

# **AFI DEVELOPMENT PLC**

## **Financial Year 2017 Management report on non-financial disclosure**

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## About the Report

The present report on non-financial information (hereinafter referred to as the “Report”) looks at sustainable development activities that AFI Development PLC (hereinafter – AFI Development, the “Company”) conducts. AFI Development PLC acts as a holding Company for the Group’s subsidiaries that develop and operate particular projects. AFI RUS LLC is the main operating subsidiary of the Company. AFI RUS LLC is a Russian company headquartered in Moscow that manages the Company’s projects. For the purpose of the present report, we shall distinguish between the four key functions or business lines of the Company – “Construction and Development”, “Asset management”, “Hotel operations” and the “Head Office” (including offices at large properties as well as temporary offices at construction sites).

The present report outlines the extent to which the Company complies with the EU Directive 2014/95/EU on Non-financial and Diversity Information (hereinafter, the “Directive”) and Art. 151A of the Cyprus Companies Law (Cap. 113). We publish the present Report to demonstrate the extent of our conformity to the requirements of the Directive and include information related to our past activities as well as our ambitions for 2018 and going forward. The Report identifies non-conformity gaps and lists proposed corrective actions that need to be implemented to fully comply with the Directive’s requirements. Among the gaps identified are descriptions of due diligence processes, policy outcomes, and risks related to principal matters linked to the Company’s operations.

The present Report should be considered as a baseline report that outlines the main features of the Company’s newly developed policies (the policies are published on the Company [website](#)), related identified key performance indicators (KPIs) and as well as the company’s planned measures in this regard. In the future, the Company plans to incorporate non-financial reporting as a separate section in the Annual Report. The Company recognises that non-financial reporting will allow investors to assess the relationships between non-financial matters and overall strategy, performance and prospects, as it provides a more holistic view of the factors that affect the creation of long-term value.

The policies have been published on the official website showing the Company’s commitment to implement them in corporate culture. A brief description of each policy pursued, as well as the KPIs against which progress is measured, are included in the following Report. The Company takes on the goal of measuring the outcome of the newly implemented policies against the KPIs in the next reporting period.

# Requirements of Non-Financial Reporting

## **EU Directive on non-financial reporting**

The Directive 2014/95/EU on the disclosure of non-financial and diversity information, succeeded the Accounting Directive 2013/34/EU that requires certain large companies to disclose information about policies and management of risks relating to environmental, social and employee matters, respect for human rights, anticorruption and bribery issues, and diversity on the Board of Directors.

## **Cyprus Law**

As a company incorporated in Cyprus, AFI Development has to follow certain Cyprus legislation. On 2 June 2017, Cyprus ratified the Directive, which prescribed reporting of non-financial matters as mentioned above. The compliance and reporting requirements were incorporated into Cyprus legislation as Art. 151A of the Companies Act (Cap. 113).

## **UK Corporate Governance Code**

As a UK-listed Company, AFI Development is obliged to adhere to the UK Corporate Governance Code. Since 2010, the Company's shares have had a premium listing status on the London Stock Exchange. As a UK listed company, AFI Development is required to report on diversity, a requirement also set by the Directive. We consider the principles and best practices described in Code as a useful and efficient guide that contributes to our efforts to always take into account the interests of our stakeholders. The Code also supports transparency in decision-making and helps strengthen the principles of good governance.

## **Russian regulations**

At the time of writing this Report, a legislation on mandatory non-financial reporting is in the formation stage in Russia, however the draft of future potential legislation is publicly available. In this respect, the Company goes beyond compliance with draft Russian national legislation by reporting on sustainability-related information before it becoming a formal requirement.

However, despite the voluntary nature of non-financial reporting in Russia, the Company is required to report on such matters in other jurisdictions as stated above. Being an international company operating on many markets, AFI Development is influenced by the tendencies that exist in the highly interconnected globalized world.

# About the Company



Established in 2001, AFI Development is one of the leading Russian property developers. The Company focuses on large-scale development projects in Moscow and the Moscow region.

Further information about the Company structure and detailed description of business activities can be found on the Company website and in the Annual Report.

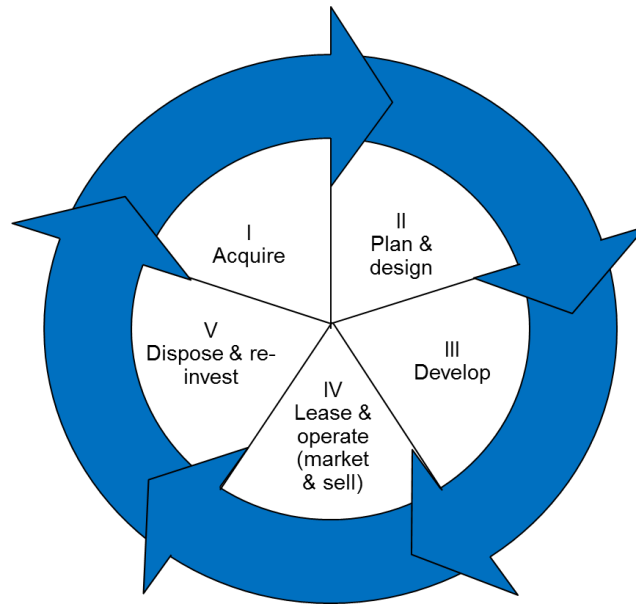
## Business model

In compliance with the Directive, AFI Development publishes its business model approach in this Report. The Company is focused on developing and redeveloping of high quality, integrated, large-scale, commercial and residential real estate including offices, shopping centres, hotels, mixed-use properties and housing projects. As part of our strategy, we aim to sell the residential units we develop and lease our commercial properties, whilst not excluding opportunistic sales of select developments. We are committed to growing our high quality, income-generating real estate portfolio.

### INPUTS:

 Physical	We acquire land rights, development rights and development projects to create high quality commercial and residential developments using materials, technologies and the natural environment
 Financial	We employ equity and debt capital to maximise our profitability while employing leverage prudently
 Relationships	We use our relationships with employees, customers, tenants, communities and contractors to create long term value
 Expertise	We rely on our expertise in development, marketing, project and asset management to create and operate our projects

BUSINESS ACTIVITIES:



We create value by acquiring, developing, managing and selling properties, while employing a range of physical and financial resources, as well as relationships and expertise.

In our residential developments, we generate revenue by marketing and sales of residential and parking units we develop. In our commercial projects, we generate revenue by leasing our properties to tenants and operating them as yielding assets. In our hospitality projects, the revenue is generated by providing hospitality and resort services to our customers.

The high quality of our commercial developments enables us to attract international and local tenants on favourable terms. To ensure high retention rates, we aim to sign leases of increasing length and place greater emphasis on ongoing tenant relations. This translates into focus on long-term relationships and long-term growth.

OUTPUTS:

Physical	We create valuable new commercial and residential space by meeting the requirements of our customers and communities we operate in
Financial	We generate income from operations of commercial space, hotels and sales of residential properties
Customers	We maintain high degree of customer satisfaction by creating high quality products
Community	Through our integrated complex projects we deliver new sustainable living and working environments with the aim of creating positive socio-economic impact

In addition to their large scale and high complexity, our projects help rejuvenate local communities and involve significant improvements to existing infrastructure. As such, we

aim to enhance the overall value of the neighbourhoods we enter, creating more comfortable living and working conditions. Therefore, our activities improve the well-being of the affected tenants and communities as a whole.

We are currently evaluating our business approach further with the aim of integrating sustainability aspects into our business model. In this respect, we have developed new policies that will advance our journey towards sustainability. To integrate the sustainability related policies into our overall business strategy, we need to clearly define sustainability objectives, identify material issues for the Company and introduce a new approach to our day-to-day management practices. Integrating sustainability-focused practices into the overall business strategy will foster alignment between management of sustainability issues and the overall strategy of AFI Development. In the following section, we provide a description of sustainability aspects we have determined as most applicable to our activities and how their management will be embedded into the Company's operations.

## Sustainability agenda

We are convinced that greater transparency resulting from non-financial reporting will make our Company more resilient and lead to better performance, both in financial and non-financial terms. Over time, integration of sustainability practices will lead to more robust growth and employment practices, as well as higher trust between stakeholders, including investors and consumers. We fully recognise that transparent business management is consistent with long-term investment.

AFI Development is committed to improving the economic and social well-being of its stakeholders through the continuous responsible execution of development projects and management of its operations. The Company strives to construct and manage properties with an adequate balance between environment, society and economy.

In the table below, we present the aspects of sustainable development we have identified as applicable to our activities and operations.

Environment (E)	Social (S)	Governance (G)
<p>E – actions and efficiency measures undertaken in order to monitor and decrease the environmental footprint of the portfolio</p> <ul style="list-style-type: none"> <li>▪ Energy efficiency</li> <li>▪ Waste treatment and disposal</li> <li>▪ Water supply and treatment</li> <li>▪ GHG emissions</li> <li>▪ Climate change (prospect)</li> </ul>	<p>S – Company’s relationship with and impact on its stakeholders and direct social impact of our activities</p> <ul style="list-style-type: none"> <li>▪ Health &amp; Safety</li> <li>▪ Employment benefits</li> <li>▪ Contractor management</li> <li>▪ Socio-economic contributions</li> </ul>	<p>G – policies and procedures, composition of management, approach to sustainability integration at the Company level</p> <ul style="list-style-type: none"> <li>▪ Compliance</li> <li>▪ Business ethics</li> </ul>

### Sustainability risks and opportunities

We strive to monitor and manage the environmental, social and governance (ESG) risks and opportunities of the Company’s investments, and to prepare for the increasingly rigorous ESG requirements to avoid potential threats.

AFI Development recognises that risk assessment helps to reduce exposure to long-term sustainability risks. Integration of sustainability risk assessments into our business processes will demonstrate our commitment to ESG management, our focus on mitigating financial risks, and a forward-looking approach to our portfolio development.

## Governance

**Goals: ensure continuous compliance with the UK Corporate Governance Code; develop a separate standing Diversity Policy based on the Directive's requirements (description of objectives, implementation processes and results); collect data and report on the identified governance-related KPIs.**

Organisational governance is the system by which an organisation makes and implements decisions in pursuit of its objectives. AFI Development recognises that to ensure effective business management and operations it is crucial to have a solid governance structure in place. The Company places much importance on compliance with the various governance-related regulations applicable to it.

Following its 2007 listing on the London Stock Exchange, AFI Development became Russia's first real estate developer to attain a Premium listing in 2010. Since becoming a listed company, in line with the Exchange's requirements, AFI Development has outlined the composition of its Board of Directors and its Management. The Annual Report includes a short description of their responsibilities and provides some background information.

### Roles and Responsibilities – Board of Directors

Role	Responsibility
Executive Chairman of the Board	Lev Leviev
Senior Independent Non-Executive Director; Chairman of the Remuneration and Nomination Committees	Panayiotis Demetriou
Independent Non-Executive Director; Chairman of the Audit Committee	David Tahan

A team of highly-experienced professionals is managing AFI Development's Russian operations. The Management of AFI RUS LLC has a strong local and international expertise and a proven operating record of accomplishment in Russia. The Management team of AFI RUS LLC is constantly maintaining a diversified project portfolio and evaluating new investment opportunities based on the emerging trends in market demand. The detailed description of the management team can be found in the 2017 Annual Report, on page 24.

Presented in the table below are the individuals who are responsible for the sustainability agenda and collection of consolidated non-financial data. The presence of senior management dedicated to sustainability increases the likelihood that sustainability objectives are met. We are committed to establishing an internal taskforce that will be focused on the development of a sustainability strategy and its implementation. The existence of such taskforce focused on sustainability issues will demonstrate a structured approach towards integrating sustainability practices across the organization.

### Roles and Responsibilities – Corporate Governance (Sustainability)

Role	Responsibility
Corporate Affairs/Investments Director/CSR Manager	Ilya Kutnov
Manager of Corporate Security	Andrey Robu
Manager of Occupational Health and Safety	Tatiana Sapozhkova
Manager of Internal Control	Irina Chernikova
Manager of Human Resources	Anna Anisimova



The following indicators describe metrics collected by the Company to understand diversity at governance level. Diversity has become a clear priority for investors and is considered to be positively affecting investment decisions.

#### **KPIs – governance**

Diversity of the Board of Directors: total number of men and women Diversity of Senior Management: total number of men and women Diversity of Middle Management: total number of men and women
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Reporting Scope: Head Office.

Applicable GRI Reporting Standards: 102-17, 102-18, 102-20, 102-32, 405-1.

#### **Policies**

The Company has developed policies that emphasize on ethical behavior and how the Company is generally accountable to internal and external stakeholders.

Anti-bribery Policy – the Company works against bribery and corruption in all its forms, including extortion and bribery. Full Policy is available on Company website.

#### **KPIs – anti-bribery policy**

Total number and nature of confirmed incidents of corruption by employees Total number and nature of confirmed cases of corruption when dealing with contractors
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Reporting Scope: Construction and Development, Asset Management, Hotel Operations, Head Office.

Applicable GRI Reporting Standards: 205-2, 205-3.

Human Rights Policy – the Company works to ensure that fundamentals rights of all its employees, contractors and other stakeholders are met. Full Policy is available on Company website.

#### **KPIs – human rights policy**

Total number of identified incidents of discrimination
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Reporting Scope: Construction and Development, Asset Management, Hotel Operations, Head Office.

Applicable GRI Reporting Standards: 406-1, 412.

## Social

**Goals: continue to provide our employees with decent working conditions and employment benefits; implement the newly developed policies (Human Rights, Anti-bribery) and measure their impact against the defined KPIs; ensure health and safety; contribute to the society's well-being.**

The social component of our sustainability agenda focuses on our interaction with a broad array of stakeholders. Our approach to stakeholder engagement is in alignment with our Human Rights Policy, Anti-bribery Policy and the Code of Ethics. Appropriate measures are in place to ensure compliance to our internal regulations and the law.

### Employees

At AFI Development, every employee is treated with respect, equality and esteem and is entitled to freedom of thought, conscience, religion and expression of opinion in accordance with fundamental human rights. The Company is required to give every employee and candidate equal opportunities in all work sectors, position appointments and professional advancement. AFI Development is committed to employee well-being and health. In particular, all employees are entitled to a fitness-club membership on the Company's account. Furthermore, all employees receive health insurance as well as certain life insurance payments. As a responsible employer and in compliance with applicable regulations of the Russian Federation, AFI Development employs handicapped individuals as well as supports new generations by employing young university graduates.

The Company forbids discrimination on the basis of race, ethnic background, creed, religion, gender, family status, political views. All the Company's employees are required to refrain from any type of rude, violent or threatening behavior vis-à-vis other Company employees, including sexual harassment and physical or verbal attacks, as well as from any activity that might give rise to an insulting, harmful or hostile environment.

The Company respects the right of privacy of all its employees, customers and contractors and exercises extreme caution when handling and filing personal information as well as in connection with its distribution, in order to ensure protection of privacy.

Employees are key stakeholders in any business. AFI Development strives to make use of sustainability reporting metrics to boost employee engagement, motivation, recruitment and retention of talent, work-life balance, teamwork and leadership development. Employee engagement also contributes to the successful implementation of best sustainability practices across the Company. Furthermore, proper understanding of workplace-related ESG issues help the Company in our branding as a responsible employer.

### KPIs - employees

Total number of employees (by gender, age (under 30, over 50))
New employee hires and employee turnover
Total amount of employees who receive additional training
Total amount of employees who have received training on the Human Rights Policy
Total amount of employees who have received training on the Anti-bribery Policy

Reporting scope: Head Office.

Applicable GRI Reporting Standards: 102-8, 401-1, 404-2, 405-1, 412-2, 102-16.

### Contractors

Our contractors are organizations or persons working on-site or off-site on our behalf with a relationship determined by a contract. Our contractors may hire their own staff directly or

hire sub-contractors or independent contractors. The Company makes best effort to work only with contractors that carry on their affairs honestly and fairly, in accordance with law, who refrain from bribery and corruption, are very strict with respect to our policies and Code of Ethics.

Sustainability-specific requirements for contractors ensure proper implementation of the Company's sustainability policies for construction and renovation projects. Relationships with contractors and the written agreements that define those relationships make sustainability requirements enforceable upon a wider range of stakeholders.

ESG-specific requirements for contractors refer to any ESG-related requirements that the Company has included in its contracts with its contractors, for example, specification on human rights, health and safety requirements, anti-bribery practices, and compliance with environmental legislation among others.

Negative supply chain-related ESG issues can pose a reputational risk, and can put purchasing and contracting strategies at risk. As a property development company, we are in a strong position to influence the behaviour of external property/asset managers and/or other external suppliers with regard to ESG issues.

#### **KPIs - contractors**

Total number of contractors, including new contractors Total number of contracts that include human rights clauses
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Reporting Scope: Construction and Development, Asset Management, Hotel Operations.  
Applicable GRI Sustainability Reporting Standards: 414-1, 412-3.

#### **Occupational Health and Safety Policy**

Monitoring and reporting on occupational health and safety is an indicator of good management and allows for a continuous understanding of organizational health and safety issues. Maintaining records of the number of incidents over time helps to analyze incidents and to identify areas where improvements are necessary.

The dangerous nature of construction and building services work can lead to hazardous and harmful events, such as incidents, injuries, and fatalities. Such incidents are not only a factor of human life, but also have the potential to undermine our brand and long-term success. We perceive occupational health and safety performance as a key measure of our Company's duty of care. Monitoring of and reporting on on-site occupational health and safety is an indicator of prudent risk management.

#### **KPIs – health and safety**

Total amount of accidents including fatalities Number of audits and inspections undertaken across the business on a monthly/annual basis
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Reporting scope: Construction and Development, Asset Management, Hotel Operations.  
GRI Sustainability Reporting Standards: 403-2.

#### **Social contribution**

The built environment has a significant direct and indirect socio-economic impact, for example on social wellbeing, quality of life, and the prosperity of local communities and individuals. Assessing the social-economic impact helps to minimize the potential negative impact of new construction and major renovation projects and can create more livable, prosperous and sustainable communities.

The Company also occasionally donates to a number of charities that are aimed at promoting development of local communities and society.

**KPIs – social contribution**

Charitable donations and investments of funds in the broader community Key charity and/or sponsorship projects (by type)
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Reporting scope: Head Office.  
GRI Sustainability Reporting Standards: 413-1.

## Environmental

**Goals: ensure continuous compliance to rigorous environmental law regulations; implement the Environmental Policy; measure outcomes of the Policy implementation using the identified KPIs; define key risks and opportunities.**

As a real estate development and investment company, we rely heavily on natural resources used in construction and management of real estate. Consequently, we focus on efficient management of these resources and strive to find ways to optimise their use in our operations. Sound environmental management such as managing water, reducing waste and energy use improve costs.

In this respect as a first step, the Company has developed an Environmental Policy focusing on a set of principles the company commits to follow. Full Policy is available on Company website.

### Energy efficiency

Some of the Company's properties introduce activities that emphasise on reducing energy use. For example, concerning the lighting of buildings, basic lamps are being replaced with LED lamps, which are more economical and contribute to cost reduction. Furthermore, parts of equipment are furnished with automated processes as managerial algorithms are optimised, therefore electricity use is also reduced. Special recovery systems have been installed at some of the properties to save on energy used for heating and cooling.

#### **KPIs – environmental policy**

Total number amount of fines paid out due to incompliance with the regulations
Total amount of energy used
Total amount of waste generated (by type of waste and disposal method)
Total amount of water used

Reporting scope: Construction and Development, Asset Management, Hotel Operations.  
Applicable GRI Sustainability Reporting Standards: GRI, 301, 302, 303, 304, 305, 306, 307, 416.

## Going forward

The Company has set itself an ambitious task of implementing new policies as well as the related data collection mechanisms. It is now clear that new policies would lead to changes in the Company, however being present on other European markets apart from the Russian market, we realise our responsibility to act responsibly. We make sure that our operational activity meets the external regulations and internal requirements of AFI Development in the field of ecology, safety and social responsibility.

The Company takes on the goal of measuring the outcome of the newly implemented policies against the identified KPIs, introduce due diligence procedures for efficient implementation, identify key risks and opportunities for each of the ESG aspects. The outcomes will be presented for the 2018-2019 reporting periods.

We plan to incorporate non-financial reporting as a separate section in the Annual Report.

### **Frameworks and methodologies**

ISO 14001, 26000

IIRC Reporting Framework

GRI Reporting Standards

BREEAM - *Building Research Establishment Environmental Assessment Methodology* (BREEAM 2012)

LEED - *Leadership in energy and environmental design* (LEED 2013)

SBTool – Sustainable Building Tool (iiSBE 2012)