeting.

## **9. Consequences of a failure to approve the Resolutions**

If the Shareholders do not approve the Resolutions, the Disposal will not proceed. In that event, absent any other fund raising by the Group, the Board expects, based on its discussions with and correspondence received from the Bank, that the Bank would exercise its rights to demand accelerated repayment of the Loans and that the Group would not be able meet such a demand.

The Directors are of the opinion that it is highly unlikely that alternative funding could be raised and that in all likelihood a demand by the Bank for accelerated repayment of the Loans would likely result in the Company and some or all of its subsidiaries entering into insolvency processes and/or ceasing to trade and as a result Shareholders could lose some or all of their investment in the Company.

**As such, it is critical that Shareholders vote in favour of the Resolutions to enable the Disposal to proceed and the Group to continue trading.**

**Shareholders should note that a letter of intent from Africa Israel, the Company's controlling shareholder with an interest of approximately 64.88 per cent. in the Company, to vote in favour of the Resolutions has been received. If Africa Israel does vote in favour of the Resolutions, the Resolutions will be approved at the General Meeting and the Disposal will proceed.**

## **10. Significant Shareholder letter of intent**

Africa Israel, the Company's largest shareholder, has provided the Company with a letter of intent (the "**Letter of Intent**") pursuant to which it has agreed to vote in favour of the Resolutions in respect of 336,948,796 A ordinary shares and 342,799,658 B ordinary shares held by it, representing



approximately 64.88 per cent. of the Company's issued share capital and voting rights in the Company. It should be noted that most of Africa Israel's holdings in the tradable securities of the Company, are pledged in favour of its bondholders in Israel and held in trust by a trustee who has granted Africa Israel a proxy to exercise the voting rights on behalf of the pledged securities. Under certain circumstances, the trustee is entitled to revoke the proxy and Africa Israel's voting rights are therefore somewhat dependent on this proxy not being revoked. Please see Section 7 (Other Information), paragraph 6 (Significant Shareholdings) for further detail.

## **11. Requirement to update Shareholders**

As explained above, the Directors believe that the Transaction Documents are in agreed form as at the date of this Document. The Board expects to enter into the English Law Governed Transaction Documents immediately following Shareholder approval of the Resolutions set out in Section 9 (Notice of the General Meeting). The Directors do not expect there to be any material change to the terms of Transaction Documents or the Disposal as summarised above and in Section 6 (Summary of the Transaction Documents) between the date of this document and the date of the General Meeting on 1 August 2016.

However, should any Director become aware of any fact or circumstance after the date of this document which would mean that any statement in this document is or might become untrue, inaccurate or misleading, or become aware of any information or circumstance which would have been included in this document, including a change to the terms of the Disposal, then he will take steps immediately to inform the other Directors and the Sponsor with a view to deciding on the appropriate course of action, which may include the publication of a supplementary circular. In addition, a supplementary circular may have to be published if the Company becomes aware after the date of this document, of a material change affecting any matter the Company is required to have disclosed in this document or a material new matter which the Company would have been required to disclose in this document. The Board notes that it may be necessary to adjourn the General Meeting if a supplementary circular cannot be sent to Shareholders at least seven days prior to the date of the General Meeting.

Moreover, should there be a material change to the terms of the Disposal following Shareholder approval of the Resolutions at the General Meeting but before completion of the Disposal, the Company will comply with its obligations under the Listing Rules to publish a new class 1 circular and call a new General Meeting to approve the amended Disposal.

## **12. Action to be taken**

Holders of A ordinary shares are requested to complete and return the Form of Proxy enclosed with this document as soon as possible but in any event, to be valid, so as to be received by the Company Secretary, Fuamari Secretarial Limited, no later than 10.00 a.m. EEST on 27 July 2016.

Holders of B ordinary shares are requested to complete and return the Form of Proxy enclosed with this document as soon as possible but in any event, to be valid, so as to be received by the Company's Registrars, Capita Asset Services, no later than 10.00 a.m. UK time on 28 July 2016. Holders of Depository Interests will have received a Form of Direction instead of a Form of Proxy. The Form of Direction should be completed and returned to Capita Asset Services no later than 10.00 a.m. UK time on 27 July 2016.

The return of the Form of Proxy will not preclude a member from attending and voting at the General Meeting in person should he or she subsequently decide to do so.

### **13. Further information and risk factors**

Your attention is drawn to the additional information set out in Sections 2 (Risk Factors) to 6 (Summary of the Transaction Documents) of this document relating to the Company and the Disposal. You are advised to read the whole document and not merely rely on the key or summarised information in this letter.

*In particular, Shareholders should consider fully the risk factors associated with the Disposal and in this regard, your attention is drawn to Section 3 (Financial Information on the Companies) of this document. In addition, Shareholders' attention is drawn to the following:*

- a) The Pro Forma, set out in Section 4 (Pro Forma Statement of Net Assets) of this document. The Pro Forma has been prepared to illustrate the pro forma effects of the Disposal as if it had occurred on 31 March 2016.
- b) The historical financial information, set out in Section 3 (Financial Information on the Companies) of this document.
- c) The Valuation Report prepared by JLL set out in Section 5 (Valuation Report) of this document. The Valuation Report shows the value as at 30 June 2016 of AFIMALL City Shopping Centre and Ozerkovskaya III which are the subject of this Disposal.

### **14. Recommendation**

**The Board considers that the Disposal is in the best interests of the Company and the Shareholders as a whole and, accordingly, the Board recommends that Shareholders vote in favour of the Resolutions.**

Yours faithfully

**Mr Panayiotis Demetriou**

**Senior Independent Non-Executive Director**

## 2. RISK FACTORS

*The following risk factors, which the Directors believe include all known material risks relating to the Disposal should be carefully considered by Shareholders together with all information included or incorporated by reference into this document when deciding what action to take in relation to this Disposal. If any, or a combination of these risks actually occurs, the business, financial condition, results of operations or prospects of the Retained Group (or the Group if the Disposal does not take place) could be adversely affected. In such case, the market price could decline and you may lose all or part of your investment. Additional risks and uncertainties relating to the Disposal that are not currently known to the Directors or that the Directors currently deem immaterial, could also have a material adverse effect on the Retained Group (or the Group if the Disposal does not take place).*

### **Risks relating to the Disposal**

#### **The Company may not realise all of the perceived benefits of the Disposal**

The Company may not be able to realise the development of its retained projects and create future value for its shareholders as set out in Section 1 (Letter from the Senior Independent Non-Executive Director) of this document. The Company may encounter unforeseen difficulties in developing its retained projects and in achieving these anticipated benefits and/or these anticipated benefits may not materialise.

#### **The Share Purchase Agreements and Settlement Deed contain warranties from the Seller in favour of the Purchaser**

The Share Purchase Agreements and the Settlement Deed contain a customary package of warranties given by the Seller in favour of the Purchaser, a summary of which is set out in Section 6 (Summary of the Transaction Documents) of this document. The Company has undertaken due diligence to minimise the risk of liability under these provisions. However, any costs associated with a potential claim or liability to make a payment arising from a successful claim by the Purchaser under the warranties could have a material adverse effect on the Company's financial condition.

#### **The Russian Law Governed SPAs do not contain limits of liability**

The Russian Law Governed SPAs do not include any reference to liability caps as detailed in Section 6 (Summary of the Transaction Documents) of this document as it is not customary under Russian law for general liability caps for the entire Disposal to be reflected in the Russian Law Governed SPAs. Accordingly, a possible risk of not including limits of liability in the Russian Law Governed SPAs is that if a claim is brought in the Russian courts under such agreement, a Russian court may award damages without limits which the Company may not be able to meet. The Company would under such circumstances consider its options which may involve bringing a counterclaim under the English law governed Settlement Deed and/or the Bellgate SPA in England arguing for the limits of liability. This could, therefore, lead to a mismatch in outcome in different judgements.

### **Risks associated with the Retained Group**

#### **The Retained Group's operations will be smaller and less diversified**

Following the Disposal, which the Directors do not expect to result in a material disruption to its other projects and operations, the Retained Group will be smaller and its overall financial performance will depend to a greater extent on the performance of each of its remaining projects.

Given that the Properties being disposed of represent a large part of the Company's completed, yielding commercial and retail property portfolio, the Retained Group will become more reliant on (i) its development projects and (ii) its residential properties (which include hotels).

The Board believes that should any one of its continuing operations underperform, this would have a larger relative impact on the Retained Group than would have been the case prior to the Disposal and may materially adversely affect the Retained Group's business, financial condition, results of operations and prospects.

Additionally, the Retained Group may seek to secure new funding to support the development of its remaining portfolio and, as it will be smaller, the Directors believe that it may be harder for the Retained Group to obtain new funding or it may be only able to do so on less favourable terms. The Directors believe that a failure to secure such funding (at all or on favourable terms) may materially adversely affect the Retained Group's business, financial condition, results of operations and prospects.

### **Risk factors relating to the Disposal not proceeding**

#### **The Transaction Documents have not yet been entered into and will only be entered into following Shareholder approval of the Disposal**

The Company will seek Shareholder approval of the Disposal at the General Meeting. Subject to obtaining such approval, the Board expects to enter into the English Law Governed Transaction Documents on 1 August 2016 and, subject to satisfaction of the Conditions, proceed to Completion as soon as practicable. The Directors believe that the Transaction Documents are in agreed form and are not aware of any reason why they would not be entered into if the Shareholders approve the Disposal at the General Meeting.

However, as the parties have not yet entered into the Transaction Documents as at the date of this document, there is a risk that one or more of the parties to the Disposal may decide not to enter into one or more of the Transaction Documents, for whatever reason, either between the date of this document and the General Meeting or following Shareholder approval of the Disposal at the General Meeting. Should the English Law Governed Transaction Documents not be entered into by 1 August 2016, the Board believes that the Bank will likely seek to enforce its rights under the Loans, in which case the Company would likely be unable to meet its financial commitments as they fall due and consequently would likely be unable to continue to trade resulting in the appointment of receivers, liquidators or administrators, which would have a material adverse impact on the Group's other assets and on Shareholder value.

As the Disposal has not yet been entered into, there is a risk that the terms of the Transaction Documents may change between the date of this document and the General Meeting. Should there be a material change to the terms of the Transaction Documents following the date of this Document and the General Meeting, the Board notes that it may be necessary to adjourn the General Meeting if a supplementary circular cannot be sent to Shareholders at least seven days prior to the date of the General Meeting.

#### **Completion is subject to a number of conditions which may not be satisfied or waived**

Completion is conditional upon (i) internal corporate approvals; (ii) customary approvals from certain Russian regulators required in respect of such transactions; and (iii) there having been no breach of warranty, event of default or material adverse change between signing of the English Law Governed Transaction Documents and Completion, each to the satisfaction of the Bank.

Although the Directors believe that the above conditions are capable of being satisfied (and in the case of (iii) there are no circumstances not otherwise known to the Purchaser which will entitle the Purchaser to treat the condition as not satisfied), it is possible that the parties may not be able to obtain the clearances or approvals required, or that they may not be obtainable within a timescale acceptable to the parties, or that they may only be obtained subject to certain conditions or undertakings which may not be acceptable to the parties, or, in the case of (iii) that the Purchaser may consider that there has been a breach of warranty, event of default or material adverse change of which it was not aware. In the

event that the Conditions are not satisfied or waived, the Disposal may not complete. Should this occur, the Board believes it is likely the Bank will seek to enforce its rights under the Loans.

The Settlement Deed, which provides for the Release, only becomes effective on Completion of the Disposal. Accordingly, there is a risk that the Bank may seek to enforce its rights under Loans at any time after entry by the parties into the English Law Governed Transaction Documents but before Completion of the Disposal. As set out above, such enforcement is likely to have a material impact on the Group's other assets and on Shareholder value.

#### The Group may enter into insolvency if the Disposal does not proceed

The Board believes that the Group would only be able to meet a demand for accelerated repayment of the Loans from the proceeds of a disposal of property assets. However, based on the correspondence from the Bank (as set out in Section 1- Letter from the Senior Independent Non-executive Director), as the Bank will not allow the Company sufficient time to conduct an orderly disposal of property assets, the Board believes that the Group has no realistic prospect of being able to meet a demand for early repayment from the Bank. Accordingly, the Board believes that, unless the Disposal is completed, the Company would likely be unable to meet its financial commitments as they fall due and consequently would likely be unable to continue to trade resulting in the appointment of receivers, liquidators or administrators, which would have a material adverse impact on the Group's other assets and on Shareholder value.

#### The Company would be unable to raise alternative financing if the Disposal does not complete

The Directors believe that, if the Disposal were not to proceed, the Group would not have any alternative method of raising financing to enable it to fulfil its obligations under the Loan Facility Agreements because:

- real estate loans for Russian assets are currently only capable of being financed locally in Russian Rubles, whereas the Loans are predominately denominated in US dollars and would need to be refinanced in US dollars;
- there are only a very limited number of Russian banks who are able to provide a loan of the size of the Loans and the Company has not been able to obtain a refinancing of the Loans;
- it would not be possible to obtain a loan against Ozerkovskaya III which is a non-yielding asset; and
- for the limited extent to which banks are providing new loans to the real estate sector in Russia, interest rates are significantly in excess of rates which apply to the Loans (a blended rate of approximately 7.15 per cent.), which the Company would be unable to service given the non-yielding status of Ozerkovskaya III.

#### Inability to realise value if the Disposal does not proceed

The Board believes that the Disposal is in the best interests of the Shareholders taken as a whole and that the Disposal currently provides the best opportunity to realise a certain value for the Properties. If the Disposal does not complete, the realisable value of the Properties to the Company may be lower than can be realised by way of the Disposal.

#### The Disposal not proceeding may have a disruptive effect on the Group

The Directors believe that the Disposal not proceeding (and the consequent enforcement action that will be taken by that Bank) would significantly negatively impact the Company's ability to forward sell residential apartments, which is key to the Company's ability to develop its current residential projects

under development, since the potential purchasers would likely be highly hesitant to purchase apartments in buildings under construction from a developer in insolvency/administration proceedings.

There may be an adverse impact on the Group's reputation if the Disposal does not proceed

The Directors believe that if the Disposal were not to proceed, and an enforcement event were to follow, other Russian banks that currently provide mortgage loans to residential purchasers may stop doing so, or may alter the terms upon which they are willing to do so, resulting in a further negative effect on the Company's residential sales. Additionally, office tenants would likely be very hesitant to lease space in the properties of a company in insolvency/administration proceedings, which would further increase the vacancy rates in these properties and reduce income.

### **3. FINANCIAL INFORMATION ON THE COMPANIES**

#### **PART A: FINANCIAL INFORMATION ON EACH OF KROWN, BELLGATE AND SEMPREX**

The following historical financial information relating to Krown, Bellgate and Semprex has been extracted without material adjustment from the consolidation schedules that underlie the audited consolidated financial information of the Group for the years ended 31 December 2013, 31 December 2014 and 31 December 2015 and the unaudited interim financial information of the Group for the three months ended 31 March 2016.

The financial information in this Section 3, Part A (Financial Information on each of Krown, Bellgate and Semprex) does not constitute statutory accounts within the meaning of section 434 of the Companies Act. The consolidated statutory accounts for the Group in respect of the financial years ended 31 December 2013, 31 December 2014 and 31 December 2015 have been delivered to the Registrar of Companies. The auditor's reports in respect of those statutory accounts were unqualified and did not contain statements under section 498(2) or (3) of the Companies Act.

The financial information in this Section 3 (Financial Information on the Companies) has been prepared using the IFRS accounting policies used to prepare the consolidated financial statements of the Group for the 12 months ended 31 December 2015. Shareholders should read the whole of this document and not rely solely on the summarised financial information in this Section 3 (Financial Information on the Companies).

## Financial information on Bellgate

### a) Consolidated income statement

<i>For the year ended (US\$)</i>	<i>31 December 2013</i>	<i>31 December 2014</i>	<i>31 December 2015</i>	<i>Three months ended 31 March 2016</i>
Rental income	158,415,564	106,863,387	71,027,601	15,984,394
<b>Revenue</b>	<b>158,415,564</b>	<b>106,863,387</b>	<b>71,027,601</b>	<b>15,984,394</b>
Other income	5,405,742	1,236,771	662,766	2,106,874
Operating expenses	(30,322,714)	(19,346,634)	(14,732,654)	(1,780,703)
Administrative expenses	351,015	(4,728,108)	(153,666)	(25,329)
Cost of sale of residential and parking places	(28,437,424)	-	-	-
Other expenses	(1,457,780)	(4,337,133)	(1,208,859)	(53)
<b>Gross Profit</b>	<b>103,954,404</b>	<b>79,688,283</b>	<b>55,595,188</b>	<b>16,285,183</b>
Valuation gains on investment property	41,398,462	101,280,872	(231,995,528)	(40,959,681)
<b>Operating profit/ (loss) before net finance cost</b>	<b>145,352,866</b>	<b>180,969,155</b>	<b>(176,400,340)</b>	<b>(24,674,498)</b>
Finance income	127,914	149,642	3,850	34,355,579
Finance expenses	(70,548,697)	(179,283,828)	(101,720,793)	(25,053,280)
<b>Net finance costs</b>	<b>(70,420,782)</b>	<b>(179,134,185)</b>	<b>(101,716,942)</b>	<b>9,302,299</b>
<b>Profit/ (loss) before income tax</b>	<b>74,932,083</b>	<b>1,834,970</b>	<b>(278,117,282)</b>	<b>(15,372,199)</b>
Income tax expense	(12,606,744)	3,965,828	63,201,525	2,818,956
<b>Profit/ (loss) for the period</b>	<b>62,325,339</b>	<b>5,800,798</b>	<b>(214,915,757)</b>	<b>(12,553,243)</b>



b) Consolidated statement of financial position

<i>US\$</i>	<i>As at 31 December 2013</i>	<i>As at 31 December 2014</i>	<i>As at 31 December 2015</i>	<i>As at 31 March 2016</i>
<b>ASSETS</b>				
<b>Non-current assets</b>				
Investment property	1,160,000,000	1,000,000,000	685,200,000	666,000,001
Investment property under development	-	-	-	-
Property, plant and equipment	708,324	325,120	161,002	148,252
Long-term loans receivable	-	-	-	-
VAT recoverable	-	-	-	-
Deferred tax assets	-	-	-	-
<b>Total non-current assets</b>	<b>1,160,708,324</b>	<b>1,000,325,120</b>	<b>685,361,002</b>	<b>666,148,253</b>
<b>Current assets</b>				
Trading property	-	-	1,465,801	1,490,606
Trading properties under construction	-	-	-	-
Inventory	170,102	373,137	254,317	320,287
Short-term loans receivable	-	-	-	-
Trade and other receivables	16,729,206	10,641,684	6,379,996	6,791,176
Cash and cash equivalents	8,065,209	2,009,746	2,683,711	460,657
Assets classified as held for sale	-	-	-	-
<b>Total current assets</b>	<b>24,964,517</b>	<b>13,024,567</b>	<b>10,783,824</b>	<b>9,062,726</b>
<b>Total assets</b>	<b>1,185,672,841</b>	<b>1,013,349,687</b>	<b>696,144,826</b>	<b>675,210,979</b>
<b>EQUITY AND LIABILITIES</b>				
<b>Equity</b>				
Share capital	-	-	-	-
Share premium	-	-	-	-
Translation reserve	(1,587,199)	16,690,597	41,595,886	33,705,660
Capital reserve	-	-	-	-
Retaining earnings	421,391,508	405,187,097	190,914,482	179,756,235
<b>Total equity</b>	<b>419,804,309</b>	<b>421,877,694</b>	<b>232,510,368</b>	<b>213,461,895</b>
<b>Liabilities</b>				
Long-term loans and borrowings	573,914,510	455,096,633	389,798,687	-
Deferred tax liabilities	85,143,354	84,398,468	27,516,999	23,058,850
Deferred income	19,406,899	11,441,903	-	-
<b>Total non-current liabilities</b>	<b>678,464,763</b>	<b>550,937,004</b>	<b>417,315,686</b>	<b>23,058,850</b>
Short-term loans and borrowings	26,000,000	26,000,000	26,000,000	419,630,252
Trade and other payables	61,402,090	14,533,310	20,317,093	19,058,303
Income tax payable	1,679	1,679	1,679	1,679
<b>Total current liabilities</b>	<b>87,403,768</b>	<b>40,534,989</b>	<b>46,318,773</b>	<b>438,690,234</b>
<b>Total liabilities</b>	<b>765,868,531</b>	<b>591,471,993</b>	<b>463,634,459</b>	<b>461,749,084</b>
<b>Total equity and liabilities</b>	<b>1,185,672,841</b>	<b>1,013,349,687</b>	<b>696,144,827</b>	<b>675,210,979</b>

## Financial information on Krown

### a) Consolidated income statement

<i>For the year ended (US\$)</i>	<i>31 December 2013</i>	<i>31 December 2014</i>	<i>31 December 2015</i>	<i>Three months ended 31 March 2016</i>
Rental income	-	110,075	627,981	84,388
Sale of residential and parking places	991,319	1,500,642	132,072	-
<b>Revenue</b>	<b>991,319</b>	<b>1,610,717</b>	<b>760,054</b>	<b>84,388</b>
Other income	-	233,502	1,039,580	3,721
Operating expenses	(1,810,959)	(2,272,562)	(1,665,580)	(239,760)
Administrative expenses	(79,853)	(78,766)	(92,486)	(9,469)
Cost of sale of residential and parking places	(2,831,501)	(1,062,484)	(19,532)	-
Other expenses	(110,442)	(330,059)	(176,522)	(10)
<b>Gross profit/ (loss)</b>	<b>(3,841,436)</b>	<b>(1,899,653)</b>	<b>(154,485)</b>	<b>(161,130)</b>
Profit on sale/disposal of properties/ investment	27,835,595	-	-	-
Valuation gains on investment property	7,321,909	32,872,904	(82,114,675)	(6,821,829)
<b>Operating profit/ (loss) before net finance cost</b>	<b>31,316,068</b>	<b>30,973,251</b>	<b>(82,269,160)</b>	<b>(6,982,959)</b>
Finance income	187,990	1,277,150	15	8,201,865
Finance expenses	(29,905,782)	(129,269,308)	(68,138,132)	(3,534,829)
<b>Net finance costs</b>	<b>(29,717,792)</b>	<b>(127,992,158)</b>	<b>(68,138,117)</b>	<b>4,667,037</b>
<b>Profit/ (loss) before income tax</b>	<b>1,598,276</b>	<b>(97,018,906)</b>	<b>(150,407,277)</b>	<b>(2,315,922)</b>
Income tax expense	(6,705,537)	11,987,605	31,602,717	1,310,872
<b>Profit/ (loss) for the period</b>	<b>(5,107,261)</b>	<b>(85,031,302)</b>	<b>(118,804,560)</b>	<b>(1,005,050)</b>

b) Consolidated statement of financial position

<i>US\$</i>	<i>As at 31 December 2013</i>	<i>As at 31 December 2014</i>	<i>As at 31 December 2015</i>	<i>As at 31 March 2016</i>
<b>ASSETS</b>				
<b>Non-current assets</b>				
Investment property	323,700,000	300,000,000	199,300,000	197,400,000
Investment property under development	-	-	-	-
Property, plant and equipment	-	-	-	-
Long-term loans receivable	-	-	-	-
VAT recoverable	-	-	-	-
Deferred tax assets	-	-	14,325,897	17,458,460
<b>Total non-current assets</b>	<b>323,700,000</b>	<b>300,000,000</b>	<b>213,625,897</b>	<b>214,858,460</b>
<b>Current assets</b>				
Trading property	3,151,824	1,964,969	-	-
Trading properties under construction	-	-	-	-
Inventory	-	-	-	-
Short-term loans receivable	-	-	-	-
Trade and other receivables	1,517,087	394,081	358,506	512,616
Cash and cash equivalents	102,509,279	93,911	111,477	97,358
Assets classified as held for sale	-	-	-	-
<b>Total current assets</b>	<b>107,178,190</b>	<b>2,452,960</b>	<b>469,984</b>	<b>609,974</b>
<b>Total assets</b>	<b>430,878,190</b>	<b>302,452,961</b>	<b>214,095,881</b>	<b>215,468,434</b>
<b>EQUITY AND LIABILITIES</b>				
<b>Equity</b>				
Share capital	-	-	-	-
Share premium	-	-	-	-
Translation reserve	266,140	4,295,844	14,764,258	12,133,938
Capital reserve	-	-	-	-
Retaining earnings	174,377,128	78,624,552	4,823,466	12,448,158
<b>Total Equity</b>	<b>174,643,268</b>	<b>82,920,396</b>	<b>19,587,725</b>	<b>24,582,096</b>
<b>Liabilities</b>				
Long-term loans and borrowings	204,994,000	-	-	-
Deferred tax liabilities	19,323,724	11,713,933	-	-
Advances from investors	-	-	-	-
<b>Total non-current liabilities</b>	<b>224,317,724</b>	<b>11,713,933</b>	<b>-</b>	<b>-</b>
Short-term loans and borrowings	367,282	205,296,990	193,376,200	191,485,107
Trade and other payables	24,673,027	1,503,721	342,344	252,237
Income tax payable	6,876,888	1,017,920	789,611	(851,005)
<b>Total current liabilities</b>	<b>31,917,198</b>	<b>207,818,631</b>	<b>194,508,156</b>	<b>190,886,338</b>
<b>Total liabilities</b>	<b>256,234,922</b>	<b>219,532,564</b>	<b>194,508,156</b>	<b>190,886,338</b>
<b>Total equity and liabilities</b>	<b>430,878,190</b>	<b>302,452,961</b>	<b>214,095,881</b>	<b>215,468,434</b>

## Financial information on Semprex

### a) Consolidated income statement

<i>For the year ended (US\$)</i>	<i>31 December 2013</i>	<i>31 December 2014</i>	<i>31 December 2015</i>	<i>Three months ended 31 March 2016</i>
Rental income	9,815,097	7,239,868	5,121,589	973,106
<b>Revenue</b>	<b>9,815,097</b>	<b>7,239,868</b>	<b>5,121,589</b>	<b>973,106</b>
Other income	19,603	(10,584)	3,532	632
Operating expenses	(7,104,771)	(5,949,789)	(4,043,673)	(803,491)
Administrative expenses	(301,364)	(246,949)	(139,894)	(33,262)
Cost of sale of residential and parking places	-	-	-	-
Other expenses	(101,302)	(13,424)	(68,912)	(4,291)
<b>Gross Profit</b>	<b>2,327,263</b>	<b>1,019,123</b>	<b>872,642</b>	<b>132,695</b>
Valuation gains on investment property	-	-	-	-
<b>Operating profit before net finance cost</b>	<b>2,327,263</b>	<b>1,019,123</b>	<b>872,642</b>	<b>132,695</b>
Finance income	22,920	225,452	179,552	10
Finance expenses	(154,188)	(115,817)	(85,201)	(65,309)
<b>Net finance costs</b>	<b>(131,268)</b>	<b>109,636</b>	<b>94,350</b>	<b>(65,299)</b>
<b>Profit before income tax</b>	<b>2,195,995</b>	<b>1,128,759</b>	<b>966,992</b>	<b>67,396</b>
Income tax expense	493,461	225,456	(201 758)	58,504
<b>Profit for the period</b>	<b>2,689,456</b>	<b>1,354,215</b>	<b>765,234</b>	<b>125,900</b>

b) Consolidated statement of financial position

<i>US\$</i>	<i>As at 31 December 2013</i>	<i>As at 31 December 2014</i>	<i>As at 31 December 2015</i>	<i>As at 31 March 2016</i>
<b>ASSETS</b>				
<b>Non-current assets</b>				
Investment property	-	-	-	-
Investment property under development	-	-	-	-
Property, plant and equipment	30,855,838	17,343,063	13,075,377	13,983,650
Long-term loans receivable	-	-	-	-
VAT recoverable	-	-	-	-
Deferred tax assets	2,380,789	1,531,010	1,013,045	1,156,668
<b>Total non-current assets</b>	<b>33,236,628</b>	<b>18,874,073</b>	<b>14,088,421</b>	<b>15,140,317</b>
<b>Current assets</b>				
Trading property	-	-	-	-
Trading properties under construction	-	-	-	-
Inventory	45,795	29,155	27,480	22,595
Short-term loans receivable	-	-	-	-
Trade and other receivables	162,945	91,642	58,957	81,575
Cash and cash equivalents	822,464	585,131	810,357	499,121
Assets classified as held for sale	-	-	-	-
<b>Total current assets</b>	<b>1,031,203</b>	<b>705,928</b>	<b>896,794</b>	<b>603,291</b>
<b>Total assets</b>	<b>34,267,831</b>	<b>19,580,001</b>	<b>14,985,215</b>	<b>15,743,609</b>
<b>EQUITY AND LIABILITIES</b>				
<b>Equity</b>				
Share capital	-	-	-	-
Share premium	-	-	-	-
Translation reserve	1,721,635	7,714,249	9,755,625	9,175,924
Capital reserve	-	-	-	-
Retaining earnings	31,856,909	11,499,660	4,829,361	6,025,602
<b>Total Equity</b>	<b>33,578,544</b>	<b>19,213,909</b>	<b>14,584,986</b>	<b>15,201,527</b>
<b>Liabilities</b>				
Long-term loans and borrowings	-	-	-	-
Deferred tax liabilities	-	-	-	-
Advances from investors	-	-	-	-
<b>Total non-current liabilities</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
Short-term loans and borrowings	-	-	-	-
Trade and other payables	689,287	366,092	400,229	542,082
Income tax payable	-	-	-	-
<b>Total current liabilities</b>	<b>689,287</b>	<b>366,092</b>	<b>400,229</b>	<b>542,082</b>
<b>Total liabilities</b>	<b>689,287</b>	<b>366,092</b>	<b>400,229</b>	<b>542,082</b>
<b>Total equity and liabilities</b>	<b>34,267,831</b>	<b>19,580,001</b>	<b>14,985,215</b>	<b>15,743,609</b>

## **4. PRO FORMA STATEMENT OF NET ASSETS**

### **PART A: UNAUDITED PRO FORMA FINANCIAL INFORMATION**

The unaudited pro forma statement of consolidated net assets of the Retained Group set out below has been prepared on the basis set out in the notes below to illustrate the effect of the Disposal on the consolidated net assets of the Retained Group as at 31 March 2016 had the Disposal taken place on that date.

The unaudited pro forma statement of consolidated net assets, which has been produced for illustrative purposes only, by its nature addresses a hypothetical situation and, therefore, does not represent the Retained Group's actual financial position or results. The unaudited pro forma financial information is compiled on the basis set out in the notes below and in accordance with the requirements of paragraph 13.3.3R of the Listing Rules of the FCA. It is based on the consolidated unaudited interim financial statements of the Group as at 31 March 2016 and on the financial information of the Companies as at 31 March 2016 contained in Section 3 (Financial Information on the Companies) of this document.

Shareholders should read the whole of this document and not rely solely on the summarised financial information contained in this Section 4, Part A (Unaudited Pro Forma Financial Information). KPMG LLP's report on the unaudited pro forma statement of net assets is set out in Section 4, Part B (Accountants' Opinion on Pro Forma Financial Information).

<b>Unaudited pro forma statement of net assets of the Group</b>						
<b>At 31 March 2016</b>						
<i>(US\$ 000's)</i>	<i>Group</i>	<i>Adjustment: disposal of Krown</i>	<i>Adjustment: disposal of Semprex</i>	<i>Adjustment: disposal of Bellgate</i>	<i>Adjustment: others</i>	<i>Pro forma as at 31 March 2016</i>
	<b>(Note 1)</b>	<b>(Note 2)</b>	<b>(Note 3)</b>	<b>(Note 4)</b>	<b>(Note 5)</b>	<b>(Note 6)</b>
<b>ASSETS</b>						
<b>Non-current assets</b>						
Investment property	912,600	(197,400)	-	(666,000)	-	49,200
Investment property under development	237,025	-	-	-	-	237,025
Property, plant and equipment	28,302	-	(13,984)	(148)	(1)	14,169
Long-term loans receivable	13,891	-	-	-	-	13,891
Inventory of real estate	20,397	-	-	-	-	20,397
VAT recoverable	32	-	-	-	-	32
Deferred tax assets	-	(17,458)	(1,157)	-	-	(18,615)
<b>Total non-current assets</b>	<b>1,212,247</b>	<b>(214,858)</b>	<b>(15,140)</b>	<b>(666,148)</b>	<b>(1)</b>	<b>316,098</b>
<b>Current assets</b>						
Trading property	35,215	-	-	(1,491)	-	33,724
Trading properties under construction	178,745	-	-	-	-	178,745
Other investments	8,410	-	-	-	-	8,410
Inventory	515	-	(23)	(320)	(54)	118
Short-term loans receivable	130	-	-	-	-	130
Trade and other receivables	29,543	(513)	(82)	(6,791)	(289)	21,869
Current tax assets	1,656	(97)	-	-	-	1,559
Cash and cash equivalents	24,132	-	(499)	(461)	(62)	23,110
<b>Total current assets</b>	<b>278,346</b>	<b>(610)</b>	<b>(603)</b>	<b>(9,063)</b>	<b>(405)</b>	<b>267,665</b>
<b>Total assets</b>	<b>1,490,593</b>	<b>(215,468)</b>	<b>(15,744)</b>	<b>(675,211)</b>	<b>(406)</b>	<b>583,764</b>
<b>EQUITY AND LIABILITIES</b>						
<b>Equity</b>						
Share capital	1,048	-	-	-	-	1,048
Share premium	1,763,409	-	-	-	-	1,763,409
Translation reserve	(324,654)	(12,134)	(9,176)	(33,706)	(122)	(379,791)
Capital reserve	(9,201)	-	-	-	-	(9,201)
Retaining earnings	(652,291)	(12,448)	(6,026)	(179,756)	150	(850,371)
Equity attributable to owners of the Company	778,311	(24,582)	(15,202)	(213,462)	29	525,094
Non-controlling interests	(3,894)	-	-	-	-	(3,894)
<b>Total equity</b>	<b>774,417</b>	<b>(24,582)</b>	<b>(15,202)</b>	<b>(213,462)</b>	<b>29</b>	<b>521,200</b>
<b>Non-current liabilities</b>						
Long-term loans and borrowings	-	-	-	-	-	-
Deferred tax liabilities	18,823	-	-	(23,059)	-	(4,236)
Advances from investors	9,119	-	-	-	-	9,119
<b>Total non-current liabilities</b>	<b>27,942</b>	<b>-</b>	<b>-</b>	<b>(23,059)</b>	<b>-</b>	<b>4,883</b>
<b>Current liabilities</b>						
Short-term loans and borrowings	612,923	(191,485)	-	(419,630)	-	1,808
Trade and other payables	18,230	(252)	(542)	(19,058)	(427)	(2,049)
Income tax payable	57,081	851	-	(2)	(9)	57,922
<b>Total current liabilities</b>	<b>688,234</b>	<b>(190,886)</b>	<b>(542)</b>	<b>(438,690)</b>	<b>(435)</b>	<b>57,680</b>
<b>Total liabilities</b>	<b>716,176</b>	<b>(190,886)</b>	<b>(542)</b>	<b>(461,749)</b>	<b>(435)</b>	<b>62,563</b>
<b>Total equity and liabilities</b>	<b>1,490,593</b>	<b>(215,468)</b>	<b>(15,744)</b>	<b>(675,211)</b>	<b>(406)</b>	<b>583,764</b>

*Notes:*

1. *The financial information in respect of the Group has been extracted, without material adjustment, from the published unaudited Q1 2016 results of the Group.*
2. *The financial information in respect of the Krown has been extracted without material adjustment from the financial information for Krown set out in Section 3 (Financial Information on the Companies).*
3. *The financial information in respect of the Semprex has been extracted without material adjustment from the financial information for Semprex set out in Section 3 (Financial Information on the Companies).*
4. *The financial information in respect of the Bellgate has been extracted without material adjustment from the financial information for Bellgate set out in Section 3 (Financial Information on the Companies).*
5. *Other adjustments represent the effect of the disposal on the statement of financial position of the Retained Group.*
6. *No adjustment has been made to reflect the trading results of the Group or the Companies since 31 March 2016 or any changes in its financial position in this period save as described above.*



## PART B: ACCOUNTANTS' OPINION ON PRO FORMA FINANCIAL INFORMATION



KPMG LLP  
15 Canada Square  
London  
E14 5GL  
United Kingdom

The Directors  
AFI Development Plc  
165 Spyrou Araouzou  
Lordos Waterfront Building  
3035 Limassol  
Cyprus

15 July 2016

Sirs,  
**AFI Development Plc**

We report on the pro forma financial information (the '**Pro forma financial information**') set out in Section 4, Part A (Unaudited Pro Forma Financial Information) of the class 1 circular dated 15 July 2016, which has been prepared on the basis described in notes 1 – 4 of Section 4, Part A (Pro Forma Statement of Net Assets), for illustrative purposes only, to provide information about how the Disposal might have affected the financial information presented on the basis of the accounting policies adopted by AFI Development Plc in preparing the financial statements for the period ended 31 December 2015. This report is required by paragraph 13.3.3R of the Listing Rules of the FCA and is given for the purpose of complying with that paragraph and for no other purpose.

### *Responsibilities*

It is the responsibility of the directors of AFI Development Plc to prepare the Pro forma financial information in accordance with paragraph 13.3.3R of the Listing Rules of the FCA.

It is our responsibility to form an opinion, as required by paragraph 7 of Annex II of the Prospectus Directive Regulation, as to the proper compilation of the Pro forma financial information and to report that opinion to you.

Save for any responsibility which we may have to those persons to whom this report is expressly addressed and which we may have Shareholders as a result of the inclusion of this report in the class 1 circular, to the fullest extent permitted by law we do not assume any responsibility and will not accept any liability to any other person for any loss suffered by any such other person as a result of, arising out of, or in connection with this report or our statement, required by and given solely for the purposes of complying with paragraph 13.4.1R(6) of the Listing Rules of the FCA, consenting to its inclusion in the class 1 circular.

### *Basis of opinion*

We conducted our work in accordance with the Standards for Investment Reporting issued by the Auditing Practices Board in the United Kingdom. The work that we performed for the purpose of making this report, which involved no independent examination of any of the underlying financial

information, consisted primarily of comparing the unadjusted financial information with the source documents, considering the evidence supporting the adjustments and discussing the Pro forma financial information with the directors of AFI Development Plc.

We planned and performed our work so as to obtain the information and explanations we considered necessary in order to provide us with reasonable assurance that the Pro forma financial information has been properly compiled on the basis stated and that such basis is consistent with the accounting policies of AFI Development Plc.

Our work has not been carried out in accordance with auditing or other standards and practices generally accepted in the United States of America or other jurisdictions and accordingly should not be relied upon as if it had been carried out in accordance with those standards and practices.

*Opinion*

In our opinion:

- the Pro forma financial information has been properly compiled on the basis stated; and
- such basis is consistent with the accounting policies of AFI Development Plc.

Yours faithfully

*KPMG LLP*

## 5. VALUATION REPORT

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Cyprus

Strand Hanson Limited  
26 Mount Row  
London SW11 6AD

15 July 2016

Dear Sirs

### VALUATION AS AT 30 JUNE 2016

**AFIMALL City Shopping Centre (“AFI MALL”, formally known as “Mall of Russia”)  
Ozerkovskaya III Business Centre (“Ozerkovskaya III”)**

#### 1. INSTRUCTIONS

- 1.1 In accordance with instructions received from AFI Development Plc (the “**Company**”) we have carried out a valuation of the properties known as AFI MALL and Ozerkovskaya III (also referred to as “**Aquamarine III**”).
- 1.2 We understand that this valuation report is required for inclusion in the circular (the “**Valuation Report**”) which is to be published today (the “**Purpose of this Report**”).
- 1.3 In arriving at our opinion of Market Value, our valuation has been prepared in accordance with the Practice Statements in the RICS Appraisal and Valuation Standards, 5th edition (the “**Red Book**”).
- 1.4 The Valuation Report will be relied upon by the Company and Strand Hanson Limited.
- 1.5 The date of the valuation is 30 June 2016 (the “**Valuation Date**”).

#### 2. THE PROPERTY

- 2.1 The Properties we have valued are known as AFIMALL and Ozerkovskaya III.

### **3. VALUED INTEREST**

- 3.1 AFI MALL: Subject to the Company's instructions we have valued 100 per cent. of the freehold interest in the building of the retail centre, 100per cent. of the freehold interest in a part of the underground car parking (corresponding to 2,075 parking spaces) and the long term leasehold interest in the site.
- 3.2 Ozerkovskaya III: Subject to the Company's instructions we have valued the 100 per cent. of the freehold interest in the premises of 61,579 sq. m and a leasehold interest in the land plot.

### **4. ENCUMBRANCES**

- 4.1 AFI MALL: As at the date of valuation the Property was a subject to 397 occupational leases. The property is encumbered by mortgage of VTB Bank. We are aware of the letter addressed by Bank VTB PJSC on 29 March 2016 to AFI RUS LLC, the operating subsidiary of AFI Development Plc regarding the loan notification.
- 4.2 Ozerkovskaya III: As at the date of valuation the Property was a subject to one occupational lease. The property is encumbered by mortgage of VTB Bank. We are aware of the letter addressed by Bank VTB PJSC on 29 March 2016 to AFI RUS LLC, the operating subsidiary of AFI Development Plc regarding the loan notification.

### **5. INSPECTIONS**

- 5.1 The Property was inspected both internally and externally on 13 January and 20 January 2016 by Ekaterina Kanachkina and Nikolay Goryunov MRICS. In accordance with our instructions, we have not undertaken additional inspections specifically for the purpose of this valuation.

### **6. PERSONNEL, STATUS, DISCLOSURE**

- 6.1 The valuation has been prepared by Ekaterina Kanachkina MRICS, Nikolay Goryunov MRICS under the direction of Tim Millard MRICS, Regional Director, Russia and CIS.
- 6.2 We confirm that the personnel responsible for this Valuation Report are qualified for the purpose of the valuation in accordance with the RICS Professional Standards.
- 6.3 In preparing this valuation we have acted as external valuers, subject to any disclosures made to you.
- 6.4 We confirm that we are not aware of any conflict of interest that precludes us from valuing this property on your behalf.
- 6.5 The total fees, including the fees for this instruction, earned by Jones Lang LaSalle LLC is substantially less than five per cent of our total Russia and CIS turnover.
- 6.6 The last valuation of the Property undertaken by us was in December 2015.

### **7. BASIS OF VALUATION**

In accordance with the Red Book, our valuations have been prepared on the basis of Market Value. This is an internationally recognised basis and is defined as:

*“The estimated amount for which a property should exchange on the date of valuation between a willing buyer and a willing seller in an arm’s-length transaction*

*after proper marketing wherein the parties had each acted knowledgeably, prudently and without compulsion”*

## **8. VALUATIONS**

8.1 On the bases outlined in this Valuation Report, we are of the opinion that the Market Value as at the Valuation Date of the Company’s interest in the freehold buildings and leasehold land, subject to and with the benefit of the various occupational leases of AFI MALL and with the benefit of vacant possession of Ozerkovskaya III, is as stated in paragraph 8.3 and 8.4.

8.2 Our valuations are exclusive of any VAT.

8.3 The Market Value for the Property - AFI MALL is:

**US\$656,000,000**  
**(Six Hundred Fifty Six Million US Dollars)**

8.4 The Market Value for the Property - Ozerkovskaya III is:

**US\$197,400,000**  
**(One Hundred Ninety Seven Million Four Hundred Thousand US Dollars)**

8.5 Property values can change significantly over a relatively short period of time, particularly in current market conditions. Consequently, our valuations are only valid on the Valuation Date.

8.6 Valuations are opinions of value which contain a degree of subjectivity. In this instance, there are number of factors, both property specific and market related, which necessarily require a much higher degree of subjectivity than might usually be expected. As such, the pricing of the asset at the present time is highly challenging. We would caution you on this high level of subjectivity/potential volatility and stress that, in all of the circumstances, it is inevitable that a wider than usual range of opinion from different valuers may be possible.

## **9. NO MATERIAL CHANGE**

9.1 We hereby confirm that as at the date of this Valuation Report:

- (a) We have not become aware of any material change since 30 June 2016, in any matter relating to the Property covered by this Valuation Report which, in our opinion, would have a material effect on the Market Value; and
- (b) We do not consider that any changes or alterations have taken place in relation to market conditions or movements in local or national Property markets in which the Property is located which would constitute a material change since 30 June 2016.

## **10. REALISATION COSTS**

No allowance has been made for any expenses of realisation, or for taxation (including VAT), which might arise in the event of a disposal, and the property has been considered free and clear of all mortgages or other charges that may be secured thereon.

## **11. ASSUMPTIONS, SPECIAL ASSUMPTIONS AND SOURCES OF INFORMATION**

### **Floor areas**

11.1 We have relied upon the floor areas provided to us by the Company. We assume that all floor area figures provided are complete and correct. All measurements and areas quoted in this Valuation Report are approximate.

### **Environmental investigations and ground conditions**

11.2 We have not ourselves undertaken any environmental investigations, for contamination or otherwise but have assumed that, except to the extent (if any) disclosed to us by the Company, there are no abnormal ground conditions, nor archaeological remains present, which might adversely affect the present or future occupation, development or value of any of the Properties.

### **Building structure**

11.3 We are not instructed to carry out structural surveys for the purpose of this valuation and have assumed that there are not, and will not be, any structural or latent defects within the Property. From our inspections, all of the existing structures appeared to be well maintained and in good condition. We have assumed that no known deleterious or hazardous materials have been, or are being, utilised in the construction of any of the Properties.

### **Town planning and statutory requirements**

11.4 We have not made a formal town planning enquiry and information has been provided to us on the basis that it should not be relied upon. In general terms, we have assumed that there are no adverse town planning, highway or other schemes or proposals in respect of any of the Properties.

11.5 We have assumed that, save as may be disclosed in Schedule 1, all relevant planning consents exist for the Property and their respective present or proposed uses (as appropriate).

11.6 We have assumed that all existing buildings currently comply with all statutory and local authority requirements including building, fire and health and safety regulations.

### **Tenure and tenancies**

11.7 We have not reviewed or had access to the title deeds or various agreements and our valuation has been based on the information which the Company has supplied to us as to tenure, statutory notices and similar.

11.8 Unless disclosed to us to the contrary our valuation is on the basis that:

- (a) the Property has good marketable titles free from any unusual encumbrances, restrictions or obligations;
- (b) nothing would be revealed by any local search or replies to usual enquiries of the seller which would materially adversely affect the respective values of the Property; and
- (c) in respect of leasehold property, consent (if required) to assign the leasehold interest would not be withheld or delayed by the relevant landlord if requested.

11.9 No account has been taken of any mortgages, debentures or other security which may now or in the future exist over any of the Property.

11.10 We have not read copies of the leases or related documents but have relied upon the tenancy information provided to us directly by the Company.

11.11 No account has been taken of any taxation and/or company structure implications through which the Company's interests may be held.

### **Third party covenants**

11.12 We have not conducted credit enquiries into the financial status of any of the tenants or other parties with whom the Company and its subsidiaries have entered into contracts. However, in undertaking our valuations, we have reflected our understanding of the market's perception of the financial status of those parties. We have also assumed that each party is capable of meeting its obligations, and that there are no material undisclosed breaches of covenant.

### **Unlet and Company occupied accommodation**

11.13 We have assumed that full vacant possession can be provided of all accommodation which is unlet or occupied by the Company or its subsidiaries, or by their employees or contractors.

## **12. RELIANCE AND CONFIDENTIALITY**

12.1 We confirm that we are responsible for our Valuation Report and we accept responsibility for the information contained in our Valuation Report and confirm that to the best of our knowledge (having taken all reasonable care to ensure that such is the case), the information contained in our Valuation Report is in accordance with the facts and contains no omissions likely to affect its import. Our Valuation Report complies with Rule 5.6.5G of the Prospectus Rules and paragraphs 128 to 130 of CESR's recommendations for the consistent implementation of the European Commission's Regulation on Prospectuses No 809/2004.

12.2 No reliance may be placed upon the contents of this Valuation Report by any party for any purpose other than in connection with the Purpose of this Valuation Report. Neither the whole nor any part of this Valuation Report nor any reference thereto may be included in any other published document, circular or statement, nor published in any way without our written approval of the form and context in which it is to appear.

The above mentioned in this letter shall constitute for all purposes as an integral part of our Valuation Report.

Yours faithfully,

T J Millard MA(Cantab) MRICS  
Regional Director  
Head of Advisory, Russia & CIS  
On behalf of Jones Lang LaSalle

## SCHEDULE 1

Property	Location and Description	Tenure and Tenancies
<p>AFIMALL City Shopping Centre</p>	<p>The Property is located at 2 Presninskaya Emb., MIBC 'Moscow City'. The Property comprises a fully operational 6 level super-regional shopping and entertainment complex with 3 levels of underground parking. The gross building area (GBA) of the complex is 283,182 sq. m including parking (2,075 parking spaces) and a gross leasable area (GLA) of 107,207.6 sq. m. the complex (including the underground parking) is fully operational.</p> <p>The total area of the site under the Property is 4.3742 hectares (ha), which is made up of three land plots referred to as No. 6, 7 and 8b.</p> <p>The Property is located in the Presnensky sub-district of the Central Administrative District, on Krasnopresnenskaya Embankment, within the Moscow International Business Centre (MIBC) 'Moscow City'. Moscow City is a modern business district located 6 km to the West of Moscow centre, near Kutuzovsky Avenue and the Third Transport Ring.</p> <p>Moscow City is a financial district on the territory of 60 ha comprising about 175,500 sq. m of retail space, 207,000 sq. m of residential space, 25,000 sq. m of hotel premises and 855,600 sq. m of existing office premises in 11 operating office buildings. Additionally, another 4 office schemes are under-construction and they will increase the total office stock to 1.3 million sq. m.</p> <p>Car accessibility to the Property is provided from the Third Ring Road with junctions to both the northern and southern carriageways, 1st Krasnogvardeysky Proezd, Presnenskaya Embankment and Kutuzovsky Prospect.</p>	<p>The Property is situated on the site composed of land plots # 6, 7 and 8b with the total area of 4.3742 ha and held by "Bellgate Constructions Limited" LLC on the basis of a short-term lease expiring on 01 April 2018 according to Additional agreement dated 24.05.2013 to the lease contract of land plot #M-01-512770 dated 10.11.2005. For the purposes of this valuation, we assumed that the respective long-term leasehold rights will be registered in respect of the land plot in due course.</p> <p>"Bellgate Constructions Limited" LLC (subsidiary of the Company) holds the building and underground parking with a total area of 116,989.8 sq. m freehold.</p> <p>According to the tenancy schedule provided the Property is let to, as at the date of valuation, 399 leases (occupying 84,375 sq. m), which translates into an occupancy rate of around 78.7% of the total GLA, whereas 22,832 sq. m (i.e. 21.3% of the total GLA) is currently vacant.</p> <p>All the leases are short to long-term leases, from 1 to 10 years. The weighted average unexpired lease term is 1.9 years.</p> <p>In addition to the base rent, all tenants pay turnover rent.</p> <p>According to the tenancy schedule, provided by Company, the Property is leased by well-known international brands and national companies.</p> <p>Rental rates are stipulated in US Dollars/ Conventional units/ Rubles and are paid in rubles at the exchange rate of Central Bank of the Russian Federation at the date of payment.</p>



	<p>Vystavochnaya and Mezhdunarodnaya metro stations are located within a five minute walk from the shopping complex with the connection hub located in the underground part of the Property.</p>	<p>Additionally, the Property generates income from parking. According to the information provided by the Company, as of the date of valuation the parking fees (per space) charged from the visitors of AFI MALL using the parking and from tenants who rents parking lots.</p>
<p>Ozerkovskaya III</p>	<p>The subject property is located at 22-24, Ozerkovskaya Embankment, Moscow. The Property is Phase III of large multi-functional complex 'Aquamarine'.</p> <p>The Property comprises Class A office premises with underground parking with a gross building area of 61,579 sq. m, located on a site of 1.4474 hectares.</p> <p>The property comprises three office blocks with a net lettable area of 46,247 sq. m. Two stylobate underground levels are provided for 466 car parking spaces. The blocks are located along the edge of the site and form an internal yard.</p> <p>The property belongs to Central Business District and is located at 22-24 Ozerkovskaya Embankment, in one of the most developed business districts in Moscow known as 'Zamoskvorechye', within the Central Administrative District. The nearest metro stations are Paveletskaya and Novokuznetskaya, both of which are within a 10 minute walk.</p> <p>The Property is located in the city centre and thus transport access is usually restricted by heavy traffic. The site has good pedestrian accessibility from Tverskaya, Novokuznetskaya and Paveletskaya stations, as it is located in the area directly between the metro stations (~700-800 meters from each metro). The nearest bus stops are located within five minutes' walk.</p>	<p>The Property is situated on the land plot with an area of 1.4474 ha held by Krown on the basis of a long leasehold interest expiring 15 June 2046. The permitted use of the land plot is the construction of office and administrative multi-use complex.</p> <p>Krown is 100% owned by the Company.</p> <p>780 sq. m of office premises are leased to one tenant, while the rest of the GLA of the Property is currently vacant. Thus, the property is 98.3% vacant.</p>

## 6. SUMMARY OF THE TRANSACTION DOCUMENTS

The following is a summary of the principle terms of the Transaction Documents which have been agreed between the Bank and the Company. As set out in Section 1 (Letter from the Senior Independent Non-executive Director) and Section 2 (Risk Factors), the Transaction Documents will only be entered into if Shareholders approve the Resolutions at the General Meeting.

### **The Settlement Deed**

The Settlement Deed provides that, upon Completion (which, because the Disposal is a class 1 transaction, is subject to the approval of the Shareholders), the Bank will, for and on behalf of itself and its affiliates (including at the effective time of the release, Bellgate, Krown and Semprex), irrevocably release and discharge the Company and its affiliates (including AFI RUS LLC and AFI D Finance SA) from their present and future obligations under, and any liability and claims in relation to the Suretyship Agreements (the “**Release**”).

Additionally, under the terms of the Settlement Deed, the Bank has agreed not to take any future actions, claims or proceedings that the Bank or its affiliate/es may bring against the Company for those matters subject to the Release, otherwise than in connection with any breach of the terms of the Release.

### **Structure of the Disposal**

In connection with and in exchange for the Release provided under the Settlement Deed, the Disposal will be effected pursuant to the following three individual Share Purchase Agreements:

- (a) the Bellgate SPA pursuant to which the Seller (being AFI Development) will transfer to the Purchaser 100 per cent. of the shares in Bellgate, the company through which AFIMALL City Shopping Centre is held;
- (b) the Krown SPA pursuant to which the Seller (being AFI Development) will transfer to the Purchaser 100 per cent. of the participation interest in Krown, the company through which Ozerkovskaya III is held; and
- (c) the Semprex SPA pursuant to which the Seller (being AFI Development Hotels Ltd.) will transfer to the Purchaser 100 per cent. of the participation interest in Semprex, the company through which the Aquamarine Hotel is held.

As Russian law governed documents, the Krown SPA and the Semprex SPA are not capable of being conditional agreements (unlike the English law governed Bellgate SPA) and the participation interest transfers thereunder shall take place immediately upon their execution and notarisation in front of a Russian notary, therefore these agreements will only be entered into at Completion once the Conditions are satisfied.

### **Conditions to Completion**

Completion is subject to the Conditions, and to obtaining approval of the Shareholders at the General Meeting.

### **Consideration**

#### *Krown SPA*

The cash consideration for the participation interest to be transferred under the Krown SPA is a nominal cash sum of 10,000 Russian Rubles.

#### *Semprex SPA*

The cash consideration for the participation interest to be transferred under the Semprex SPA is a nominal cash sum of 10,000 Russian Rubles.

#### Bellgate SPA

The payment of a nominal cash sum of \$1 by the Purchaser to the Company together with the settlement, release and discharge of the Company by the Bank under the Settlement Deed (effective only at Completion) is effective consideration for the sale by the Company and the purchase by the Purchaser of the shares under the Bellgate SPA.

The Properties are the minimum group of assets that the Bank is willing to accept in consideration for releasing the Loans. The total amount outstanding under the Loans, as at 14 July 2016 (being the latest practicable date prior to the date of this document), was US\$619.1 million, which is US\$249.6 million less than the Properties' valuation as at 30 June 2016.

### **Warranties and indemnities under the Transaction Documents**

#### Settlement Deed

The Settlement Deed contains warranties given by the Seller in favour of the Purchaser that are customary for a transaction of this nature. The warranties given by the Company relate to the following: the Seller's title to the shares in the Companies and capitalisation of the Companies; the authority, capacity and solvency of the Companies and the Seller; the absence of interested party transactions between the Companies and the Group; compliance with laws; matters related to real estate (including title to the Properties); the tenant lease agreements related to the Properties; litigation status; assets; trading position; contractual arrangements; intellectual property; absence of employees and employee claims; insurance; environmental status and impact; accounts and position since the last accounts date of the Companies; financial indebtedness; certain intra-group financial arrangements made prior to the Disposal to prepare for the Disposal of the Companies; and tax status. The Settlement Deed provides that these warranties may be claimed on an indemnity basis.

The Settlement Deed also contains certain warranties given by the Purchaser in favour of the Seller. Such warranties relate to the authority, capacity and solvency of the Purchaser.

#### Bellgate SPA

The Bellgate SPA provides that the same warranties given in the Settlement Deed in respect of Bellgate are also given under the Bellgate SPA.

#### Semprex SPA

The Semprex SPA contains certain basic warranties given in favour of the Purchaser, which relate to the authority and capacity of the Seller and requisite approvals of the managing body of the Seller.

### Krown SPA

The Krown SPA contains certain basic warranties in favour of the Purchaser, which relate to the authority and capacity of the Seller and requisite approvals of the managing bodies of the Seller.

### Limitations on liabilities

The Share Purchase Agreements and the Settlement Deed provide, when taken together, for customary limitations on liability in relation to the warranties and indemnities set out above, including a maximum cap for all claims of US\$650 million and the following maximum aggregate financial caps on the Company's liability in relation to the following types of claims (which for the avoidance of doubt, are subject to, and not in addition to the overall financial cap of US\$650 million):

- for any indemnity claims related to the authority and capacity of the relevant seller to enter into the transaction and its title to shares/participation interest in Bellgate, Krown and Semprex and the Properties, the maximum aggregate financial cap for all such claims is US\$650 million;
- for any indemnity claims related to the tax status of Bellgate, Krown and Semprex, the maximum aggregate financial cap for all such claims is US\$2.5 million; and
- for any indemnity claims related to the financial indebtedness of Bellgate, Krown and Semprex, the maximum aggregate financial cap for all such claims is US\$5 million.

In addition, VTB is, following Completion, to undertake legal, tax and technical due diligence on the Properties. If a material deficiency is discovered by the Bank, the Company is required to remedy the deficiency or, failing which, to pay the Bank an amount equal to the costs of remedying the deficiency up to a maximum aggregate financial cap of US\$2.5 million.

The agreed liability caps referred to above are included in the English Law Governed Transaction Documents and the liability caps relate to claims brought under the Settlement Deed and all three Share Purchase Agreements with customary provisions on there being no double recovery based on parallel causes of actions arising between the Transaction Documents

The Russian Law Governed SPAs do not include any reference to the liability caps. The reasons for not including the liability caps in the Russian Law Governed SPAs are that (i) this could result in a notary not being willing to notarise the Russian Law Governed SPAs and (ii) the liability caps are for the entire deal and cannot be broken down by target entity.

A possible risk of not including limits of liability in the Russian Law Governed SPAs is that a claim may be brought in the Russian court and a Russian court awarding damages without regard to any such limits. The Company would then be required to (or could simultaneously) bring a counterclaim under the Settlement Deed / Bellgate SPA in England arguing for the limits of liability to be applied. This could, therefore, lead to a mismatch in outcome in different judgements. The Board considers the risk of such an event arising to be low.

### Governing Law

The Settlement Deed and the Bellgate SPA are governed by English law with all disputes to be resolved by arbitration under the LCIA Rules, while the Krown SPA and the Semprex SPA are governed by the laws of the Russian Federation and will be concluded in notarial form and certified by a Russian notary.

## 7. OTHER INFORMATION

### 1. Responsibility

The Company and the Directors of the Company, whose names appear in paragraph 3 of this Section 7, accept responsibility for the information contained in this document. To the best of the knowledge and belief of the Company and the Directors of the Company (who have taken all reasonable care to ensure that such is the case) the information contained in this document is in accordance with the facts and does not omit anything likely to affect the import of such information.

### 2. The Company

The Company is a real estate development company operating in the Russian Federation. Established in Cyprus on 13 February 2001 as a limited liability company under the name Donkamill Holdings Limited, it changed its name to AFI Development Plc in April 2007. The Company is a publicly traded subsidiary of Africa Israel.

The Company has been admitted to trading on the main market of the London Stock Exchange since 11 May 2007 and aims to deliver Shareholder value through a commitment to innovation and continuous project development, coupled with the highest standards of design, construction and quality of customer service. In 2010, AFI Development obtained a listing on the premium segment of the Official List in respect of its B ordinary shares, becoming the first public development company operating in Russia to attain this distinctive listing status.

The address of the Company's registered office is 165 Spyrou Araouzou Street, Lordos Waterfront Building, 5th floor, Office 505, 3035 Limassol, Cyprus.

The Company 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. The Company's strategy is to sell the residential properties it develops and to either lease the commercial properties or sell them for a favourable return.

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

### 3. Directors

Mr Lev Leviev

*Executive Chairman*

Mr Avraham Novogrocki

*Non-Executive Director*

Mr Panayiotis Demetriou

*Senior Independent Non-Executive Director*

Mr Moshe Amit

*Independent Non-Executive Director*

#### 4. Directors' interests

As at 14 July 2016 (being the last practicable date prior to the publication of this document), none of the Directors hold any interests in the Company's Shares. It is noted that Mr Leviev holds a 48.13 per cent. stake in Africa Israel, the Company's controlling shareholder, and also serves as its Chairman. Further details of the Company's significant shareholders are set out in paragraph 6 below.

As at 14 July 2016 (being the last practicable date prior to the publication of this document) Mr Leviev holds the following options over ordinary shares:

<u>Director</u>	<u>Options/Rights</u>	<u>Scheme</u>	<u>Final exercise/ Release date</u>	<u>Exercise price</u>
Mr Lev Leviev	Option over 31,430,822 B ordinary shares	Employee option plan	22 November 2016	US\$0.5667

#### 5. Directors' letters of appointment

The following are summary particulars of the existing service agreements and letters of appointment of the Directors of the Company:

- (a) Mr Lev Leviev signed a letter of appointment with the Company dated 22 November 2012 pursuant to which he is appointed as Executive Chairman of the Company and is entitled to a monthly salary of US\$100,000. His appointment may be terminated at any time by either party giving the other three months' prior written notice. Mr Leviev's appointment may be terminated by the Company with immediate effect under certain circumstances set out in the letter of appointment, including a breach of his obligations under the provisions of the letter of appointment. The Company may, at its sole and absolute discretion, elect to terminate Mr Leviev's appointment at any time and with immediate effect by making a payment in lieu of the notice period (or, if applicable, the remainder of the notice period) equivalent to the monthly salary at the date of termination. The Company is required to reimburse Mr Leviev for all reasonable and properly documented expenses incurred in performance of his duties.

Mr Leviev participates in an employee option plan described more fully at paragraph 4 of this Section 7. Mr Leviev is also entitled to participate in a discretionary cash bonus scheme, and Directors & Officers liability insurance ("**D&O Insurance**").

It is noted that Mr Leviev holds a 48.13 per cent. stake in Africa Israel, the Company's controlling shareholder and also serves as its Chairman.

- (b) Each of Mr Panayiotis Demetriou and Mr Moshe Amit signed a separate letter of appointment with the Company pursuant to which they were appointed as Non-executive Directors for a term of three years from 19 August 2014.

Under the terms of their appointment, Mr Demetriou and Mr Amit are entitled to an annual salary of US\$40,000. In addition, each of the Non-executive Directors is entitled to receive the following additional fees for attending board meetings:

- US\$2,800 in respect of each physical Board meeting;
- US\$1,400 in respect of each physical Board meeting he attends via teleconference or any other electronic means of communication; and

- US\$800 in respect of each Board meeting which takes place by means of teleconference or other means of electronic communication,

however, such amounts will not in aggregate exceed US\$100,000 per annum (subject to income tax and statutory deductions) for each Non-executive director. The Company is required to reimburse the Non-executive Directors for expenses reasonably incurred in the proper performance of their duties.

The appointments may be terminated at any time by either party giving the other one month's prior written notice. Under certain circumstances set out in the letters of appointment, such as fraud or neglect, a Non-executive Director's appointment may be terminated by the Company with immediate effect.

Where a non-executive Director's appointment is terminated due to (i) gross misconduct, (ii) a material breach of his obligations under the service agreement, (iii) an act of fraud or dishonesty, or (iv) wilful neglect of his duties, the non-executive director will not be entitled to remuneration in respect of the period between the beginning of the quarter in which termination took place and the termination date.

Where the Non-executive Director's appointment is terminated for any reason other than those set out above he will be paid a pro rated amount in respect of the period between the beginning of the quarter in which the termination took place and the termination date. Each of Mr Demetriou and Mr Amit is entitled to D&O Insurance.

- (c) Mr Avraham Novogrocki signed a separate letter of appointment with the Company pursuant to which he was appointed as Non-executive Director for an initial term of three years from 19 August 2014. Under the terms of the service agreement, Mr Novogrocki is entitled to be reimbursed for reasonable expenses properly incurred arising from the performance of his duties. He is also entitled to D&O Insurance.

The appointment may be terminated at any time by either party giving the other one month's prior written notice. Under certain circumstances set out in the letter of appointment, such as a breach of his obligations, Mr Novogrocki's appointment may be terminated by the Company with immediate effect. Where Mr Novogrocki's appointment is terminated due to (i) gross misconduct, (ii) a material breach of his obligations under the service agreement, (iii) an act of fraud or dishonesty, or (iv) wilful neglect of his duties, he will not be entitled to remuneration in respect of the period between the beginning of the quarter in which termination took place and the termination date.

There are no existing or proposed service agreements between any Director and the Company or any of its subsidiaries with a notice period of one year or more or providing benefits upon termination of employment.

## **6. Significant Shareholdings**

As far as the Company is aware by reference to notification made pursuant to Chapter 5 of the Disclosure and Transparency Rules, as at 14 July 2016 (being the latest practicable date prior to the publication of this document), the notifiable holdings of voting rights in respect of the issued share capital of the Company were as follows:

<u>Shareholder</u>	<u>Number of A ordinary shares</u>	<u>Number B ordinary shares</u>	<u>Number of Depository Interests (issued over B ordinary shares)</u>	<u>Number of Global Depository Receipts (issued over A ordinary shares)</u>	<u>% voting rights</u>
Africa Israel	2 (non- tradable)	2 (non- tradable)	342,799,658	336,948,796	64.88%

AFI Development has a controlling shareholder, Africa Israel, which has a 64.88 per cent. interest in AFI Development as set out in the table above. It should be noted that most of Africa Israel's holdings in the tradable securities of the Company (the "**Securities**") are currently pledged in favour of its bondholders in Israel and held in trust by a trustee ("**Trustee**"). The Trustee appointed Africa Israel as its true and lawful attorney with full power and authority in its name or otherwise and on its behalf to exercise all rights, powers and privileges, either acting alone or jointly, in relation to the Securities as Africa Israel may in its absolute discretion deem fit, including: (1) to receive notice of, attend and vote at any general meeting of the shareholders of AFI Development, including meetings of the members of any particular class of shareholder, and any adjournment of such meeting; and (2) to approve, complete or otherwise execute and return any proxy cards, consent to short notice, requisition of meeting, written resolution or other document required to be, or capable of being, signed by the holder of the Securities, all, in accordance with the terms of the proxy granted to Africa Israel by the Trustee (the "**Proxy**"). The Proxy may be terminated by the Trustee either in the event that there occurs a default under the terms of the bonds held by the bondholders which makes them subject to immediate repayment or if an AFI Development shareholders meeting is convened to vote on a resolution which may be detrimental to the value of the pledged Securities and if it was resolved by the general meeting of the bondholders to cancel the Proxy. Consequently, Africa Israel has no reason to believe that the Proxy will be revoked.

The Company's Executive Chairman, Mr Lev Leviev holds a 48.13 per cent. stake in Africa Israel and also serves as its Chairman.

Additionally, Mr Novogrocki, a Non-executive Director of the Company, is the Chief Executive Officer of Africa Israel.

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

The Board is satisfied that the Company and the controlling shareholder and any of its associates have complied with the independence provisions in the Relationship Agreement.

## **7. Material contracts of the Company**

The following are the only contracts (not being contracts entered into in the ordinary course of business) which have been entered into by members of the Group in the two years immediately preceding the date of this document and which are, or may be, material or which have been entered into at any time by any member of the Group and which contain any provision under which any member of the Group has any obligation or entitlement which is, or may be, material to the Group as at the date of this document.



### Acquisition and disposal of a building on Sadovo-Samotechnaya St., Moscow

Botanic Garden is a mixed-use development project containing residential, commercial and parking premises (the “**Botanic Garden Project**”). The initial main investor in the Botanic Garden Project was NKM (a municipal legal entity owned by the City of Moscow). In Q2 2012, the Botanic Garden Project was written off from the Company’s books following the insolvency of NKM. In order to secure the development rights and restore the Botanic Garden Project on its balance sheet, NKM was required to be legally liquidated. In order to speed up this liquidation process, ZAO “Moskovsky tkatsko-otdelochny kombina” (“**MTOK**”), a subsidiary of the Company, purchased NKM’s only real estate asset, an office building totalling 720.1m<sup>2</sup> at 16 Sadovo-Samotechnaya St, bldg. 3 Moscow (the “**Building**”). MTOK purchased the Building from NKM on 18 July 2014 for RUB86,747,916 including VAT (approximately US\$2.5 million). Part of this consideration was recovered by Nordservice LLC, a subsidiary of the Company and one of NKM’s creditors. Following this acquisition, NKM was liquidated in October 2014, and in Q4 2014, the Botanic Garden Project was restored to the Company’s books. MTOK sold the Building to three individual entrepreneurs: Ms. N.A. Kamyshnikova (2/5 ownership share), Ms. S.S. Shagidyavichene (2/5 ownership share) and Mr. A.A. Rudoy (1/5 ownership share). These individual entrepreneurs purchased the Building from MTOK on 7 April 2016 for RUB86,000,000 including VAT (approximately US\$1.3 million).

### Bioka 10 per cent. share acquisition

In connection with the Botanic Garden Project, the Company acquired a 10 per cent. interest in Bioka Investments Limited (“**Bioka**”) on 19 August 2015 for a consideration price of US\$1.6million, having already held 90 per cent. of Bioka’s issued share capital. Bioka is a Cypriot holding company which held 100 per cent. of the issued share capital of Nordservice LLC which has the development rights to the Botanic Garden Project. On 16 June 2016 Bioka sold its 100 per cent. interest in the issued share capital of Nordservice LLC to Monosol Limited (a subsidiary of the Company), through an intra-group transfer.

## **8. Material contracts of Bellgate, Krown and Semprex**

On 26 January 2015, Krown, signed an addendum to the Ozerkovskaya III Loan Facility, extending the term of the loan to 26 January 2018. In addition to extending the term of the loan, the new addendum amended the payment schedule and interest rate conditions of the loan agreement and introduced new covenants. In line with the addendum, on 26 January 2015 Krown paid US\$10 million to the Bank as partial repayment of the outstanding loan amount, thus reducing the total to US\$195 million. The Ozerkovskaya III Loan Facility and the Krown Covenants are further described in Section 1 (Letter from the Senior Independent Non-executive Director).

Details of the Transaction Documents are set out in Section 1 (Letter from the Senior Independent Non-executive Director) and Section 6 (Summary of the Transaction Documents) of this document.

Save as disclosed in paragraph 7 above and this paragraph 8, there are no contracts (other than contracts entered into in the ordinary course of business) which have been entered into by the Company, Bellgate, Krown and Semprex (i) within the two years immediately preceding the date of this documents which are, or may be material or (ii) which contain any provision under which any member of the Group has any obligation or entitlement which is material to the Group as at the date of this document.

## **9. Related party transactions**

There were no related party transactions (as defined in the Listing Rules) in the financial years ended 31 December 2013, 31 December 2014 or 31 December 2015 or in the period since 31 December 2015.

## 10. Litigation

### Stavropol

In March 2016, the vice-state prosecutor of the Stavropol Region (“**Stavropol**”) filed a claim with the Stavropol Arbitrazh Court against Sanatory Plaza Spa LLC (“**Sanatory Plaza**”). Under the claim (amended in May 2016), Stavropol is seeking to revoke Sanatory Plaza’s freehold title over a land plot of 0.622hectares in Kislovodsk (a city in the Stavropol Region) (the “**Land**”). The Company purchased the Land in 2006 with the intention of renovating and developing the site into a hotel (the “**Versailles Project**”). Stavropol claims that the Land is the property of the Russian Federation, could not have been privatised, and therefore the freehold title purchased by the Company is invalid. The Company is arguing that the Land historically did not belong to the Russian Federation, that the Company is the bona fide purchaser and owner of the Land and that, in any event, the statute of limitation to bring such a claim has expired. At the time of publication of this document, the Company is not able to make any assessment on the chances of success of Stavropol’s claim, however, it believes that since Sanatory Plaza is the owner of the building and such ownership title is not subject to challenge, then even if the Arbitrazh Court accepts the claim and Sanatory Plaza’s freehold title to the Land is revoked, Sanatory Plaza shall have a right, by operation of law, to be entitled to lease the Land from the Russian Federation. It should be noted that the Versailles Project has been frozen since approximately 2009 and is currently written-off from the Company’s books. The Board believes that the outcome this piece of litigation will have an insignificant impact on the financial position and profitability of the Group.

### GUP “Tsentri-City”

In December 2011, Bellgate entered into a purchase agreement with GUP “Tsentri-City”, a municipal legal entity (hereinafter referred to as “**TC**”) whereby Bellgate acquired the underground parking space under the AFIMALL City Shopping Centre from TC. At the time the acquisition occurred, the underground parking space was still under construction. Under the terms of the purchase agreement between Bellgate and TC, Bellgate was required to transfer certain areas of the underground parking, (the “**Premises**”) back to TC following completion of construction of the AFIMALL City Shopping Centre. Upon completion of the construction of the AFIMALL City Shopping Centre, Bellgate and TC entered into negotiations to amend the list of Premises as set out in the purchase agreement, as some of the Premises contained engineering equipment that served both the AFIMALL City Shopping Centre and the general MIBC area (the “**Shared Premises**”). According to Bellgate, the transfer of the Shared Premises to TC may result in Bellgate losing control over some of the engineering equipment belonging to and required by the AFIMALL City Shopping Centre. Negotiations between Bellgate and TC continued through 2015. At the end of 2015, Bellgate transferred to TC the undisputed Premises and proposed that the Shared Premises be jointly owned by Bellgate and TC, with Bellgate paying to TC an agreed amount in compensation equivalent to the market value of the Shared Premises (estimated to be approximately US\$50,000) (the “**Proposal**”). However, no agreement on the Proposal has been reached, and on 10 March 2016 TC filed a claim at the Moscow Arbitrazh Court against the Company for breach of contract and seeking an order for specific performance. Bellgate expects that the Moscow Court will accept the Proposal, and estimates that the amount of compensation Bellgate will be required to pay to TC will not exceed US\$50,000. In June 2016, the parties started to negotiate an amicable settlement of the claim.

### Bellgate property tax dispute

According to Article 4 Section 9 of the Law of Moscow of 05.11.2003 No. 64 regarding property tax, certain multi-level parking complexes, including the parking area located underneath the AFIMALL City Shopping Centre, are entitled to a property tax exemption (the “**Tax Break**”). However, according to the decisions issued by Tax Inspection No.47 of the Federal Tax Service of the Russian Federation (the “**Tax Inspection**”) dated 18 March 2015, No. 1346 dated 27 April 2015, No.1364 dated 27 April 2015, and No. 1363 dated 27 April 2015, Bellgate was not entitled to benefit from the Tax Break for the years 2012-2014 and onwards. The Tax Inspection took the view that the Tax Break was only

applicable to parking complexes that are independent units of real estate used to store Moscow residents' personal vehicles.

In August 2015, Bellgate filed three claims against the decisions of the Tax Inspection Nos. 1346, 1363 and 1364 with the Moscow Arbitrazh Court. Bellgate argued that the intended use of the AFIMALL City Shopping Centre underground parking area was as common parking for MIBC "Moscow City", that the parking area is part of the "Central Core" of Moscow City and is in fact accessible to the public. On 28 January 2016, the Moscow Arbitrazh Court found that Bellgate was entitled to apply the Tax Break in respect of the parking area underneath the AFIMALL City Shopping Centre. Following the decision of the Moscow Arbitrazh Court, Bellgate received RUB217.8 million (approximately US\$3.35 million) in respect of overpaid tax for the period of 2012-2015 and tax benefits for Q4 2015.

It should be noted that the Tax Break was abolished by the Moscow Duma as from 1 January 2016.

Except as disclosed above, there are no governmental, legal or arbitration proceedings nor, so far as the Company is aware, are any such proceedings pending or threatened which may have, or have had during the period of 12 months preceding the date of this document, a significant effect on the financial position or profitability of the Group or of the Company, Bellgate, Krown or Semprex.

#### **11. Working Capital**

The Company is of the opinion that, following the Disposal, the Group has sufficient working capital for its present requirements, that is, for at least 12 months from the date of this document.

#### **12. Significant Change**

Save as disclosed below, there has been no significant change in the financial or trading position of the Group since 31 March 2016, being the date to which the Group's most recently published unaudited financial statements have been prepared:

- Since 31 March 2016, the Company continued delivery of Building 1 of Odinburg, resulting in the associated revenues and expenses being recognised in Q2 2016.

There has been no significant change in the financial or trading position of Semprex, Bellgate or Krown since 31 March 2016, being the date to which the latest unaudited financial statements of the Group were prepared.

There has been no significant change in the value of the AFIMALL City Shopping Centre or Ozerkovskaya III since 30 June 2016, being the valuation date as set out in the Valuation Report.

#### **13. Consents**

KPMG LLP has given and has not withdrawn its written consent to the inclusion in this document of its report in the form and context in which it appears.

JLL has given and has not withdrawn its written consent to the issue of this document with the inclusion in it of its Valuation Report and the references to such Valuation Report and to itself in the form and context in which they respectively appear.

**14. Documents available for inspection**

Copies of the following documents may be inspected at the offices of Fuamari Secretarial Limited at 6 Spyrou Kyprianou Av, 3070 Limassol Cyprus during usual business hours on any weekday (excluding Saturdays, Sundays and public holidays) until the conclusion of the General Meeting:

- (a) the Transaction Documents;
- (b) the report by KPMG LLP on the unaudited pro forma statement of net assets set out in Section 4 (Pro Forma Statement of Net Assets) of this document;
- (c) the Valuation Report as set out in Section 5 (Valuation Report) of this document;
- (d) the service agreements and letters of appointment referred to in paragraph 5 above of this Section 7;
- (e) the written consent letters referred to in paragraph 13 above of this Section 7; and
- (f) this document.

15 July 2016

## 8. DEFINITIONS

The following definitions apply throughout this document, unless the context requires otherwise:

<b>A ordinary shares</b>	the A ordinary shares with nominal value of US\$0.001 in the share capital of the Company having the rights and being subject to the restrictions attaching to the shares named in the Articles
<b>Africa Israel</b>	Africa Israel Investments Ltd., the Company's controlling shareholder
<b>AFI Development or the Company</b>	AFI Development Plc
<b>AFI Bellgate Suretyship</b>	the suretyship from the Company against which the AFIMALL City Loan Facility is secured
<b>AFI Krown Suretyship</b>	the suretyship from the Company against which the Ozerkovskaya III Loan Facility is secured
<b>AFI Paveletskaya II (Paveletskaya II)</b>	a mixed-use development project with a gross building area (GBA) of 133,510m <sup>2</sup> on part of a land plot (cadastral #77:05:0001002:5) with a total area of 54,683m <sup>2</sup> located at 8, Paveletskaya embankment, Moscow, Russia
<b>AFIMALL City Loan Facility</b>	the loan facility agreement between Bellgate and VTB dated 22 June 2012, the purpose of which is to refinance the construction costs related to the AFIMALL City Shopping Centre
<b>AFIMALL City Shopping Centre</b>	a shopping and entertainment centre in the business district of Moscow described more fully in Schedule 1 to Section 0 (Valuation Report)
<b>Articles</b>	the Company's Articles of Association
<b>Aquamarine Hotel</b>	a modern 4-star hotel, located in the Aquamarine III complex
<b>The Bank or VTB</b>	VTB Bank PJSC
<b>B ordinary shares</b>	the B ordinary shares with nominal value of US\$0.001 in the share capital of the Company having the rights and being subject to the restrictions attaching to the shares named in the Articles
<b>Bellgate</b>	Bellgate Constructions Ltd, a wholly owned subsidiary of the Company
<b>Bellgate SPA</b>	the share purchase agreement through which the Company will transfer 100 per cent. of its shares in

	Bellgate, the Company through which AFIMALL City Shopping Centre is held
<b>Berezhkovskaya</b>	an office centre operating under the name “Riverside Station Business Centre” with the total area of 11,612.2 sq. m located at the address: bld. 2, 3, 5 16A, Berezhkovskaya Embankment, Moscow
<b>Board</b>	the directors of the Company as at the date of this document, whose names are set out on page 6 of this document
<b>Bolshaya Pochtovaya</b>	a development site (consisting of 5 land plots in the cadastral block #77:01:03027) with a total area of 56,544.7m <sup>2</sup> intended for a proposed mixed-use development scheme extending to a gross building area (GBA) of 170,350m <sup>2</sup> , including GBA of residential space of 67,800m <sup>2</sup> and GBA of commercial space (offices and retail) of 39,150m <sup>2</sup> , and underground parking. The subject property is located at 24, 30, 34 Bolshaya Pochtovaya Str., Moscow
<b>Botanic Garden</b>	a residential development project with a total construction area of 273,757m <sup>2</sup> located on the land plot with a total area of 32,000m <sup>2</sup> (cadastral number 77:02:0015008:046), located at: Sebebryakova Proezd, 11-13, Moscow
<b>Building 1</b>	Residential building located at 5/4, Severnaya Street, Odintsovo, Moscow Region
<b>Building 2</b>	Residential building under construction located at properties 33, 35 Severnaya Street, Odintsovo, Moscow Region
<b>CIS</b>	Commonwealth of Independent States
<b>Companies</b>	Krown, Bellgate and Semprex
<b>Companies Act</b>	the Companies Act 2006, as amended from time to time
<b>Completion</b>	Completion of the Disposal following the transfer of the shares under the Bellgate SPA to the Purchaser and the registration of the transfer of the participation interest under the Russian Law Governed SPAs to the Purchaser, expected to occur on or before the end of September 2016
<b>Conditions</b>	the conditions for the Disposal in the Settlement Deed including (i) obtaining certain corporate approvals; and (ii) obtaining certain approvals from Russian regulators customarily required in respect of transactions such as this Disposal; and (iii) there having been no breach of warranty, event of default or material adverse change between signing of the English Law Governed Transaction Documents and Completion

<b>CREST</b>	the system for the paperless settlement of trades in securities and the holding of uncertificated securities in accordance with the CREST Regulations
<b>CREST Manual</b>	the rules governing the operation of CREST as published by Euroclear
<b>CREST Member</b>	a person who has been admitted to Euroclear as a system member (as defined in the CREST Regulations)
<b>CREST Regulations</b>	the Uncertificated Securities Regulations 2001 (SI 2001 No. 3755), as amended from time to time
<b>CREST Sponsor</b>	a CREST participant admitted to CREST as a CREST sponsor
<b>Depository</b>	Capita IRG Trustees Limited
<b>Depository Interests</b>	the depository interests representing shares issued by the Depository held in electronic form in CREST.
<b>Directors</b>	the directors of the Company as at the date of this document, whose names are set out on page 6 of this document
<b>Disclosure and Transparency Rules</b>	the Disclosure and Transparency Rules of the FCA
<b>Disposal</b>	the transaction to be consummated pursuant to the Share Purchase Agreements and Settlement Deed and agreements entered into in connection with the Share Purchase Agreements and Settlement Deed
<b>DSCR</b>	debt service coverage ratio
<b>EBITDA</b>	earnings before interest, taxes, depreciation and amortisation
<b>EEST</b>	Eastern European Summer Time
<b>English Law Governed Transaction Documents</b>	the Settlement Deed and the Bellgate SPA
<b>Euroclear</b>	Euroclear UK & Ireland Limited, the operator of CREST
<b>European Union</b>	an economic and political union of 28 member states which are located primarily in Europe
<b>FCA</b>	the Financial Conduct Authority acting in its capacity as competent authority for the purposes of Part VII of FSMA
<b>Form of Direction</b>	the form of direction received by holders of Depository Interests for use in connection with the General Meeting
<b>Form of Proxy</b>	the form of proxy in respect of the A ordinary shares and B ordinary shares as applicable, received by Shareholders

and accompanying this document for use in connection with the General Meeting

<b>FSMA</b>	Financial Services and Markets Act 2000, as amended
<b>General Meeting</b>	the general meeting of the Company to be held at 10.00 a.m. EEST on 1 August 2016 at the offices of Fuamari Secretarial Limited at 6 Spyrou Kyprianou Av, 3070 Limassol Cyprus, notice of which accompanies this document, and including any adjournment thereof
<b>Group</b>	the Company and its subsidiaries and its subsidiary undertakings
<b>Guarantee</b>	the potential guarantee between the Company's Executive Chairman Mr Lev Leviev and the Bank in respect of the Company's obligations under the Ozerkovskaya III Loan Facility
<b>H2O</b>	Class B- office building with a gross building area (GBA) of 10,079.7m <sup>2</sup> located at: 8 Paveletskaya Emb., bld. 6 Moscow, Russia
<b>IFRS</b>	International Financial Reporting Standards maintained by the International Accounting Standards Board and which are in force from time to time, as adopted by the European Union
<b>JLL</b>	Jones Lang LaSalle LLC
<b>Krown</b>	Krown Investment LLC, a wholly owned subsidiary of the Company
<b>Krown Covenants</b>	the LTV and DSCR financial covenants introduced into the Ozerkovskaya III Loan Facility on 26 January 2015
<b>Krown SPA</b>	the share purchase agreement pursuant to which the Company will transfer 100 per cent. of the participation interest in Krown, the Company through which Ozerkovskaya III is held
<b>LCIA Rules</b>	the rules of the London Court of International Arbitration effective as of 1 October 2014
<b>Letter of Intent</b>	the letter of intent dated 12 July 2016 provided by Africa Israel
<b>Listing Rules</b>	the listing rules made by the UKLA for the purposes of Part VI of FSMA, as amended from time to time
<b>Loan Facility Agreements</b>	the AFIMALL City Loan Facility and the Ozerkovskaya III Loan Facility



<b>Loans</b>	the current outstanding balance under the Loan Facility Agreements
<b>London Stock Exchange</b>	London Stock Exchange plc
<b>LTV</b>	loan to value
<b>Market Value</b>	the estimated amount for which an asset or liability should exchange on the valuation date between a willing buyer and a willing seller in an arm's length transaction, after proper marketing and where the parties had each acted knowledgeably, prudently and without compulsion (International Valuation Standards Framework paragraph 29)
<b>Notice</b>	the notice set out at the end of this document convening the General Meeting to be held for the purpose of considering and, if thought fit, passing the Resolutions
<b>Official List</b>	Official List of the UKLA
<b>Nordservice</b>	Nordservice LLC, a wholly owned subsidiary of the Company
<b>Ozerkovskaya III</b>	a completed Class A office complex in Moscow described more fully in Schedule 1 to Section 0 (Valuation Report)
<b>Ozerkovskaya III Loan Facility</b>	the loan facility between Krown and VTB dated 25 January 2013 for the purpose of refinancing the construction costs of the Ozerkovskaya III project.
<b>Paveletskaya I</b>	a reconstructed Class B- office building with the total area of 16,246m <sup>2</sup> located at: 8 Paveletskaya Emb., bld. 1 Moscow, Russia
<b>Plaza Spa Kislovodsk</b>	a 4 star 275 keys resort-hotel with gross building area of 25,000m <sup>2</sup> , SPA centre, aquapark and retail zone, located at 26-28, Lenina Prospect, Kislovodsk, Stavropol Region, Russia
<b>Plaza Spa Zheleznovodsk</b>	fully reconstructed 134 keys resort/sanatorium complex with 1 restaurant, 1 lobby-bar, 30m <sup>2</sup> of conference space, an extensive medical/spa facility (2,246m <sup>2</sup> ) and an indoor swimming pool, located at 12-14, Kalinina Prospect, Zheleznovodsk, Stavropol Region, Russia
<b>Pro Forma</b>	the pro forma statement of net assets showing the effect of the Disposal on the Group, as set out in Section 4 (Pro Forma Statement of Net Assets) of this document

<b>Properties</b>	the properties to be transferred in accordance with the terms of the Disposal being: <ul style="list-style-type: none"> <li>(a) AFIMALL City Shopping Centre;</li> <li>(b) Ozerkovskaya III; and</li> <li>(c) the Aquamarine Hotel</li> </ul>
<b>Prospectus Rules</b>	the prospectus rules made by the FCA under section 73A of FSMA
<b>Purchaser</b>	the purchaser under the Share Purchase Agreements, being a VTB entity
<b>RCB</b>	Russian Commercial Bank (Cyprus) Limited
<b>Red Book</b>	the RICS Appraisal and Valuation Standards, 5th edition
<b>Registrars</b>	Capita Asset Services
<b>Release</b>	the release and discharge of the Company and its affiliates (including AFI RUS LLC and AFI D Finance SA) from their present and future obligations under the Suretyship Agreements as set out in paragraph 4 of Section 1 (Letter from the Senior Independent Non-executive Director)
<b>Relationship Agreement</b>	the relationship agreement entered into between the Company and its controlling shareholder, Africa Israel on 16 September 2014
<b>Resolutions</b>	the ordinary Resolutions set out in the Notice at the end of this document
<b>Retained Group</b>	the Company and its subsidiaries and subsidiary undertakings from time to time (excluding, for the avoidance of doubt, Krown, Semprex and Bellgate) following Completion
<b>RICS Professional Standards</b>	RICS Valuation – Professional Standards, January 2014 edition – including the International Valuation Standards and the International Financial Reporting Standards on the basis of Fair Value defined by the International Accounting Standards Board
<b>Russian Law Governed SPAs</b>	the Semprex SPA and the Krown SPA
<b>Russian Federation or Russia</b>	the Russian Federation, its territories and dependencies
<b>Settlement Deed</b>	the agreement between the Company and VTB which sets out the terms of the Release
<b>Semprex</b>	Semprex LLC, a wholly owned subsidiary of the Company

<b>Semprex SPA</b>	the share purchase agreement pursuant to which AFI Development Hotels Ltd. will transfer to the Purchaser 100 per cent. of the participation interest in Semprex, the company through which the Aquamarine Hotel is held
<b>Seller</b>	the seller under Share Purchase Agreements
<b>Share Purchase Agreements</b>	the Krown SPA, the Bellgate SPA and the Semprex SPA
<b>Shareholder</b>	each shareholder of the Company holding an interest in A ordinary shares or B ordinary shares
<b>Shares</b>	A ordinary shares and B ordinary shares each of US\$0.001
<b>Suretyship Agreements</b>	the AFI Krown Suretyship and the AFI Bellgate Suretyship
<b>Transaction Documents</b>	the Share Purchase Agreements, the Settlement Deed and the other principal agreements being entered into in connection with the Share Purchase Agreements and Settlement Deed, further details of which are set out in Section 6 (Summary of the Transaction Documents) of this document
<b>United Kingdom or UK</b>	United Kingdom of Great Britain and Northern Ireland, its territories and dependencies
<b>United States of America or US</b>	the United States of America, its territories and possessions, any state of the United States of America and the District of Columbia
<b>UKLA</b>	the FCA acting in its capacity as the competent authority for the purposes of Part VI of FSMA
<b>Valuation Date</b>	30 June 2016, being the valuation date as set out in the Valuation Report
<b>Valuation Practice Statements</b>	The RICS practice statements set out in RICS Valuation – Professional Standards, January 2014 edition
<b>Valuation Report</b>	the valuation report as prepared by JLL and set out in Section 5 (Valuation Report)
<b>VAT</b>	means Value Added Tax

All references to legislation in this document are to the legislation of England and Wales unless the contrary is indicated. Any reference to any provision of any legislation shall include any amendment, modification, re-enactment or extension thereof.

For the purpose of this document, “**subsidiary**” and “**subsidiary undertaking**” shall have the meanings given by the Companies Act.

Words importing the singular shall include the plural and vice versa, and words importing the masculine gender shall include the feminine or neutral gender.

## 9. NOTICE OF THE GENERAL MEETING

Notice of the General Meeting of the Company to be held at the offices of Fuamari Secretarial Limited at 6 Spyrou Kyprianou Av, 3070 Limassol Cyprus on 1 August 2016 at 10.00 a.m. EEST is set out below.

Holders of A ordinary shares are requested to complete and return the Form of Proxy enclosed with this document as soon as possible but in any event, to be valid, so as to be received by the Company Secretary, Fuamari Secretarial Limited, no later than 10.00 a.m. EEST on 29 July 2016. Holders of B ordinary shares are requested to complete and return the Form of Proxy enclosed with this document as soon as possible but in any event, to be valid, so as to be received by the Company's Registrars, Capita Asset Services, no later than 10.00 a.m. UK time on 28 July 2016.

The return of the Form of Proxy will not preclude a member from attending and voting at the General Meeting in person should he or she subsequently decide to do so.

### AFI DEVELOPMENT PLC

(incorporated and registered in Cyprus under company number HE 118198)

### NOTICE OF GENERAL MEETING

**NOTICE IS HEREBY GIVEN** that the General Meeting of AFI Development Plc (the "**Company**") will be held at the offices of Fuamari Secretarial Limited at 6 Spyrou Kyprianou Av., 3070 Limassol Cyprus at 10.00 a.m. EEST on 1 August 2016 to consider and, if thought fit, pass the following resolutions, which will be proposed as ORDINARY RESOLUTIONS.

1. THAT the Disposal (as such term is defined and described in the circular containing the notice of the general meeting of the Company at which this resolution is to be proposed (the "**Circular**")) on the terms and subject to the conditions of, *inter alia*, the Transaction Documents (as such term is defined and described in the Circular) be and hereby is approved for the purposes of Chapter 10 of the Listing Rules of the FCA.
2. THAT the Board (as defined in the Circular) be and is hereby authorised to take all necessary or appropriate steps and to do all necessary or appropriate things to implement, complete or to procure the implementation or completion of the Disposal and give effect thereto with such variations and amendments to the terms and conditions thereof as the Board may approve and consider not to be material in the context of the Disposal and to do, approve and execute all other acts, things and documents necessary or, in the opinion of the Board, desirable, in order to effect or facilitate the Disposal.

By order of the Board

Fuamari Secretarial Limited  
Company Secretary  
AFI Development Plc  
15 July 2016

Registered Office:  
AFI Development Plc  
165 Spyrou Araouzou  
Office 505  
Lordos Waterfront Building  
3035 Limassol, Cyprus

## EXPLANATORY NOTES TO THE NOTICE OF THE GENERAL MEETING

### **Entitlement to attend and vote**

The right to attend and vote at the General Meeting is determined by reference to the register of members. Only those members registered on the Company's register of members at close of business on 28 July 2016 (or, if the General Meeting is adjourned, at close of business on the day two days prior to the adjourned General Meeting), shall be entitled to attend and vote at the General Meeting. Changes to the register of members after the relevant deadline shall be disregarded in determining the rights of any person to attend and vote at the General Meeting.

In accordance with the Articles, the holders of A ordinary shares and the holders of B ordinary shares shall vote as separate classes.

### **Publication of information in advance of General Meeting**

A copy of this notice of general meeting and other information regarding the General Meeting, including information, which the Company is required to publish in advance of the General Meeting, can be accessed at <http://www.afi-development.com/en/investor-relations/reports-presentations>.

### **Attending in person**

In order to facilitate these arrangements, please arrive at the General Meeting venue in good time. You will be given instructions on how to complete your poll card/vote on a show of hands at the meeting.

### **Right to ask questions**

At the General Meeting the Company must cause to be answered any question that a member attending the General Meeting asks relating to the business being dealt with at the General Meeting. However, no such answer need be given where: (a) answering the question would interfere unduly with the preparation for the General Meeting or involve the disclosure of confidential information; (b) the answer has already been given on a website in the form of an answer to a question; or (c) it is undesirable in the interests of the Company or the good order of the General Meeting that the question is answered.

### **Appointment of proxies**

Members are entitled to appoint a proxy to exercise all or any of their rights to attend and to speak and vote on their behalf at the meeting. A shareholder may appoint more than one proxy in relation to the General Meeting provided that each proxy is appointed to exercise the rights attached to a different share or shares held by that shareholder. A proxy need not be a shareholder of the Company. A proxy form which may be used to make such appointment and give proxy instructions accompanies this notice. If you do not have a proxy form and believe that you should have one, or if you require additional forms, please contact the Company Secretary, Fuamari Secretarial Limited, if you are a holder of A ordinary shares, or the Company's Registrars, Capita Asset Services, if you are a holder of B ordinary shares.

To be valid, a duly completed proxy form, together with any power of attorney or other authority under which it is signed or a notarially certified copy of such power or authority, must be received by post or (during normal business hours only) by hand at the Company Secretary, Fuamari Secretarial Limited, in the case of holders of A ordinary shares no later than 10.00 a.m. EEST on 29 July 2016 (or not less than 48 hours before the time fixed for any adjourned meeting, excluding any part of a day that is not a working day, or at the Company's Registrars, Capita Asset Services in the case of holders of B ordinary shares, no later than 10.00 a.m. UK time on 28 July 2016 (or not less than 48 hours before the time fixed for any adjourned meeting, excluding any part of a day that is not a working day). Holders of Depository Interests should complete and return the Form of Direction enclosed with their Notice of General Meeting to Capita Asset Services by no later than 10.00 a.m. UK time on 27 July 2016.

Holders of Depository Interests can instruct Capita IRG Trustees Limited, the Depository, or amend an instruction to a previously submitted direction, via the CREST system. The CREST message must be received by the Company's agent RA10 by 10.00 a.m. (UK time) on 27 July 2016. For this purpose, the time of receipt will be taken to be the time (as determined by the timestamp applied to the message by the CREST applications host) from which the Company's agent is able to retrieve the message. CREST personal members or other CREST sponsored members, and those CREST Members who have

appointed voting service provider(s) should contact their CREST Sponsor or voting service provider(s) for assistance with instructing Capita IRG Trustees Limited via CREST. For further information on CREST procedures, limitations and system timings please refer to the CREST Manual. We may treat as invalid a direction appointment sent by CREST in the circumstances set out in Regulation 35(5)(a) of the Uncertificated Securities Regulations 2001. In any case your Form of Direction must be received by the Company's Registrars no later than 10.00 a.m. UK time on 27 July 2016.

Appointment of a proxy does not preclude you from attending the General Meeting and voting in person. If you have appointed a proxy and attend the General Meeting in person, your proxy appointment will automatically be terminated.

Only those registered as Shareholders may attend the General meeting and vote.

Unless voting instructions are indicated on the proxy form, a proxy may vote or withhold his vote as he thinks fit on the resolutions or on any other business including amendments to resolutions) which may come before the meeting. A vote withheld is not a vote in law and will not be counted in the calculation of the proportion of votes for or against a resolution.

A member must inform the Company in writing of any termination of the authority of a proxy.

### **Corporate representatives**

Any corporation which is a member can appoint one or more corporate representatives who may exercise on its behalf all of its powers as a member provided that they do not do so in relation to the same shares. If you are a holder of Depository Interests and wish to attend and vote at the General Meeting you must bring to the General Meeting a letter of corporate representation validly executed on behalf of the Depository, Capita IRG Trustees Limited. A letter of corporate representation can be obtained on request from the Depository.

### **Issued shares and total voting rights**

As at close of business on 14 July 2016, being the last day prior to publication of this notice, the Company's issued share capital comprised 523,847,027 A ordinary shares and 523,847,027 B ordinary shares each US\$0.001 each. Each ordinary share carries the right to one vote at a general meeting of the Company and, therefore, the total number of voting rights in the Company as at close of business on 14 July 2016 is 1,047,694,054. A shareholder who holds more than one ordinary share is entitled to tender a different vote in respect of each such ordinary share. It should be noted that in accordance with the Company's Articles, the holders of A ordinary shares and the holders of B ordinary shares shall vote as separate classes and the approval of the resolutions shall be conditional on the approval of the holders of both A ordinary shares and B ordinary shares.

### **Communication**

Except as provided above, members who have general queries about the General Meeting should use the following means of communication (no other methods of communication will be accepted): email to the Company Secretary at: [ca@realaw.net](mailto:ca@realaw.net).

You may not use any electronic address provided either in this General Meeting notice or any related documents (including the executive chairman's letter and Form of Proxy) to communicate for any purposes other than those expressly stated.